

# LIMIT CONSUMPTION OR PERISH

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*[Abstract: The traditional model of economic development operates on the assumption that economy can grow forever as there would always be availability of resources, appropriate technology and energy. Further individual self interest provides for the best and fair allocation of resources. Such a course of development has not been able to bring about sustained development and ensure equitable distribution. Markets and economy have gone through periodic strains. Numbers of poor have continued to increase and violence in action and thought has been manifested. Environment and climate change have been giving warning signs. Governments and their advisors have of late let the market play a dominant role and brought about globalisation by interlinking markets, capital, labour and resources. However, Prime Minister Man Mohan Singh at the recently held UN General Assembly session expressed concern regarding the economic crisis engulfing the developed and developing countries alike. While he cautioned against creating barriers, in the same breath he said that solutions have to be country/region specific. There seems to be a great deal of economic and ideological confusion surrounding the economic scenario. Have the economists erred in their prescription of free markets and welfare of community through the welfare of individuals. Have the economists read Adam Smith without his invisible hand guiding the individuals or have they not made distinction between the basic needs and relative needs as propounded by Keynes? Reading of Adam Smith and Keynes in this context would automatically redefine the role of individual welfare and redetermine the primacy of basic needs over relative needs, bringing them closer to Gandhi's thoughts of limiting consumption keeping in tune with basic needs of humans and compatible with environmental stability and ensuring moral development. The way out of economic morass may be by limiting consumption, otherwise the system would lead to its decline and ultimately to extinction.]*

After World War II devastated a great part of the world and established U.S. as a leading economic power, economists sought answers for the low standards of living in many countries of Latin America, Africa and Asia. It was felt that it should be possible to bring about economic development of the countries by the application of scientific advances and industrial know-how of the U.S. and its allies. Development Economics emerged as a new discipline to craft tools for economic development of countries by increasing their wealth, thereby resulting into the well-being of people. President Harry Truman in his inaugural address of 1949 announced a new era of economic growth and prosperity for the entire world and undertook to bring about “development” to mark America’s newly found “super power” status and ambition. As a result of this initiative, the U.S. and its allies established a chain of institutions and inducted professionals to get on with the business of development. These institutions and their experts had a set of common formulations for the countries of different regions and for all the cultures. The countries seeking economic development were required to follow a set of “good policies” and create “good

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institutions". The set of good policies prescribed included the system of democratic governance, adoption of free trade and free markets and removing all barriers to trade such as tariffs and quotas.<sup>1</sup>

The prescriptions designed by the newly set up institutions pursuant to President Truman's announcement were in complete contrast to the paths adopted by the U.S. and the British to attain economic heights for themselves. Both nations were developed around the need of war and colonisation which stimulated industrial and military developments and also adopted a whole host of protective measures to ensure that their industries reached maturity where it could then compete against the world. Both the countries were centrally driven by their respective governments rather than leaving it to the "market" and democracy came at the end of development rather than forming part of the process of development or the catalyst<sup>2</sup>.

The fact remains that very few nations have developed via the Western model of economic development and the development policies as sponsored by the Western Institutions supported by liberal dozes of financial aid. These models have ensured that capitalist hegemony remains. All that has been achieved through such good policies is that the Western World today consumes over 75% of the world's output<sup>3</sup>.

At least China's example illustrates that there are alternative methods of development; though negative criticisms is churned out from their policies. China completely undermines the belief that progress is exclusive to the western formula of free markets, democracy and liberal values. China has been able to achieve phenomenal growth and industrialisation by not adopting democracy but remaining deeply authoritarian and liberal values have not featured remotely in China's economic rise. It has extensive levels of government involvement across all market sectors. By being centrally driven, China has been able to direct its resources in one direction which has propelled it into a regional power and the largest economy in

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<sup>1</sup> "The Myths of Economic Development," *International Issues*, 24 July 2010.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

the world after U.S. China has shown that an independent, nation first policy driven centrally can attain economic success<sup>4</sup>.

Also, the Chinese model of development may not be replicable in every nation because of historical evolution and cultural moorings which may be distinctly different from those of China's. For similar reasons, the Western Capital model of development may also be not an appropriate one.

