

B R Shenoy Memorial Lecture

Dec 3rd 2021

Shri Kumar Anand:

Welcome to the B R Shenoy Memorial Lecture 2021 co-sponsored by the Economic Research Centre, Mangalore, and the Centre for Civil Society, Delhi.

My name is Kumar Anand and I will be your host this evening. After the talk there will be some time for questions, and we have shared a slider link on Zoom and YouTube, which takes you to a portal. Please type in your question there. You can also up vote or down vote a certain question.

This lecture series memorialises the Indian Economist Professor B R Shenoy, who for almost 30 years until his passing in the late 1970s waged a lonely fight in the decades of Soviet style centralised plans, for liberalised economic policies that would generate both employment, and genuine economic growth for the Indian common man.

This was the era of permit License Raj, a phrase he coined as a description of a distorted economy, where Delhi had to give permission for a company to spend its own funds to expand production, of what people need to buy and growth was a nominal few percent annually at the time. Foreign exchange was perennially scarce, the country was the global arms seeker and RBI reserves were so depleted that India had to pledge gold for an IMF loan.

In 1991, driven by desperate circumstances an economic revolution took place and the then Finance Minister Dr. Manmohan Singh noted the fervour for a change in a budget speech quoting the well-known couplet, 'sarfaroz ki tamanna aaj hamare dil mei hei'.

Our speaker for the B R Shenoy Memorial Lecture, 2021 was the centre player in the vital backstage policy work that made possible the success of the 1991 Economic Reforms.

On behalf of the Chairman of the Economic Research Centre, Shri Giridhar Prabhu and the Founder President of Centre for Civil Society, Dr. Parth J Shah, it gives me great pleasure to invite Prof. Montek Singh Ahluwalia to deliver the B R Shenoy Memorial Lecture, 2021.

Our speaker is, of course, very well known. After B.A. Hons in Economics from Delhi University, he obtained an M. A. and M. Phil in Economics as a Rhodes scholar at Oxford University.

He has worked at the International Monetary Fund and at the highest administrative levels of the Government of India, as Secretary of Economic Affairs and as Finance Secretary, Ministry of Finance and as Deputy Chairman Planning Commission, 2004 to '14.

He was awarded the Padma Vibhushan in 2011. He is presently a Distinguished Fellow at the Centre for Social and Economic Progress, Delhi.

We now request our speaker Prof. Montek Singh Ahluwalia to deliver the B R Shenoy Memorial Lecture on Lessons from 1991 for 2021 - New Economic Reforms for Renewing India.

Prof. Montek Singh Ahluwalia:

Thank you very much. Let me first begin by thanking the Centre for Civil Society and the Economic Research Centre for inviting me to give this lecture.

You know, I am particularly pleased to be able to give this lecture because I think the work of Prof. B R Shenoy is very relevant to the whole economic restructuring that took place in 1991.

The conventional approach when you are delivering a memorial lecture is that you say a few nice things about the person for whom the lecture is named, and then you just go on and deliver your lecture. I do not think I can do that in this case because there is a lot to say about Prof. B R Shenoy. Let me just say that at the beginning, he was clearly one of the most distinguished economists that we had in the 50s and the 60s. He also had a very stellar academic career.

It is not widely known, but he was the first Indian economist to be published in an International Journal, The Quarterly Journal of Economics, way back in 1931. What he published was not just an article on India.

He published what was actually a critique on Keynes's Treatise on Money and was very much at the forefront of top-quality academic writing. He is most well-known in India because he was one of the 20 or so economists whom the Government of India had invited to prepare recommendations for the Second Five-Year Plan, and he prepared a famous Minute of Dissent.

The Plan, of course, went on and got approved despite Shenoy's Minute of Dissent.

That does not surprise me too much because you know, there is a faction in things and in '56 and '57 the faction really was in favour of the centralised planning; the politics drove in that direction, I mean, that was evident in 1955 when the AICC meeting at Avadi led to a resolution calling for a socialistic pattern of society.

So, if the politics had moved in that direction, it is not surprising that the economists and the planners would sort of replicate what the cost plan was doing. And, let me say that at that time, this was not all that surprising either. Many developing countries, seeing the Soviet Union having broken free from its feudal background and converted itself during the war years into an industrial power, saw this as a way of accelerating growth.

I mentioned in my book 'Backstage,' that even Samuelson, the guru of Market Economics in the 1960 edition of his book Economics said that the rate Soviet Union is growing, it will overtake the GDP of the United States by 1984. And this perception that the Soviet strategy, whatever its other faults, and they had many, that they would worry about liberty etc., and so

on, but it would generate high growth, this survived right up to 1980. Because in 1980, Samuelson's book said the same thing, except now he said that it will overtake the US in 2012. After 1980, these predictions were just dropped.

So, my point is that at the time that Shenoy wrote, I am not surprised that his Minute was limited, and we went off in the direction that we went off.

But what, I think, is interesting and that is very relevant in terms of lessons – you know, we did not do so badly in the 1950s or even really in the first half of the 1960s compared to other developing countries. It is in the period after 1964, I mean Panditji died in 1964, it is in the subsequent period and in the next decade that India's growth performance really deteriorated whereas the growth performance of others in East Asia and South East Asia actually improved significantly.

So, this is the period when there should have been a reconsideration of why is it that we are not growing as well as our targets want us to do.

Frankly, at that time, I would have thought that it would have been logical even if Shenoy was actually ignored when he wrote the Minute, it would have been logical for someone to go back to what Shenoy wrote and say, well, look, maybe he was right. And you know, it struck me that other than noting that he wrote this famous Minute of Dissent, there was hardly any focus on the issues that Shenoy had raised.

In fact, again in my book 'Backstage,' I mentioned that we were aware that Shenoy had written this Minutes of Dissent. But there was very little teaching that went on in Delhi University at the time that said these were the issues, this is what Shenoy had said - Was he right? Wasn't he right? He was just taken for granted. That whatever the Government is doing is right. And we have this tendency. And I believe that one of the important lessons we should get out of the '91 year's reforms is that we should constantly examine what is actually going on and are we anyway near achieving the targets we have set, and if we are not, what is the reason.

One important lesson, which is relevant for the future is to subject our actual performance to very close scrutiny. Now having said that let me say that in the broad thrust of reviewing of economic history, I feel that the 1991 reforms are very often described as if they were simply, I mean, they were triggered by a crisis, there was a crisis, the IMF would not have given us money if we had not reformed, so naturally the reforms happened.

