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**India's Dilemmas:  
The Political Economy of Policy-Making in a Globalized World**

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**Abstract**

That the aggregate Indian economy is growing very rapidly is now beyond question. If we look at the last decade and a half and do a cross-country comparison, it turns out that India is the third fastest-growing nation in the world, behind China and (marginally) Vietnam. But equally beyond question is the fact that inequality in India, no matter how one measures it, is growing. Poverty is declining but at a rate that is unacceptably slow. It is unpardonable that an economy that is doing so well overall has somewhere between 220 and 280 million people living below the poverty line. And it is sobering to remember that we draw our poverty line really low, which should aid in keeping these numbers low.

The aim of this lecture will be to analyze the causes of India's rapid economic growth, to try to pin down the dates when this take-off occurred (that would also give us some hints about the causes) and to examine the tensions that the Indian policymaker faces in juggling the triple objectives of (1) high growth, (2) less inequality and (3) the eradication of extreme poverty. It will be argued that a good rule-of-thumb in designing policy is to try to maximize the well-being of the poorest quintile of a nation. So it is fine to aim for high growth, but the focus should be on the growth of the per capita income of the bottom quintile. This re-orienting of our objective can shed some interesting light on how to resolve the dilemma between efficiency and equity.

The major policy quandaries facing India today will be analyzed in a political economy framework and it will be argued that some of the special problems that we currently face are caused by globalization. One consequence of globalization is that each nation's policy space is shrinking. Today's India can no longer do many of the things that it could earlier, without being unmindful of global reaction. Since there is nothing much to be done about the fact of globalization, we have to take special care in crafting policy in a world in which capital is footloose, and skilled labor increasingly so. The designing of good policy entails knowledge of economic theory, but also some Machiavellian strategic politics. If we want the benefits of growth to reach the poorest people, there is no escape from this. And if we feel hesitant about policies that are Machiavellian, we can always call them Kautilyan.