The Development model as practised in India is distinctively different than prescribed in the Western world or that practised in China. The Indian Model of Development has been based on a democratic polity in an atmosphere where State has played a significant role even in the era of globalisation<sup>5</sup>. There has been steady growth with containable upheavals and corrective solutions keeping the democratic institutions intact. The Indian Economy has reasonably kept itself immune to the economic shocks as witnessed by the economies of the western countries and their allies since 2008. However, the social concerns that economic development model sought to address remain as relevant as ever. The problems identified during the freedom struggle remain the most pressing yet unsolved problems of our time—poverty, inequality, unemployment and environmental degradation. The spectre of climate change and associated mega disasters booms ominously.

The above scenario is present in most of the countries which took to development planning more than sixty years ago. Even after such universal development efforts, though material progress and growth in consumption might have taken place, human happiness has bypassed advanced countries as well. Since the process of development began as a concerted endeavour in the post war period, the world economic order has significantly changed. Economic nationalism has given way to an integrated world economy through markets, multinational firms and global production chains, as well as through closely interlinked financial institutions and markets. Also, the world is far more integrated in terms of flow of information and migration of technologically skilled workers. Communism has collapsed leaving

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<sup>4</sup> *Ibid.*

<sup>5</sup> *Ibid.*

capitalism as the dominant form of economic organisation. Within capitalism, a particular variant, i.e. the Anglo-American model of stock market led capitalism has gained ascendancy.<sup>6</sup>

Globalisation is undergoing a severe crisis. The current macroeconomic meltdown has shaken public confidence in globally integrated financial markets. In his address to the UN General Assembly on 24<sup>th</sup> September 2011 Prime Minister Man Mohan Singh observed,

“Till a few years ago the world had taken for granted the benefits of globalisation and global interdependence. Today we are being called upon to cope with the negative dimensions of these very phenomena. Economic, social and political events in different parts of the world have coalesced together and their adverse impact is now being felt across countries and continents. The world economy is in trouble. The shoots of recovery which were visible after the economic and financial crisis of 2008 have yet to blossom. In many respects the crisis has deepened even further. The traditional engines of the global economy such as United States, Europe and Japan, which are also the sources of global economic financial stability, are faced with continued economic slowdown. Recessionary trends in these countries are affecting confidence in world financial and capital markets. These developments are bound to have a negative impact on developing countries which also have to bear the additional burden of inflationary pressures. Declining global demand and availability of capital, increasing barriers to free trade and mounting debt pose a threat to the international monetary and financial system.”

He went on to state that Energy and Food prices are once again spiralling and introducing fresh instability, especially for developing countries. Iniquitous growth, inadequate job and education opportunities and denial of basic human freedoms are leading to growing radicalisation of youth, intolerance and extremism. He said that

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<sup>6</sup> Sen, Chiranjib (2008), “Are Gandhi’s Economic Percepts relevant in the Era of Globalization?” Working Paper no. 300, Indian Institute of Management Bangalore.

the international community has a role in assisting in the process of transition and institution building, but the idea that prescriptions have to be imposed from outside is fraught with danger. Correspondingly, governments are duty bound to their citizens to create conditions that enable them to freely determine their pathways to development. This, according to Prime Minister Man Mohan Singh, is the essence of democracy and fundamental human freedoms. Prime Minister, however, cautioned that we should not allow global economic slow-down to become a trigger for building walls around ourselves through protectionism or erecting barriers to movement of people, services and capital. Effective ways and means must be deployed to promote co-ordination of macroeconomic policies of major economies. There has to be a more determined effort to ensure balanced, inclusive and sustainable development for the benefit of vast sections of humanity<sup>7</sup>. Thus, according to Prime Minister Man Mohan Singh, the structures of market economy linked globally should remain intact; there is a need to take a re-look at the rules of economic engagement by way of addressing the issues of deficit in global and domestic governances.

Talking about economic exchanges and governance issues, governments and international community ought to leave the paradigm of reductionism behind and be more sensitive to the sociological, political, or even the aesthetic dimensions of human conditions. Economists have to be modest about the potentialities of their discipline to become better economists. Much of theoretical economics has ceased to be related to real human societies. This is part of the reason why mainstream market liberal economics on the one hand and anthropology, sociology, and psychology on the other hand have drifted apart. The latter are based largely on empirical observation and the former on 19<sup>th</sup> century logical mathematical approach.<sup>8</sup>

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<sup>7</sup> "Full text of Prime Minister Manmohan Singh's speech at the UNGA," *India Today*, 24 September 2011.

<sup>8</sup> Peet, John (1992), "Myths of the Political-Economic World View," from *Energy and the Ecological Economics of Sustainability*, Island Press.