I think this is actually a superficial assessment of the situation because it is absolutely true that the IMF would not give money if we were not willing to do reforms. But the fact is that the reforms we did were actually much deeper than the IMF would have insisted upon.

So, actually we carried out much more far reaching reforms in 1991 and one reason we were able to do that is that during the 1980s, people were beginning to think why are things not working? I mean, after all in the mid 1980s, Rajiv Gandhi became Prime Minister and being a new entrant into that Office, and a young man with a fresh approach, he actually said things like, you know, we must get India ready for the 21st century.

He also said in Parliament that how can we be competitive when our systems are 20 years old and now out of date.

So, the idea that we need to review our systems as a whole was there in the public debate. But we somehow failed to translate that into actual action.

I was in the government at the time, I was in the Prime Minister's office at various stages. I mean, after Mr Gandhi left, Mr V P Singh became Prime Minister. Internally, we had discussions that you know why is our performance not very good and I sat down and I wrote what later on came to be called the 'M Document' and the dominant thing that emerged from that was that you know our approach to reform is very much each ministry pronounces, what reforms are necessary.

This does not give you a holistic assessment of what needs to be done. Because you know, each ministry is usually responsible for some particular objective and it controls some policies. But it tends to think that in order to achieve those objectives, it must concentrate on the policies that it controls. Whereas in fact the objectives are not being met because of other policies, which the ministry itself does not control.

Let me give you a very simple example. I was Commerce Secretary; the Ministry of Commerce is supposed to be responsible for pushing exports. And in those days the way to push exports was either by having some export subsidy that used to be called Cash Compensatory Support or by giving some assistance in the market.

So, the Ministry of Commerce would always be told by exporters that look, we can do much better if you give us more of a subsidy. Whereas actually what they should have been saying is why are we not competitive. We are not competitive because of a large number of things, which are outside the control of the Commerce Ministry.

I mean one of those things is very high import tariffs, which raise the cost structure of Indian industry, which force the exporters to look for a subsidy. Now, if you got rid of those tariffs then you would not have a highly uncompetitive industry and you become a little more competitive. Of course, if you got rid of the tariffs people would say then you will have a lot of imports. And how would you finance them?

Well, the short answer to that is that if you had an exchange rate that was flexible then if there were too many imports the exchange rate would depreciate. And the exchange rate would make exports more competitive and also make it easier to compete against imports. But the exchange rate was not in the control of the Commerce Ministry; the exchange rate was somewhere between the Finance Ministry and the Reserve Bank of India.

You can multiply these types of examples and the only point I want to make is that if you tell each Ministry what is necessary to achieve its objectives, it tends to take a silo-like view.

I said what is it doing? How can it help exporting? It does not take a system-wide view which says, look, the system itself is wrong and we need to change the system. And I think we were not doing enough of that.

During the 1980s, we had a lot of opportunities to think about these things. I mean, I mentioned that I prepared a document which came to be called 'M-Document', which was leaked and therefore in fact one of the journalists decided to call it the M-Document because it was widely believed correctly that I had written it although it didn't acknowledge authorship, and when that document was discussed, I discovered that you know, there's quite a lot of agreement. It was not as if I was inventing something new. There was quite a lot of agreement when people sat collectively and said, look these are the changes necessary. But somehow, we were not running a system that enabled that to happen.

So, I think the 1991 reforms came out of a good holistic understanding of what was wrong. Now, honestly if we had more self-criticism and if we had listened a little bit more to Shenoy type dissents, which were produced many many years earlier, this might have happened earlier.

But what did happen was that the crisis was used as an opportunity and a multi-pronged reform effort was set in motion. Many of the areas that we pushed were areas that Shenoy himself had talked about. I mean, for example, he was not in favour of nationalisation and expanding the public sector.

You know, incidentally, the Minutes of Dissent when people talk about it they keep saying he was critical of the large size of the plan and the fiscal deficit. That is true. But the most important part in my view of his criticism was the institutional structure for implementation, which included a lot of controls. I mean Shenoy's view was that look we have gained, we have built up a lot of controls during wartime and the time has now come to de-control, not increase control.

This is what actually happened in Europe. They had these controls imposed during the war. When the Second World War was over they just got rid of them in a few years time. We are the ones that did not. And I think part of the problem is that there was a tendency in India to think of development must be pursued on a war footing. And all these controls that even market economists say that when you are facing a war you cannot rely on the market. Because, then you have a single-minded objective - that this is what we must achieve and never mind the costs. You follow a control-oriented approach.

But that is not what you do when you are trying to promote development. I think that a lot of what was done, the intellectual framework that, you know you should give the private sector more freedom, you should not be pushing for a large public sector, you should recognise that Shenoy is quite categorical; that you know, controls are not only inefficient but they promote corruption. I mean these are two different things; because inefficiency can be there without corruption. But he also said that they also promote corruption, which of course they did.

Now, '91 went way beyond what Shenoy was talking about simply because the world had changed. I mean, Shenoy did not say very much about foreign trade although his opposition to controls would imply that he would not be in favour of excessive controls on foreign trade.

He did not talk very much about protection. That is something that became part of economist consciousness in the 60s and the 70s. He did not talk about foreign capital and Liberalisation of capital influence. And he did not talk very much either about liberalising the financial sector or moving to a more efficient financial sector. But remember that the nationalisation of the banks and all the rest happened much later, in 1969 or so.

So, I think that had we paid more attention to the sort of critique that was there in Shenoy's Minute of Dissent, we would have had a better understanding of the weakness of foreign policy.

One of the lessons for today is, we should be constantly critiquing foreign policy. We should actually be encouraging critics to put forward criticism, because you know, with the best intentions in the world, the government cannot always get it right. And, with economics very often there are multiple points of view and only time will tell whether X is right or Y is right. So, we need a culture of criticism, and I think, anything we do to promote that would to my mind be a good thing.

Now having said that and this makes Shenoy's work especially relevant. It is relevant to ask the question, what are the lessons from 91 Reforms for the current year, that is, for the year 2021.

But it seems to me that one of the first things we need to do is to make up our minds, whether the 91 Reforms worked or did not work. I mean obviously if you come to the conclusion that they were a complete failure then you come to one sort of conclusion. If you think there was substantial success then you come to a different conclusion.

Now, my feeling is that, and most people would agree with this, the 1991 reforms were substantial, they were systemic and they pushed India into a higher growth path. I mean we saw growth rates above 8 percent for several years during the 2000s, which we had never seen before and during that period internationally also we came to be recognised as possibly the second rapidly growing emerging market country after China.

