

The Rise and Fall of Western Development Models

Interview by Rajiv Malhotra of Infinity Foundation with S. Gurumurthy

RAJIV - Namaste. Today I have an amazing guest with a whole lot to say, a dear friend, Sri Gurumurthy ji. Namaste. I have known Gurumurthy ji for a long time, followed his work and most of you probably know about him. By profession officially he is a CA but actually gives passionate discussions on economy, politics, culture, and civilizations - many areas. He is a great economist and I have no claim to being an expert in economics, but where we have a common interest is culture and how culture plays a role in different aspects of life including economics. My discussion is going to focus on Indian culture, civilization, distinctiveness, viz a viz others, like the West, and how it relates to economics - how the culture effects economics, how the economics effect culture. And we will talk about his perspective on what is distinct about an Indian model of economics, his diagnosis on what is right in the economy, what is wrong in the economy, what we ought to do now. So it is going to be a very interesting show full of good insights, which I can promise you. So let's start.

Gurumurthy ji, as an observer and a scholar of Indian culture and also economics, how would you characterize the distinct signature qualities of Indian economics? Which would say are the important points?

Gurumurthy: Actually economics as an independent stand-alone discipline is a much later development. Economics was one dimension of politics, one dimension of human life. But somewhere towards the end of the 19th Century sociological theorization developed in the West, which tended to move towards acute and atomizing individualism. This theory was rooted in Max Weber's work. And this is again rooted in Protestant Christianity. The tussle between the state and the church also led to a tussle between the church and the followers of the church through the protestant movement. And Max Weber said that in an empirical study he found that protestant society, which focused on the individual not on the collective church, is able to give rise to individual thinkers, entrepreneurs. He found in a comparative study of the Catholic and Protestant societies that the Protestant society surged forward like America, Canada, New Zealand, England, Australia, and comparatively all the Catholic societies lagged behind, though there was virtually no differences between the two in terms of infrastructure or knowledge or whatever. So he theorized that Protestant Christianity, which promotes individualism and enterprise, is more in tune with modern capitalism. So in a capitalist society, Protestant societies or societies with those characteristics will emerge as the winner. He extended it to say that this will accentuate individualism even more. So the individualism as a movement which evolved out of Protestant Christianity transcended sociality into economics via Max Weber. Max Weber theorized it later as methodological individualism, though he did not use the words. But what he said was later on given the name methodological individualism, that you construct the society through an individual. And you can't identify an individual through the society. There is no collective identity. This is the long and short of the Western approach. When this movement picked up, the Homo Economicus theory that rationalism will define the movement of an individual, this atomization process became the rational approach to life. Rationalism became the basis. And rational economic theory evolved out of it.

Efficient market hypothesis, everything is rooted in this. This became the foundation of what is known as the new classical economics, where they said everybody is ultimately a materialist individual. And this was assisted on the other side by the Western movement of the polity and statecraft. Western polity originally rested on the divine right theory where the king is supposed to be the very mirror reflection of God. And so God had the world dedicated to Him. And the king had the rule over people, resources, everything dedicated to him. Like in the bible everything belongs to God, here on the earth everything belonged to the king. He is a representative, mirror-reflection of God. So he had the divine right to do everything. In this, three things flew out. One: 'the king can do no wrong' principle. Two: that everything belongs to the king, and so he has only given you the right to temporary use. You can use it, but if he wants he can resume it back. This is called the principle of eminent domain in constitutional law. The third thing is, he had control over your life also. Only he has given you the lease of life, but if he wants he can take the life back. These three principles inform the constitutional law even today. So much so during the Emergency in India when Narendra argued that during the emergency there is no fundamental right to live. When the judges asked, he said all fundamental rights are suspended, because 14 high courts decided that the Habeas Corpus petition should be admitted because suddenly a man has disappeared from your family, the wife or the son says, come on the state has to find out. So they allowed the Habeas Corpus petition. The matter went to the Supreme Court. So it is the right to life. Then the judges were asked. They said there is no right to life during emergency. He said it may shock your conscience my Lords that if the police inspector takes a pistol and shoots down somebody your Lordships have no other remedy than to look at it. This rests on this principle.

Prior to the British arrival in India, the principle of eminent domain was not applicable because the king had no right to take over others property. It was in the Magna Carta that this was modified so you could pay the compensation and take over the property. But in India, by paying compensation also you cannot take over another person's property. This was the position. That is where they had to enact the Land Acquisition Act in India. Before that kings could not take over people's land. Compulsorily they had to go through the Panchayat and buy the land. This is settled. Supreme Council has said, the king had no right to acquire the property compulsorily. The question of right to life was a divine right and so there was no question of anybody taking away your right to life. So these are two different paradigms. This constitutional paradigm and economic paradigm aligned and rested on the individual. So how did the democratic movement change the divine right theory into what is known as social contract theory? By Hobbes. Hobbes said we are basically an anarchic kind of people. We cannot live together. We will only kill each other. So we need a Leviathan state to make us behave. And so the state has all the powers, all the rights. So he secularized the divine right theory into state. Only one modification was brought about by Locke. He said there has to be an elected state. Once you elect the state, the state has the same power. It can declare emergency, it can acquire your property. So the character of the state did not change. It is only that the people give consent every five years to the state to do the things which a divine right king could do. So this is one paradigm. But in India this was not there.

