

Milton Friedman on the Nehru/Mahalanobis Plan (February 15, 1956)

Edited by Subroto Roy, September 22 1998
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Preface by Subroto Roy: Professor Milton Friedman gave me this in 1984. I did not publish it in Hawaii in May 1989 in Foundations of India's Political Economy along with his November 1955 Memorandum to the Government of India because it was rather more candid and personal in tone. The Berlin Wall had not yet fallen, and I was at the time being attacked by prominent Indian and foreign economists and political scientists for wanting to publish the 1955 Memo at all. Today, we in India are well on our way to making more objective studies of our intellectual and political history than was possible a decade ago. Friedman's candid observations, from the Cold War era of Krushchev's denunciation of Stalin, seem as fascinating as the tales of travellers from Courts of olden times. It is wholly apt today that these observations be first published at India Policy Initiative's web-site. [Further extract from message from Prof. Roy to Sanjeev Sabhlok, 22nd September: "Milton Friedman has given his permission for publication on the web-site if you wish it. It has never been published before."].

Back to Milton Friedman:

1. I met P. C. Mahalanobis in 1946 (? , sic) and again at a meeting of the International Statistical Institute in September 1947, and I know him well by reputation. He was absent during most of my stay in New Delhi, but I met him at a meeting of the Indian Planning Commission, of which he is one of the strongest and most able members.
2. Mahalanobis began as a mathematician and is a very able one. Able mathematicians are usually recognized for their ability at a relatively early age. Realizing their own ability as they do and working in a field of absolutes, tends, in my opinion, to make them dangerous when they apply themselves to economic planning. They produce specific and detailed plans in which they have confidence, without perhaps realizing that economic planning is not the absolute science that mathematics is. This general characteristic of mathematicians is true of Mahalanobis but in spite of the tendency he is willing to discuss a problem and listen to a different point of view. Once his decision is reached, however, he has great confidence in it.
3. Mahalanobis was unquestionably extremely influential in drafting the first Indian five-year plan. There were four key steps in the plan. The first was the so-called "Plan Frame" drafted by Mahalanobis himself. The second was a tentative plan based on the "Plan Frame". The third step was a report by a committee of economists on the first two steps, and the fourth was a minority report by Shenoy on the economists' report. The economists had no intention of drafting a definitive proposal but merely meant to comment on certain aspects of the first two steps. Shenoy's minority report, however, had the effect of making the economists' report official.
4. The scheme of the Five Year Plan attributed to Mahalanobis faces two problems; one, that India needs heavy industry for economic development; and two, that development of heavy industry uses up large amounts of capital while providing only small employment. Based on these facts, Mahalanobis proposed to concentrate on heavy industry development on the one hand and to subsidize the hand production cottage industries on the other. The latter course would discriminate against the smaller manufacturers. In my opinion, the plan wastes both capital and labor and the Indians get only the worst of both efforts. If left to their own devices under a free enterprise system I believe the Indians would gravitate naturally towards the

production of such items as bicycles, sewing machines, and radios. This trend is already apparent without any subsidy.

5. The Indian cottage industry is already cloaked in the same popular sort of mist as is rural life in the US. There is an idea in both places that this life is typical and the backbone of their respective countries. Politically the Indian cottage industry problem is akin to the American farm problem. Mohandas Gandhi was a proponent of strengthening the cottage industry as a weapon against the British. This reason is now gone but the emotions engendered by Gandhi remain. Any move to strengthen the cottage industry has great political appeal and thus, Mahalanobis' plan and its pseudo-scientific support for the industry also has great political appeal. I found many supporters for the heavy industry phase of the Plan but almost no one (among the technical Civil Servants) who really believes in the cottage industry aspects, aside from their political appeal.

6. In its initial form, the plan was very large and ambitious with optimistic estimates. My impression is that there is a substantial trend away from this approach, however, and an attempt to cut down. The development of heavy industry has slowed except for steel and iron. I believe that the proposed development of a synthetic petroleum plant has been dropped and probably wisely so. In addition, I believe that the proposed five year plan may be extended to six years.

7. Other than his work on the plan, I am uncertain of Mahalanobis' influence. The gossip is that he has Nehru's ear and potentially he could be very influential, simply because of his intellectual ability and powers of persuasion.

8. The question that occurs to me is how much difference Mahalanobis' plan makes. The plan does not seem the important thing to me. I believe that the new drive and enthusiasm of the Indian nation will surmount any plan, good or bad. Then too, I feel a wide diversity in what is said and what is done. I believe that much of Nehru's socialistic talk is simply that, just talk. Nehru has been trying to undermine the Socialist Party by this means and apparently the Congress Party's adoption of a socialistic idea for industry (Ed. Note, viz., Avadi Resolution) has been successful in this respect. One gets the impression, depending on whom one talks with, either that the Government runs business, or that two or three large businesses run the government. All that appears publicly indicates that the first is true, but a case can also be made for the latter interpretation.

9. Favor and harassment are counterparts in the Indian economic scheme. There is no significant impairment of the willingness of Indian capitalists to invest in their industries, except in the specific industries where nationalization has been announced, but they are not always willing to invest and take the risks inherent in the free enterprise system. They want the Government to support their investment and when it refuses they back out and cry "Socialism".