And many people even thought that China had done exceptionally well but it had reached a much higher level and it would face new constraints in order to continue growing; India was still at a lower level had a lot of, like low hanging fruit which it could harvest and it would most likely continue to grow and people thought that Indian growth will then be faster than China's growth. Of course, China was at a much higher level of per capita income than India. So, we would catch up on growth but not necessarily catch up on per capita income.

Those were very positive years. And I think they created a changed image of India including in the capital markets, investors beginning to look at India and so on. That has continued over the last several years you can see that, you know, because those policies have continued.

Let me come back. In terms of success, I would say that I would learn from the 1991 Reforms. That, you know, the basic argument that the private sector is going to be the leading sector to generate growth, is actually valid. In other words, the old idea that the public sector should occupy the commanding heights of the economy, which was the belief before 1991 and private sector should actually be constrained, so that the public sector can do its bit - this is a wrong, I don't know if there is a complete consensus on it but I find that today nobody is yearning for the public sector and they are quite willing to see the private sector play a much larger role.

So, that is a good anchor of policy that you know what are we doing and so we should look at private sector experience, look at feedback from the private sector, what do these guys need in order to become more efficient. I mean this is a positive lesson.

The second lesson really is that a question that arises, does this mean that the Government has no role to play? You know, policy discussions are very often shuttled between extremes. People like to pose things in extreme fashion. So, you are either described as a pro-market fellow or pro-public sector fellow. I think it is quite clear to me that you know, it is wrong to say that the Government has no role to play.

What we should be doing and learning from our experience is that the private sector has tremendous capacities. It has a degree of flexibility that the public sector cannot match. The Government has a big role to play and what is that role?

Well, I would say that role is clearly in two very critical areas as we move to higher levels of development. Those areas really are a much better health system to be set up in the country

and also a much better education system, which is not just better in terms of quality but also ensures equal access. I mean, we need to have a health system and an education system, where those who cannot actually afford to buy better quality are still quite well given access to good quality facilities. That is a very big role for the Government to play and it is not a role that at the moment is playing adequately.

So, I think that is one of the areas where the government has to expand its role and in due course you can say whether this can be done through public - private partnership; but dominantly it has to be an expansion of the Government system especially in rural areas. So that is one.

Second, is the building of infrastructure.

Now here, from 91 onwards, and in recent times even more so, we have moved to the idea that infrastructure investment of certain types can be promoted through public - private participation. In other areas it can only be done by the public sector.

I mean, if you are going to have rural connectivity it is going to have to come from the public sector. If you are going to have connectivity to remote areas, that is going to have to come from public sector. But there are many parts of road connectivity where you can levy a toll, and even if the toll doesn't cover the full cost of investment, you can have a public - private partnership where you can bid for a capital subsidy in return for which for 30 years you get the right to operate that facility and make money on the tolls that you earn provided the tolls are reasonable and appropriately regulated.

The same thing holds for ports, the same thing holds for airports. So, this is a very big role for the Government to play and let us be very clear about it.

India's infrastructure is nowhere near where it needs to be. If India has to increase, move from what it is now, which is the bottom of the middle-income countries to something nearer the top of the middle-income countries. I mean the great contribution of the 91 Reforms is that we got pushed out from the low-income country category to the bottom of the middle-income country category.

Now we have a whole new set of constraints that we have to deal with, we have to be competitive, we have to prove our infrastructure and we have to improve logistics.

Logistics is another area which is not a matter of capital investment but it is a matter of systems. And that is something only the Government can take care of. And the Government in this case means both the Central Government and the State Governments working together, so that things move smoothly and products are delivered on time.

There is a lot of work that is being done in industrial competitiveness which says that Indian industry is actually quite competitive when it comes to what the factory does. But where it is not competitive is getting the inputs into the factory and getting the output from the factory into the ports.

These are elements of competitiveness which are critical if you have to be internationally competitive and it is a role for the Government to play. So, let us not be fooled by assuming that we are in favour of liberalisation, the market will do it, not at all.

Third issue that we have to ask ourselves is that if you are going to give the private sector a lot of freedom does it mean that you do not have anything to worry about? The short answer here is that many people do worry; that large private sector companies may exploit their market position. This is where we need a sophisticated structure, a sophisticated regulatory structure, which subjects the private sector to competition.

My personal view and I mean this can be debated, and it should be debated, is that we do need to discipline the private sector. But the best discipline for the private sector is competition. Not having a bunch of bureaucrats circulating around the private sectors telling them, why are you doing this and why are you doing that.

I have discussed these things at great length in 'Backstage,' my book. And my main hope was that enough people are made aware of the fact that Government intervention creates an environment in which economic efficiency is almost impossible to achieve. And I think this is another reason why I feel honoured delivering the B R Shenoy Memorial Lecture because people should remember what he said, but even more should remember why he was not given enough attention devoted to it.

And I mean, as I think, the American philosopher George Santayana famously said, those who cannot remember history are doomed to repeat it.

So, I think we should understand what the pre-liberalisation world was like. Because otherwise we will just repeat it.

Having said that, the critical message here is that big private sector companies do need discipline. But the best discipline for them is competition. This leads to another question. You know, one can imagine a number of products that are produced by a large number of private sector entities who compete with each other. But when you get to private sector entities, which are very large and there are very few of them, how do you ensure competition?

Well, in certain areas, like for example, telecom, where you know there are kind of network effects that prevent the presence of very large number of competitors but you can have enough competition with two or three prominent providers, as long as you have a regulatory system that ensures that competition is fair and is not tilted towards one or the other.

When it comes to production the only competition is really from imports. No matter how big a producer, as long as the consumer has the choice between buying what he produces and buying from abroad, he is automatically under competitive pressure. I am not saying that you should not have any protective tariff to protect your industry, modest amount of tariff is perfectly okay. But if you got big companies and they have a reasonable tariff protection - 10%, 12%, something like that, you can be sure that they are not going to be misusing their position because basically the consumer has an option.

So, I think as we move forward, this becomes very critical in devising the kind of policies that we want. And this answers the question, should we remain open.

Currently, I mean you know, all policies are made in an existing context and the current international context is one in which many countries seem to have deserted the earlier kind of commitment to an open trading system, including some of the most important.

In their case, by the way, it is not as if they are deserting it for everything. They are deserting it for critical areas. Technologies that they regard are critical to maintain their hegemonic dominance and then they are going in for protection and control.