Rajiv: Because the king had to obey, had to follow his Dharma.

Gurumurthy: Absolutely. Because no one was absolute. So in India, following our way of looking at things, after the Emergency, the government said that the state has no right to touch the life of an individual. This is our original vision. Why I am mentioning this is, Max Weber and the entire polity, economics, relationship between the state and the individual were shaped basically by the Christian discipline.

Rajiv: So God has the authoritarian absolute to king, becoming the absolute to a State becoming the absolute, especially democratically elected, this is the ruler-ruled relationship which has been consistent, quite different from ours.

Gurumurthy: Correct. So what happened? Christianity basically destroyed all other relationships and substituted the church as the basis of everything. So it had really prepared the ground for Max Weber's theorization.

Rajiv: Actually, even for Karl Marx, because Bertrand Russell argues that this Marxism is also Christianity substituting state for church.

Gurumurthy: Absolutely. See, substitution of State for the Church was the function of the secular socialist movement. Now come to Max Weber. Max Weber said that unless a society conforms to this individualism it will never develop. This he coupled with a book on the religion of Hinduism and Buddhism where he said, two societies will never come up under modern capitalist conditions, China and India, because of Buddhism and Hinduism, which believe in karma and rebirth, which has no role for an individual's advancement. There is no individual initiative left, so there is no question of entrepreneurship developing, there is no question of market economy developing in these two societies. This became the basis of the Indian thinking: that you have to demolish the Indian philosophy, way of life, in order to atomize your society, produce dominant individualism, conforming to the Weberian model or Marxian model, then only you can develop. This was the educational model in economics, in sociology, in politics, in public discourse, all these things were pushed.

Don't think it was only a colonial movement. In the year 1951 the United Nations issued a document: "Measures for the Development of Underdeveloped Economies". In which they said: You cannot develop just like that. It calls for lot of sacrifices. The sacrifice you are to make is you have to give up your philosophy, you have to give up your way of life, you have to give up your caste, community, all relationships. This was a mandate given by the United Nations. This was rooted in a speech which Truman had delivered a year back, exactly in the same terms: America has the responsibility to ensure that the world is prepared for development. And he suggested this model. This was common to both Communism and Capitalism, because between Communism and Capitalism there is no great difference.

Rajiv: Before nations started getting independence, there was also a whole movement to define the qualifications, the credentials you need to be ready for independence. And that had to be the concept of a state as per the western model of a state. So nations had to prove that I am ready, that I am capable of self-rule, because either I qualify or I will be able to qualify.

Gurumurthy: You will decide whether I am qualified or not.

Rajiv: Exactly. So this whole idea of "are you fit to rule", fitness to self-rule became an issue.

Gurumurthy: So the idea of state, nation, people, the relationship between the two, all these became defined by the Western notion of divine right theory modified by social contract theory, modified by democratically elected state. Otherwise in substance the idea of state remains the same. But what I am saying, I am more coming to economics. In economics they say: You rule in whatever manner you want to rule. But you say no, you cannot develop unless you give up your philosophy, in stated terms. This became common to both Communism and Capitalism because Karl Marx basically believed, unless a capitalist move takes place, wealth is built, a huge amount of exploitation takes place, there is no way Communist revolution will come.

But that Communist revolution never came because all Communist revolutions became social revolutions and not economic. So full-blown capitalism is what Karl Marx wanted! And full-blown capitalism and communism rested on the same approach to life. There should be no prayer. All the past is wrong. So we should give up our philosophy, way of life, relationships. So we should pursue only happiness and money and whatever in life. It is purely body-related, a material world. There is absolutely no difference between Capitalism and Communism on this. Both have no place for religion; both have no place for spiritualism; both have no place for morality, other than financial morality. Both have no place for social relationship; both have no place even for human relationship like parents, husband, wife. In fact, communism went to the extent of saying that women should be nationalists. There should be no husband; a woman should become a common property of everybody. So, this was a chaotic model which they developed. Only thing is, Capitalism aligned to Democracy. So to that extent it was not as suppressive as Communism.

Rajiv: Because there was a way to release the pressure once in a while. Once in a while the people would say to get out.

Gurumurthy: So except this difference there was no difference. I used to call it a property dispute. Communism says it should be owned by the state. Capitalism says it should be owned by the individual. The purpose for which it is to be put to use is the same. This became the driving force between 1951 and 1989. And both interpreted it in their favor. The same United Nations formulation was Western anthropological modernity, I call it WAM. Because in this, people are to be contracted out of tradition and made into a pure contract-based society. Individual contract will relate the individuals sans relationship. Social contract will relate the individual to the state. There are only two types of contract. There is a collected contract. There is an individual contract. There is no relationship.