It needs to be understood that conventional economics can describe in a general way the economic scenario but it cannot enter into the specifics of policy. Economic laws are mainly generalisations, perceptions of regularities of economic behaviour that are in reality conditioned by cultural and social relations and institutional settings. If economists take into account such settings, the predictive capabilities of economics would be more realistic and modest than that engendered by computers and stock market. The main purpose of economics is to gain insight into the working of economics, not to develop theories for every action and reaction. In such matters, a mixture of intuition, imagination, worldly experience, a good sense of history, and plain common sense is more important than any sophisticated acquaintance with theory, mathematics, or computers.<sup>9</sup> Eminent economist Prime Minister Man Mohan Singh has been in the crucible of Indian Political Scenario of diverse social political and economic pluralities since his baptism in policies. He has fairly realised that prescriptions, if imposed from outside, would be fraught with danger. He further realized that good policies would need a good governance system as well.

From the foregoing, it is evident that the present stage is characterised by a great deal of economic and ideological confusion bordering on ideological vacuum.

The current ideological dissonance arises from several deep-rooted negative aspects of recent economic experience, despite higher growth rates and enhanced economic opportunities for trade, investment and flows of knowledge and technology. These negative effects include the disparities in income and wealth which are growing more sharply among nations, within nation, across regions, and across economic sectors<sup>10</sup>. There has been an increase in economic instability due to a higher incidence of financial crisis that shows a tendency to spread across national borders. These are not isolated occurrences. For example, Asian financial crisis of 1997 sent convulsions across and spread misery over Thailand, Malaysia, Indonesia and Republic of Korea. Even before the 2008 sub prime housing loan crisis, there have been crisis in Mexico, Bolivia, Argentina, Brazil, Russia and also in the USA during 2000 internet bubble. The bankruptcy of sovereign governments in Europe rearing

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<sup>9</sup> *Ibid.*

<sup>10</sup> *Op. cit.*, 6

its head in September 2011 set in motion a chain of events that threatened to push global economies towards the brink, thereby increasing the risk of slipping into worldwide recession. Consequently, there is a heightened sense of vulnerability and economic insecurity among people across the world. There are significant social impacts that have flowed from the structural or organisational changes that characterise the so-called “new capitalism” associated with globalisation. Individualism has increased substantially, while communities have eroded under the assault of markets<sup>11</sup>.

Richard Sennett in his book “The Culture of the New Capitalism”<sup>12</sup> notes that there has occurred a marked shift in the culture of work, particularly in the advanced countries, especially America. The large bureaucracies of both the public sector and the private sector are being downsized. Organisational instability has become the norm. With this trend has come the demise of the idea of stable, long-term employment for workers. The manufacturing enterprises that had dominated the industrial scene for the past three decades used to provide long-term employment and social identity for its workers. With the rise of investor activism and concomitant insistence on short-term profits and share price valuation, corporations have been under pressure to perform according to the new criteria. Many manufacturing jobs disappeared as companies were restructured. For workers in manufacturing sector, the threat of unemployment insecurity now looms large<sup>13</sup>. In relatively new industries such as I.T. media, finance, etc., temporary contractual jobs are the norm. This makes the workplace fiercely competitive, highly stressful and anxiety ridden. The sense of belonging and loyalty to the organisation is a casualty giving way to deficit of trust among the colleagues who also suffer from the anxiety of being rendered useless because of rapid technological changes. Steady, self-disciplined and reliable workers have no room for growth. Resultantly work ethics have been on the decline. The earlier work ethics of delayed gratification through sustained labour and hard work has given way to a desire for instant gratification corresponding to the increase in consumerism. Such trends are now visible in Indian scenario also. The

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<sup>11</sup> *Op. cit.*, 6

<sup>12</sup> Sennett, Richard (2006), *The Culture of the New Capitalism*, Yale University Press.

<sup>13</sup> *Op. cit.*, 6

corporate themselves have also not been able to insulate themselves from the oncoming onslaught of the hunger of investors seeking hefty returns. There have been astounding scandals in the developed world as well in developing economies like India. Corporate frauds have been a global phenomenon.

All of the above factors add to widespread loss of a sense of social and intellectual cohesion, and lack of public purpose and ethical well-being. The absence of an appropriate ideology makes it difficult to unify, motivate and align the energies of people and organisations towards solving problems and crisis around the world. The rules of economic exchanges and engagements can be brought about in an environment where there is modicum of trust and civility in a stable ideological framework. In this time of deficient ideology it is necessary to go back to the fundamentals.