So, what should India do? Should we assume that the world of the open economy, which was more or less unquestioned five or six years ago is gone forever and that everybody is going to retreat into protectionism? Or should we assume that it is going to be a more interesting and complicated world, where some of the major economies, primarily the United States and China will be engaged in economic conflict with each other and may be engaged in that context in slightly closing their markets? But for the kind of things that we are competing in, we will not face closed markets, so we should remain open and remain as competitive as possible.

Does this mean that in certain areas, we cannot just rely on openness for our own products developed? Do we need to do something special to develop Indian capability? The answer is - Yes.

For example, we are a very very important player globally, in say, pharmaceutical formulations. It makes sense for us to develop substantial basic ingredients, the active pharmaceutical ingredients that go into formulations and for some reason we have been weak on that. So, we need to ask the question, why is that so? How can we develop? I mean, after all if we have a leading pharmaceutical formulations industry that provides a base for a very healthy industry for active ingredients, that is not happening, how can we do that?

We are going to be one of the leading markets in, for example, renewable energy - solar energy for example. So, we ought to think about how much of the solar energy stuff that we need can we produce ourselves.

That does not mean we have to produce everything. But we do need to think of how we can develop a domestic capacity and what are the strategic kinds of interventions that will help to do that. That is an area where I think we need to do some thinking.

But, you know, this cannot be multiplied many times. I mean, we cannot be doing it for 20, 30 sectors. I would have said if we were to identify 5 or 6 sectors that we want to do it, let us do it and get somewhere and as and when we are ready to do it in other sectors, maybe we can approach those sectors in a similar kind of way.

We need to look forward and ask ourselves what is happening in the world of technology and what is capitalism doing? Globally, here there is a very big change in attitudes right now. In the 91 Reforms, those were undertaken at the height of the enthusiasm about globalisation. I mean, everybody was open, the Chinese were desperately trying to get into WTO, the communist countries declaring themselves to be market economies, so that was one kind of

World and the West was also very confident about itself. So, we adjusted policies based on that kind of people.

Today the attitude seems to have changed quite a bit in the sense that there is a perception that coming largely out of the West that market-oriented capitalism combined with globalisation has led to a sharp increase in inequality. Now, they are beginning to question whether this is the right thing to have done. But you know I want to warn here, that some of what they are questioning is simply the erosion of the real income of that middle segment of U.S industry, which was caught in a set of industries where they are no longer competitive. Actually, we are the ones who should be stepping in. So, I do not think we should fall victim to the trap of saying, yes, that is terrible.

The fact that some of these things are going abroad is a good thing. It is helpful for us and of course, it is true that China has been the one that took the biggest advantage. But frankly that is partly our fault. Because we did not position ourselves so that we could take an equivalent advantage.

I think that what we need to do is to recognise that as far as the Americans are concerned, they have to adjust to this by altering the structure of their own production, moving out of this middle range area, moving into higher level things which require higher skills etc., and letting developing countries provide these products. My guess, by the way, is that is what they will do. I do not think they are going to be erecting huge protective walls behind items that are not according to them of strategic value.

Now, cyber security, artificial intelligence, those kinds of things, they certainly will become very protective and very distrustful. I mean that is certainly true of telecommunications and the Internet. And you know, these are things we also have to be concerned about. I mean, after all, if in the world of the Internet of things, when the Internet connects all kinds of machines, you have to be concerned whether an external agency could get control of all sorts

of equipment in your country because they are able to hack the Internet in one way or the other.

So, this is a new thing that we have to do. But it applies to very specific areas where cyber security is important. It does not apply to the general range of manufactured products where it seems to me we just have to show that we are actually competitive and get on with it.

I think there are a couple of other points that I would like to make before opening up to questions.

You know, one of the important things that is necessary as you move into a middle-income category, we are already at the bottom of the middle-income countries but as we move higher, when it comes to inequality, we should look at what is happening on inequality in India and I think we should separate out what is going on because of the pandemic. I think there has a great mistake to sort of treat many of these problems that are specifically there because of the pandemic and treat them as problems of capitalism. They do reflect the fact that we are not able to respond to the pandemic in as flexible a way as would be ideal.

As you know there have been lots of loss of jobs, lots of loss of income etc, because of the pandemic and that will come back as the economy recovers.

So, the question really is if we separate out effects that are temporary and then look at effects that are longer term, what are the things that should be of concern in future.

My guess is that the biggest problem there, quite honestly, is that we are not seeing a sufficiently rapid expansion in what I would call the non-agricultural sector that would enable us to pull people out of agriculture.

I mean the fact is that in a normal development process the percentage of the population depending on agriculture should go down. Unfortunately, when people talk about agricultural employment a lot of the talk is that we must increase agricultural employment. That is not true.

We should be reducing agricultural employment by taking people off the land. But taking people off the land does not mean pushing them off the land. We ought to be creating pull factors so that they themselves want to move off the land and the fewer people there are depending on agriculture because they found other jobs, the easier it will be to raise per capita incomes and wages in the agricultural sector.

What are these areas? Well, I mean services and construction, these things are obviously important, but you know manufacturing is also important and we have not done as good a job in that area as we should have. So, we really need to look at what is that is holding back manufacturing.

Again, it is easy to get into the mistake that manufacturing is suffering because it is not protected. The fact is manufacturing is suffering because we have not created the ecosystem that would enable manufacturing to be competitive and so we get more imports of things that we could easily produce competitively.

Our focus should be on that rather than on raising protective tariffs. There will always be pressure on the path of industry to raise protective tariffs. Because that is the easiest thing to do. I mean, it is in the public debate. It is a mistaken impression that raising tariffs hurts foreign manufacturers.

Actually, it primarily hurts domestic consumers and also hurts foreign manufacturers but it hurts domestic consumers and it hurts domestic exporters. Because the raising of tariffs raises the cost of production domestically, which feeds itself into exports.

So, this class of issues, what do we need to do to improve our ability to expand employment in manufacturing is important. And frankly, linked to that is the whole issue of improving the quality of labour endowment. Any employer will tell you that.

We have a serious problem although we have a lot of people and we have a young population. The availability of people who are adequately skilled is not very good. And that's a huge lacuna in the system, which can only be solved by a government intervening, again through a combination of both public sector and private sector activity, so that basically we can generate a labor quality that is actually better.

I think if you use most of the metrics that people use, number of years of schooling, etc, etc, we do not come out looking good compared to, let us say, Vietnam, which is also a low-income country but I think they managed to do a better job in training their labour. So, I think that is one big area.

I think we need to also look at the issue of our kind of tax system because you know, if the role of the Government is not going to contract, and I have said earlier that it is not going to contract. Let us ask ourselves, how is it going to expand?