So, this went into economics through both communism and capitalism. In 1989, when communism collapsed and capitalism became without alternative the only model for development, Francis Fukuyama even said that he theorized how the world will have no conflicts hereafter, because all conflicting theories are over. Western liberal democracy and market capitalism have won, once and for all. End of history. And so everybody will have to join this paradigm. But within three years he changed his mind and wrote a book called "The Trust" where he recalled Emile Durkheim, who differed from both Adam Smith and Karl Marx. He said that you have to have a relation-based society, even a contract-based economy to be efficient. But he built a whole lot of argument within Christendom, because none of these people had any experience outside Christendom. Neither did Karl Marx.

Rajiv: Yeah, they were just internal disputes among Christians.

Gurumurthy: Definitely. Their whole idea was defined by the internal forces operating within Christianity. In fact, Karl Marx never came to India. He never met an Indian and he never read Indian literature. But he said that Indian society is a backward society, even though in economic terms it is a good society. He wrote a couple of articles in 1853 in New York Herald Tribune which is now the Herald Tribune, in which he said, the Indian society is a very peculiar society. It has some kind of a common identity and there are several kings and all that. Everybody builds common infrastructure, waterways, roadways, people move from one place to the other, but the economy is rooted as small village republics, and every village republic is self-sufficient and they are able to produce and consume within themselves, so the exploitation is less. But for 2000 years the society hasn't changed at all. So this society will never be prepared for revolution. They are semi-barbaric because they are worshiping monkeys and cows. And so the British are doing the right thing by demolishing the society and economy to prepare them for revolution. Even he quoted Goethe to say that it is painful destruction but there is pleasure in this destruction also. All that I am saying is that between Colonialism and Communism, there was difference. Between Capitalism and Communism there is no difference because all are moving towards a destination which is biblical.

Rajiv: The Communist utopia is similar to that.

Gurumurthy: And Hegel's idea of a perfect society is similar to this. In fact both Capitalism and Communism drew inspiration out of Hegel. Now coming to that, all this resulted in globalization. But Francis Fukuyama warned that there is something wrong in this economics. It is only 80% right. There is a 20% missing element and that is culture. He put it beautifully. He wrote the first book in 1992. He wrote the second book in 1994. So the Economist magazine wrote on the second book, "He wrote the first book as End of History; the second book is the end of Economics". You see the threat they see in culture? If you look at culture, it's the end of economics. But Fukuyama is right, because the subsequent developments proved that you cannot have one-size-fit-all model for development, which is what Communism said, which is what Capitalism said, which is what Karl Marx said, which is what Max Weber said, because they all theorized only the Christian society. Even within the Christian society they could not bring it about.

Rajiv: And they tried to universalize it to all humans.

Gurumurthy: Universalize it. But the one thing in the West is, they also know where they are going wrong, but they will never admit they are going wrong. So in the year 2005, there was a stunning development. The G20 nations, finance ministers and central bank governors met, and they issued a statement in Beijing, that this one-size-fit-all model for development is not working. Each nation will have to work out its own model of development consistent with its specific characteristics. I tell you, nobody even noticed it at all. And in such a powerful forum as G20. Well before 2008 crisis, the Western economists, institutions, market operators, knew about that 2008 crises, but the moment they mentioned it, the crisis would be there on hand. So, they wanted to postpone it as long as possible. Then in 2008, the World Bank, which has been canvassing for the last 50 years for this one-size-fits-all model, said "We have learned the hard way in our working in the last several decades that this one-size-fits-all model is not working. For an institution like us to say it, is very painful. But still we say it is not working." Not a single article was written in India about this by any economist except me. I only kept writing about it.

Rajiv: Because we were too much invested in that model.

Gurumurthy: I said, the world is now giving up, the West is giving up that its model is the model for all. They are giving it up! Begin thinking about it! No one even noticed it. The 2008 crises did shake up. Because this World Bank statement was made in June 2008. In 2008, October, November, this crises came. Even then, nobody noticed it. But in 2010 the United Nations said: "What we have done is wrong: this one-size-fits-all model is no good, we should drop it," completely reversing their 1951 statement.

In 2013, in the general assembly debates of the United Nations, you must see that debate. Country after country saying, what is our identity without our culture? -without our traditions, without our value systems? So, we cannot have an economic model nor development nor satisfaction nor happiness without that being linked to our culture. So when the United Nations set the Millennium goal, they said it is development with culture. This is still to inform the national debates anywhere in the world, but this is the position.

Interview with S. Gurumurthy Part 1 The Rise and Fall of Western Development Models

<https://www.youtube.com/watch?v=P3-zZKafajE&feature=youtu.be>

Also see:

Interview with S. Gurumurthy Part 2: Prospects for Indian Development Models

<https://www.youtube.com/watch?v=lvXkSkEappo>

Interview with S. Gurumurthy Part 3: India's Future in the World

<https://www.youtube.com/watch?v=eGee144l0Vs>

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