Traditional economies operate on basic assumptions such as<sup>14</sup>:

1. The economy can grow forever.
2. The natural resources and energy necessary for economic activity will always be there.
3. Individual self-interest provides the best mechanism for the fair allocation of resources.

The above assumptions of economic development or the economic development following the above assumptions would be towards maximising material consumption in capitalist as well as socialist systems.

Society has come a long way since traditional economists like Adam Smith saw the promotion of society through the promotion of self-interest of individuals guided by the “invisible hand”. In Smith’s time, there were strong social and community constraints on individual behaviour, derived from shared morals, religion, custom, and education. These are not present to the same extent today, and indeed there

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<sup>14</sup> Stead, W. Edward and Jean Garner Stead (1994), “Can Humankind Change the Economic Myth? Paradigm Shifts Necessary for Ecologically Sustainable Business,” *Journal of Organizational Change Management*, Vol. 7, No. 4, Pp. 15–31.



are strong forces opposing them. In Smith's time, however, the social norms were so pervasive and so obvious that he would have felt it unnecessary to include them in his argument. Two hundred years ago, there was no question but that God was an all-powerful being with the ability to affect the life of each and every individual. It was a society in which self-interest included the responsibility before God to answer for life's actions and transgressions on the Day of Judgement. To interpret Smith's argument as a license for limitless self-gratification is misinterpreting him and limitless materialistic consumption for self is a fallacy<sup>15</sup>.

Even J.M. Keynes, writing in 1930, believed that humankind would solve their basic economic problems within a century. Improvement of technology and accumulation of capital and its productivity would lead to a situation where people's "absolute needs" would be met. A distinction was made by Keynes between "absolute" needs and "relative" needs. Absolute needs are those which are essential for maintaining a suitable and reasonable standard of living and are generally available to all in the society. However, relative needs are those which are demonstrative of relative superiority of an individual over others. Relative needs become insatiable and result in limitless material wants. For sustaining limitless wants the individual, in pursuit of such wants, lets the "invisible hand" of Adam Smith rest and thus, finally, concern for the larger good become a casualty. Wants lead to individual greed, including lust. Greed and lust would compel individuals to be hurt at the root of classical economics which works on the premise of "all other things being equal". A chain of disorders is the consequence which corrupts the system and institutions. No economic system based on theoretical perceptions of socialists and or capitalist would remain unpolluted.

In pursuit of unlimited economic growth, which incorporates the principle of monetizing all resources, the balance in nature is irretrievably hurt. There are resources like biological species essential for maintaining the cycle of life and food, but once lost they cannot be recreated, even at astronomical costs. Stead and

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<sup>15</sup> *Op. cit.*, 8

Stead<sup>16</sup> have gone into the complex nature of man's interaction with nature and its resources in pursuit of limitless growth by combining the philosophical approaches and laws of Physics and Thermodynamics. He points out that often environment debates are couched in terms of "business needs to clean up its act in order to help save the planet" are on entirely misplaced premises. In fact, the planet can take care of itself. It is actually the mankind's way of life which is threatened, i.e. the white-hot rash of technology may, in the end, prove destructive for the human species. After all, the planet did adjust itself to the loss of dinosaurs!

New order economic exchanges can thus help in reviving the "invisible hand" of Adam Smith and focus on the basic needs as envisioned by Keynes's. Individual economic satisfaction must exist only within the moral dimensions of a meaningful community structure. It should be restated that individuals are complex beings with spiritual, moral and social needs as well as economic needs; emotions and values are as important in decision-making as logic; and people live in collective groups and communes, which exert moral pressure on their members. The attainment of an optimal scale of economic activity will require collective action by the community. The "person-in-community paradigm" establishes the self-sufficient, sustainable community as the basic economic unit rather than selfish individual.<sup>17</sup> Such an approach would require a massive shift in the Management Paradigm, and, the will and capacity of organisations and institutions to bring about such paradigm shifts, when they feel inclined to believe that such a thing is humanly possible, is enough. This is a monumental task for the political leadership to steer the entire economic thinking towards a new order where an individual's wants remain compatible with the community.

In fact when economists and governments take into account the "invisible hand" in Adam Smith's writings and identify basic needs as distinct from relative needs in terms of the formulation of Keynes and environmental concerns, they would arrive at an altogether different model of economic development which would take into

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<sup>16</sup> *Op. cit.*, 14

<sup>17</sup> Daly, H.E. and Cobb, J.B. Jr (1989), *For the Common Good*, Beacon Press, Boston, MA; cited in W. Edward Stead and Jean Garner Stead, *Op. cit.*, 14.

account moral and emotional aspects of an individual's relationship and his/her responsibility towards the community. Are we converging to Gandhi's formulations of economic development?