Well, a very simple answer would be that we need to add at least 1% of GDP to education and skill development in India. We almost certainly need to add maybe one to one and a half percent of GDP on provision of health through the Government - Centre and State put together, so that is two and a half percent of GDP additional expenditure. We certainly need to add about 1% of GDP in research support including agricultural research. I mean, I say this in the context where we are currently facing all sorts of threats of climate change, which will have a very adverse effect on agricultural productivity.

So, we do need to do more research in these areas than we are doing. How we are doing it is another matter, how to get the biggest bang for the buck.

But if you take 1% there, so one, and one and half, two and half and another one, which is this 1% and then look at what infrastructure needs. Without any question we probably need to spend an extra two percentage points of GDP on infrastructure, of which again 1% will have to come from the Government - Centre and States put together. So, that alone would take this to about four and a half percent of GDP and I think we also have to recognise that we are not spending enough on defence.

Given the geopolitical situation that we face, our defence expenditure's percent of GDP has been shrinking steadily. You do not want to be caught in a vulnerable position. So, you need to jack up defence expenditure somewhere between half percent to one percent of GDP. That means really, I am not saying that this has to be done immediately, this would have to be done over the next five or six years.

You can easily think of five percentage points of GDP increase in expenditure. Now, in addition to that we already have a fiscal deficit that is far too high. India's fiscal deficit Centre and States' put together is amongst the highest of all developing countries. So, by any standard we need to reduce that and people will have different views on how much it needs to be reduced. But very few people would disagree that over a 5-year period we should reduce the fiscal deficit somewhere between 4 and 5%, Centre and States put together. Now, if you add these two together, more expenditure and reduced deficit, the fiscal turnaround that India needs over a five-year period could be 9 to 10% of GDP.

Now, this to my mind, whatever energies we have in policy reform, should be concentrated on trying to make sure that this gets done. Two things are very important here - one is tax revenues.

Is India mobilising as much by way of tax revenues as it should? The answer is - No.

Any number of studies have shown that India's tax as a ratio to GDP is lower than it should be given our per capita income. So, different people have different ideas of what the gap

would be, but most people would say that, look if you want to optimise that particular ratio, you really need to increase the tax ratio by something of the order of 5% of GDP.

How do you do that? That requires a major tax reform. We tend to think tax reform has been done from budget to budget. But actually most systemic reform is done with a lot of thinking in advance. I think one of the very important advances that we have made is the implementation of the GST, which took several years.

It began under the UPA and finished in the NDA period, the current government. And it is still a work in progress because the design of the GST is widely regarded as not ideal. So, it will take a little more time.

The GST has been done but there is a whole issue of - what should be the structure of direct taxes? What is the structure that is most consistent with? What is global best practice? And, there is the issue of property tax.

You know, by any standard, the property tax rates in India are ridiculously low. At the same time, we are becoming an increasingly urban society and there are going to be huge demands to increase urban services.

Property tax rate is determined by the State government but the tax accrues to the Municipality. So, the State governments have great incentive to follow a populist approach and actually lower the property grant tax rate. The end result is that the Municipalities end up with no revenue at all. If you make a comparison between rates of property tax in India, to rates of property tax in the rest of the world, you could see that we are hugely under-taxing, under-utilising this source of revenue.

But, you know, in all tax reform approaches you should not take a silo type of approach. We need to take a comprehensive look and say that look, we need to increase tax revenues by this much because we need to increase expenditure by this much. Of course, if you do not need to increase expenditure then you do not need to increase taxes. But if you do not need to increase expenditure you are not going to get all the other good things that you want.

So, you need to build a political awareness that since it is the society as a whole that benefits from what we do on the expenditure side the society as a whole must pay and that payment must be made in a progressive manner.

Those who can most afford to actually do pay and those that cannot afford to pay, pay much less. I think, how to move towards a tax system that enables people to say India is now mobilising the kind of taxes that for our level of development, we should be able to mobilise. That is a very high priority. It is an important lesson from the 91 Reforms.

Because, Dr Manmohan Singh knew that he had to make all these changes now instead of simply announcing changes in the budget he set up a Committee under Dr Raja Chelliah, then one of our most distinguished fiscal economists. It included a lot of distinguished economists and tax accountants and people familiar with business etc., they produced a very comprehensive report on what to do on the direct taxes, indirect taxes, domestic indirect taxes, customs duties etc.

I think we need another similar kind of Committee, which would bring the best expertise in the country and I would say even go beyond the best expertise in the country and bring in international experts. There is no reason why we should not put on it, people with acknowledged expertise internationally. Because you know, as we integrate with the World as more and more foreign companies have taxable entities located in India, we need to be able to make sure that people who do business in India say that, you know, the Indian tax system and the Indian tax administration is among the best in the developing world.

That should be our objective, so we are benchmarking not against what our view is but we are benchmarking against what would be an expectation internationally, of what a developing country on the move should be delivering and offering.

So, these are some of the ways in which we should define the agenda for the future. It is a very important agenda. It is not something that can be done straight away but we should not view this as we need to do this because the 91 Reforms failed. Which very often you hear people say, oh well, the 91 Reforms have not worked. Therefore, let us do something. That is quite wrong.

I think the correct thing is that the 91 Reforms worked very well; in some areas it did not work as well, but gave us a good twenty years or much more rapid growth and then have run out of steam.

We have new challenges before us. The world has changed, the level of sophistication in the country has changed, the expectations have changed. So, we need to redefine the policy agenda.

The big lesson of the 91 Reforms is that we will do that only if we have a good appreciation of what is wrong in the existing system; because the purpose of reform is to change the existing system. It is very difficult to do that if every ministry's change is being dictated by itself. Because, very few ministries will say that they have been doing anything wrong.

The tendency would be to say, give us more power so that we can correct other people's mistakes and that is not actually what we want to do. We want to have a good holistic analysis of what is needed for India to move into the next 20-year period of rapid growth.

So, those are some of the thoughts I have. I am running out of time, I know that I have to end at this point. Maybe other issues that you have can surface during the question and answer session.

So, with those words, let me once again thank you for listening to me so patiently and I look forward to questions that may arise from the audience.

Thank you.

Shri Kumar Anand:

Thank you very much Prof Ahluwalia, for painting a very broad list of both macro and micro things that we should look into in Lessons from 1991.

Thirty years have passed since then. I will just use my privilege as a panelist and ask the first question. But before that, two things that I particularly liked you highlighted about Prof Shenoy's work - one is, as part of his Dissent on Central Planning the Note - the Memorandum that he wrote, the third part that he mentioned was that how you know pursuing the goals or pursuing socialism, the institutions become weak, the democratic institutions become weak. So, that it does not get highlighted as much as his point about the size of the plan or the deficit financing, which will cause inflation.

And second thing, my favourite chapter of what Prof Shenoy wrote is 'Economics of Corruption' and there is a line which says, corruption is an inevitable byproduct of interventionism. I am glad that you highlighted those.

Recently, I was speaking to a friend of mine and I mentioned to him that we are hosting this lecture and you will be the speaker and then he said that he recalled an encounter that he had with you when you were the Deputy Chairman of the Planning Commission. And he said,

you know, in one of those after the conference conversations said, once policy proposals come to people who are part of the government and those proposals are already known by whether it is Deputy Chairman of the Planning Commission or ministers - kya karna unko malum hei. So, your remark and I am paraphrasing my friend, he may or may not be right, 'hamei malum hei kya karna hei, we know what to do, batao ye hoga kaise, how to make it politically feasible.'

And the recent Farm Bill ke sath hua hei or whatever happened in the Farm Bill fiasco, so to say, is something. So, I wonder if you have some thoughts on it.

The end is known and the end is generally agreed upon by everyone but how to go about implementing those reforms is the key. And I think we have not found a way around it yet.

Prof Ahluwalia:

You want me to comment on that? That deserves a whole lecture in itself. Because you know, I mean the way I look at it, I think the need for reform in agricultural marketing was agreed to by most people certainly, including me and you know during the previous government, the understanding was that these reforms have to be done by State governments.

So, we made many recommendations, which were not that different from what has been done. But our whole approach was to try and persuade the State governments. We did persuade some, we did not persuade others but it did not need to conflict because we were only saying, look why do not we do this and sent the left to them. I mean, if they did not want to do it, they just did not do it.

We of course felt that this is a pity because they are losing out all kinds of possibilities. The present Government's interpretation of the Constitution, I cannot pronounce on the validity of that. That is something only the Supreme Court can do. They came to the conclusion that, no, you do not have to leave it to the States, if you think it is a good idea you do it. Well, then certainly you run the risk that the opposition is bound to criticise, that is their job. My guess

is that, when you do it that way, you need to allow room for consultation and I think perhaps the way it was done, the perception was that there was no room for consultation.

More importantly, what happened subsequently is that the farmers have interpreted the Government's intention into all kinds of directions. The Government says that it does not have; for example, many people said this whole thing is just a ploy to abolish Mandis. The Government has said that is not the case, they do not intend to abolish Mandis. But you know, this is where issues of trust are very difficult to pronounce on. I mean you just have to build trust and if you build it, people will not have this perception and if you do not build it, they will.

By the way, you mentioned it is interesting that this has now gone off into a completely different direction, which is the legal guarantee of MSP and you know, Shenoy had specifically commented on this.

He was actually against the minimum support price. In a way he takes an extreme view. It is nothing new under the sun but that is why I feel that you should constantly encourage Dissent and you should give an opportunity for these opposing points of view to be discussed and understood so that nobody is suddenly taken by surprise.

I mean I do not agree with Shenoy that there should be no minimum support price but the real question is, what is the right minimum support price and secondly, are you going to have it for every crop?

Currently, the pressure is that you should have it for every crop including the ones for which you do not have an MSP.

The implementation ability to do that is going to be huge. I have no idea how that plays out or what the Government intends to do. Certainly, one of the members of Niti Aayog, Mr Ramesh Chand, who is a very distinguished agricultural economist, has raised all these issues that not having a legal guarantee does not make sense unless the Government stands ready to buy.

So, is that all credible? You know, if some farmer somewhere says, listen I have this thing and there is nobody willing to buy what are you going to do? Are you going to create an institution where, very simply, if you were to say that he has to travel 20 miles into some depot in order to sell, is quite another if he feels he should be able to sell it at his farm gate? So, I think this is going to require a lot of discussion and I do not know how it is going to play out.

But I am told that they are setting up a Committee, which is a good thing and ask the farmers to recommend some people. I think that is a good way.

If problems are opposed, they can be raised, discussed and then we can take a view.

Shri Kumar Anand:

In a similar light, the first question which has got the maximum number of up votes, and lot of people wanted to ask this question to be answered by you is asked by Akash and he asks, “economic reforms usually hurt some vested interests - how do we steer through that to build consensus and implement reforms?”

Prof Ahluwalia:

Can you add my upvote also to all those upvotes? Because, in my view, that is the most important issue.

So first, I want to say that economists have always been aware of the fact that any economic change, I mean, it is only marketeers and management types who invent phrases like, you know, a win-win situation and so on. And we know that there are win-win situations in Economics also. But the vast majority of the situations involved with trade-offs; somebody is better off, somebody else is worse off.

But you know, societies are usually able to make that judgement providing we create a sufficient debate and understanding. I mean let us take a very simple example, which I am usually fond of; that a particular job may be destined to become obsolete and there this is going to be much more likely in the next ten years than in the previous ten years because the way technology is changing. But other jobs will be created so the simplistic view would be that you just retrain everybody but you know that is not possible. I mean a guy who is 60 years old or 58 years old is not going to be re-trained and he may lose his job. So, you can compensate him.

But if he finds that his son or daughter are in line for these new jobs and they are benefiting, they will get a sense that things are working reasonably well.

The question really is, is your family income getting hurt or not getting hurt? And quite honestly, if it is getting hurt and if that is a large number of people it is going to be very difficult to do the reforms.

On the other hand, you can persuade people that this is the way to go. After all, before cars and buses arrived in cities there were a lot of tongawalas who did all the transportation. They could easily take the view that we do not want any taxis because it will take away business from us. But that is not what happened. I mean, maybe here and there there was a feeling, but on the whole, the system was able to adjust because a lot of the tonga guys themselves became taxi drivers or some of their sons became taxi drivers.

Whatever it is, I think this is really the task of political leadership - how do you persuade people? That the society is changing, lots of new opportunities are opening up, certainly, the younger people will be able to benefit from those opportunities. Possibly the older people may not be able to benefit but then maybe you can compensate them in some way. That balance is not easy to meet but it is possible.

I mentioned a story in my book 'Backstage,' of how we were trying to push computerisation in the banking system in the early 90s. It is amazing the bank unions were totally opposed to computerisation because they felt that it would affect employment. So, we had said that look at one effective problem, we promise you nobody will be fired but the union leaders said, that only means they will not expand employment, which is true.

Anyway, we tried to convince them that look, with the way the banking system is moving, if you want India to look like a modern efficient economy you need to have a banking system that could handle modern transactions and without computers that is just not going to be possible.