“For Gandhi, consumption should be done in moderation. He urged people not to consume more than they need. While the level cannot be defined easily in absolute terms and would also vary over time and space, the principle is clear. It means ‘self discipline’ ought to be exercised in consumption. In this manner, people would be genuinely free rather than being enslaved by urge to consume beyond reasonable limits.”<sup>18</sup>

The intrinsic logic of development that emerges is based on freedom from excessive material attachment, freedom from selfishness and a positive commitment to the larger good of the community. In the era of globalisation, when envisioned economic stability has eluded the world at regular intervals and with increasing complexities and as the number of poor is increasing all over the world, it appears that Gandhi's apprehensions about the existence of fundamental weaknesses at the core of the economic processes underlying commercialization and industrialisation have come to surface.

When Prime Minister Man Mohan Singh exhorts at the world body that people have the right to choose their destiny and decide their own future and prescriptions should not be imposed from abroad at a time when admittedly inflation is engulfing the poor countries, it would be required that out of box solutions are sought without disturbing the existing equilibrium of the globalised economic environment.

The root cause of the morass which the world economy has invited upon itself is the uncontrolled consumption by the affluent societies and groups. A lead is to be taken by the political leadership everywhere so that development strategies and fiscal instruments are leveraged towards the need to curb consumption in pursuit of relative needs of individuals and affluent groups and emphasis is laid on increased production and services to fulfil the basic needs in the present times. A further lead

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<sup>18</sup> *Op. cit.*, 6

would be required to reinforce the ethical and moral values by demonstrative actions and conduct of political leaders forsaking the pursuits of power exclusively. Entire endeavour of political class and their professional advisors should be directed towards reviving and emphasising ethical conduct in all walks of life. Companies must realise that stabilised economic system pandering to the needs of people at large would be a lasting business model for them to emulate. While profit earning may be a legitimate pursuit, the profit may not be the only motive. As the enterprises grow, a culture of social responsibility beyond serving the interest of business should be willingly adopted as a legitimate investment in pursuit of increasing the employability of citizens who would ultimately become their better partners in production processes because of the marketable skills acquired through stints in the corporate world. After all, in India the much-needed push towards research in science and social sciences has been provided by visionaries like Jamshedji Tata—who was generous to part with his personal assets for the purpose. Such an initiative would be corresponding to the Trusteeship conduct as envisioned by Gandhi. The modern corporate world would be encouraged, through a mix of policies of government, to eschew the path of increasing its capacity to meet the relative needs and intensify its efforts to meet the basic needs. It is possible to bring about such changes without dismantling the paradigm of the globalised market which has firmly established itself. Only rules of economic exchanges and thereby priorities have to change. Maybe, the Governments have to increase their role in at least maintaining a balance among the communities so that one feels oneself a partner or a potential partner in the development which take place. As need be, Government would be required to intensify its efforts in increasing the entitlements of the disadvantaged and distressed sections to enable them to overcome their handicaps and add on to the capabilities of such sections<sup>19</sup>. If the world leaders and their advisors are able to put a brake on wanton consumerism, the stress which has been brought upon in the past on natural resources and human conflicts would start lessening and economic systems would get disciplined and orderly. If, as perceived by Prime Minister Man Mohan Singh, every region has to find its own solution

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<sup>19</sup> Sen, Amartya (1983), "Development: Which Way Now?" *The Economic Journal*, 93, Pp. 743–762.

without disturbing the advantage of free markets, a modicum of orderliness in economic exchanges has to be brought about through suitable governmental actions.

Moral values, ethical behaviour and emotional attachments cannot come about by asking particularly in an environment when these binding elements in society are on the verge of extinction. The first and foremost requirement of initiating the process would be for the political masters to learn to rule with detachment as was the conduct exhibited by Gandhi. It was his personal conduct which motivated common man and businessmen to believe in him and follow his path. Even today such a phenomenon can be created by a determined leadership as the failing systems are desperately in search of such a phenomenon. Resolves without action would let the situation drift with consequences that would naturally follow as order must come out of the prevailing disorder. It would be a tribute to professionals and leadership if the order is brought about through deliberate re-orientation of policies of limiting consumption.