The Finance Minister Manmohan Singh met with a whole bunch of bank union leaders, trade union leaders in his role. He tried to persuade them, they expressed their views, etc., and they were not actually persuaded. But you know, as they were leaving they were saying goodbye to each one of them and shaking the hands and being very polite, I happened to be standing by since I was Finance Secretary, one of the leaders said to him, Mr Finance Minister, I don't agree with you at all but then he softened and said but you know, I don't mind telling you that my son agrees with you.

You know, I have always viewed that as an example of how you have to persuade people.

There will be benefits, more benefits than you think. But otherwise, you know, it is not fair to describe everyone who is hurt as a vested interest. I mean, somehow, I think of a vested

interest as someone who has sitting in a privileged position and desperate to hang onto it, where the privilege is not justified. There are lots of those. But even if that is not the case, there are innocent observers who will get a little bit hit and we need to observe that.

This is also one of the reasons why I am in favour of making changes gradually.

I mean the more rapidly you make it the larger the fallout, the collateral damage. If you make it more slowly then the collateral damage is smaller but equally the benefits are delayed. So that is a political balance the different societies have to make - what pace of change do they want?

Shri Kumar Anand:

Your story from the 'Backstage,' which is just narrated, is a good segue into the next question, which comes from Parth J Shah.

He asks - the younger generation almost across the world is sceptical at best and outright opposed to markets. How did this happen despite millions of people have been lifted out of poverty in the last generation and what should we do to address this challenge?

Prof Ahluwalia:

Well as usual, Parth is right. Mind you, he is one of the leading exponents of the good that markets do. So, I am hoping that he will be the one finding the answer. I do not have a short quick answer to this but you know what is very important is to maximise familiarity with the good stories. I mean, when you do something hundreds of people benefit, rightly they believe the benefits are due to their own achievements, maybe to some extent they think, yes you know, thank God, you are not mucking things up and you have allowed me to succeed. But

subsequently, they are not grateful to you. But whoever is hurt is upset specifically at you and for a long time.

So, how the political process can make people aware of all the good things that are happening and I feel that in India I mean this is something I feel very strongly that you know if you want to ask questions about good things happening, there is a numerous number of good things that is happening but unfortunately modern social media and others, there is no kind of emphasis or pay off from spreading good news with all the pay off, expiring the bad news.

I mean you saw that in the pandemic the fact that 98% of the people who got infected recovered never hit the news. But whoever did not recover and that is a tragic occasion, hit the news all the time.

Now, sometimes these things are good because they draw your attention to what is the real problem and force you to do something more. But I think the lack of knowledge about micro good stories is a problem because markets work by creating a huge number of opportunities for many people and by and large when they succeed they do not attribute it to good policy.

So, none of them is an advocate of the policy. Those who are not positively affected are made permanent opponents of whatever the policy is. So, it is a very unbalanced outcome.

I have not answered Parth's question because it is actually almost a difficult question and the solution really lies in political messaging but it does also lie in many many more people putting across the facts so that people understand them.

Shri Kumar Anand:

Thank you. Next question comes from Mohit Satyanath and he asks, what do you think of the popular narrative that the Indian economy is getting formalised - formalisation codes.

Prof Ahluwalia:

Well, you know, I make a distinction between getting formalised and being kicked into being formalised. I am not in favour of kicking the economy into being formalised. But I think in due course, look nobody can paint a picture of India 20 years from now and say that 85% of the labour will be in the in formal sector with no social security. That would just be absurd.

But somehow, the role of the formal sector, and formal sector does not by the way mean that with rigid labor laws. Formal sector means you have some protection, a whole range of things but not necessarily rigid labour laws; yes, we should be more formalised.

Our problem quite honestly is that, I mean this is one view, and I know this is highly controversial. Our labour laws are so rigid that they've created strong disincentive for any of the entrepreneurs who are capable of operating efficient sectors, formal sectors, units, entering into the labour intensive sector, leaving this sector to basically those who are able to arbitrage away from whatever regulations there are and as a result we're doing much worse in terms of employment generation because we created the capital intensive bias in industry. I think that is the problem.

Shri Kumar Anand:

Thank you very much. Next question and here I am clubbing a few questions and few people have asked the question in a very similar vein, such as Shrikar Shrivastava and Rajesh Jain. The question broadly speaking is - does India have the chance of becoming a five trillion-dollar economy and how can we get to a per capita income like China's of \$10,000 in a short amount of time?

Prof Ahluwalia:

Well, the crux of that is in the short economy. You know, let us put it this way. I will rephrase that question - these 5 trillion dollars, I mean, one of these days we are bound to hit 5 trillion dollars. The reason the five trillion was an attractive thought was it was said we are going to get there by 2024.

There is no chance of that and that is clear. Fair enough. We have been hit by a pandemic.

I do not find it any more attractive to define a target in terms of five trillion dollars than to define the term rate of growth. I mean in the old days of planning, the targets were all growth rate oriented and one of the big advantages of that is, every year you could check, are you hitting that target or not?

So, the question to ask is, what do you think is a reasonable growth rate for India? If you go by the miracle economic achievements of the past, you would even aim at 9 to 10%.

I do not think that India can aim at 9 to 10%. We did get a little better than 8% for about four or five years during the 2000 and the early part of UPA run, but you can argue that those are also days when the growth of the global economy was growing very rapidly.

I would say that today there is no reason why India, once we have got over the pandemic problem, there is no reason why India cannot shoot for an average growth rate of say seven and a half percent providing it does all the things that are necessary to get that. I mean, the prediction is therefore, a highly conditional prediction; now all the things that are necessary include making all the corrections that I have talked about in the bulk of the lecture.

When that will hit 5 trillion, you can work out yourself. Frankly, if we grow at something like 7% per capita, you will double in 10 years time. If you grow at 7% GDP and you are growing at a little above one for population then you are growing at 6, then you will probably double, something around 12 years, every twelve years. Now doubling around every 12 years means it is going to take us a very long time before we hit China's level. But I do not think we should worry about that. The important thing is let us double it and the important operational consequence of that is let us start with a growth rate of 7 plus percent and then let us work out what is needed to achieve that and then let us do it. I mean, get a consensus.

I think our problem really is that you know I like to think of this in terms of partitioning everything. The policy making consists of slogans, and then slogans have to be translated into targets, and then targets have to be translated into programs and policies. Now, slogans we are the world's biggest experts and you know that all slogans are good, whatever you want to call them. Question is when you translate from slogans to targets. For the economy, you can make some. I mean we have a lot of targets right now.

The Finance Minister has said that from next year onwards she expects the growth rate to be about seven and a half percent. That is good, that's GDP. I think it is a good target in the sense that if she actually achieves that I think she deserves a lot of commendation; equally if she does not achieve that, then we should tell her why they have not achieved it and we should do a Shenoy type analysis of why it is not happening. We should avoid what happened before the 1991 Reforms, when we kept having these targets and the economy did not perform and nobody questioned the strategy. Having got the target, then the question is programs versus policies.

In my view, while the programs are important, the policies are much more important and we do not spend enough energy on fixing the policies. We spend too much time on just programs. Programs are just announcements of government expenditure you know and policies are what makes the economy and people behave in a particular way and I think we should spell those out.

Shri Kumar Anand:

Thank you. Next question comes from Barun Mitra and he makes the case that - whenever we have a government which is not single party but rather you know, more of a coalition, generally the growth rate is high and the question is - Is competitive politics a precondition for creating a conducive environment for economic reforms that ensure an open and competitive market?

Prof Ahluwalia:

I am not a political scientist so I cannot answer that.

But it is certainly true that contrary to what economists and even ordinary people very often think that a coalition government will be a complete mess but the truth is that the biggest reform that we could conceive was done by a coalition government under Narasimha Rao with Finance Minister Manmohan Singh. Subsequent governments were all coalitions, each of them continued reforms including the Vajpayee government.

So, I would certainly say that the fact that you have a coalition government should not be a reason for not being able to do reforms. Clearly, if you do not have a coalition you have more political flexibility and therefore in some ways assuming that you do as much work to build a consensus, reforms should also be possible.

Shri Kumar Anand:

Next question is from Sauria and he asks - is there a risk of Covid throwing the world back into a protectionist regime?

Prof Ahluwalia:

Well, I do not know if Covid is doing that but it is certainly true that Covid has created a lot of misery around the World and has created a great sense of lack of confidence in governments. People do not believe that governments know what they are doing.

I mean you can see that in Europe, you can see that in America; now whether that has directly led to protectionism - you know, when you get a loss of trust in government it can lead to any sort of irresponsible policies and I am sure that this is one of the factors.

I mean, once people feel that their economy is now on a sustainable recovery path, governments are also in a much better position to argue with people that look, this is the way to go forward.

But hopefully the Covid thing is a temporary phenomenon. Many people tell me that by the year 2022, when you know enough people have gotten vaccinated, although there will be new strains, and you know this is going to take some time; but it is quite possible that it will not be a panic situation.

The real problem in the global economy is that right now, whatever their economic well-being, has been fuelled by a huge expansion in liquidity with low interest rates and money is sloshing around. As they start withdrawing that which, undoubtedly, they will and Jerome

Powell and the Fed has already signalled that, the well-being will depend on whether the economy then does well.

The economy does not do well and you withdraw liquidity, then you could end up with a real mess.

Shri Kumar Anand:

Akshay Murari asks - what are the bureaucratic changes that need to occur to accelerate free market reforms?

Prof Ahluwalia:

Bureaucracy unfortunately is too often blamed. Let us put it this way. When the 1991 Reforms were brought about, most people, particularly foreign observers, thought that the bureaucracy was anti-reforms. But Dr Manmohan Singh and Prime Minister Narasimha Rao were able to push through quite a lot of reforms without bureaucratic opposition.

I have mentioned again in 'Backstage' that Dr Singh when he was Finance Minister called a whole bunch of Secretaries to his room and said, look we are going to be making big changes and we need your support because without your support we will not be able to make these changes official. But I realise that some of you may have intellectual reservations about the line that we are following and if you do, just let me know and we will give you an alternative just as good a job, you will not be made to do things that you do not believe in.

I frankly felt the bureaucracy was very flattered that he thought their support was necessary and also quite pleased that they were being consulted in this way.

The bureaucracy is meant to do what it is told to do and if you do it very clearly, they will in fact do the job. I think they should also be warning you when you are telling them to do something, if they think this is going to have negative effects, you should encourage them to say, well look, if you think I am wrong you can tell me why, but I am the decision maker. And at that point the bureaucrats should either just take another job or do what they are told.

Shri Kumar Ahluwalia:

Next question, which is now the second highest up voted is - what lessons should we learn from the success of Bangladesh?

Prof Ahluwalia:

Bangladesh's success is very important. There is no question in my mind. As a matter of fact, in '91, I remember that the Finance Minister of Bangladesh was visiting India and Dr Manmohan Singh said - you have been much faster than we thought in liberalising your economy and I'm looking at this with great interest.

I do not follow Bangladesh's economy sufficiently closely and to be able to judge, you know, what they are doing currently, which we should learn from, but certainly, they are a very very far cry from what Mr Kissinger described as 'an international basket case'. I mean that was one of the most catastrophically wrong predictions that Henry Kissinger made.

At that time of liberation of Bangladesh, Bangladesh was poorer than West Pakistan. Today, they have much higher income and their growth performance is very good, export performance too. Actually, the export performance is better than India.

Shri Kumar Anand:

Even our per capita income, I think they have just caught up and went ahead. They are ahead of us in terms of per capita income as well.

Prof Ahluwalia:

Yeah, I think they have narrowed the gap quite a bit, yes that thing is a one-year phenomenon because we had a huge drop. Probably that will change. I do not mean this to denigrate by any standard, if you look at a 5 to 6-year performance, Bangladesh has closed its average gap with India.

I have done comparisons of Bangladesh with the different states because we are a very diverse country. So, if you compare Bangladesh with what the southern states are doing, they do not necessarily look that good. What I think looks very good as compared to what the heartland in India is doing on these social indicators.

So, I think that is an important achievement, no doubt.

Shri Kumar Anand:

Prof Ahluwalia, our ninety minutes are up, but there are a lot of questions which are still out there, so I wonder if you have some time to spare, else we will just close up.

Prof Ahluwalia:

Yeah, yeah, we can talk a little bit longer.

Shri Kumar Anand:

Our next question is from Deepankar Kaur and he asks - how can we ensure that our regulatory bodies are not captured by vested interests, the capture being either through explicit corruption or situational factors.

Prof Ahluwalia:

It is a very good question and all over the world people are looking at the danger of Regulatory capture. There is no single bullet solution.

But certainly, one of the most important things is that regulatory agencies must function in a totally transparent manner and they should have access to expertise which makes them behave in a manner which is also transparent and predictable. It is not easy to do but to my mind, you know, in some of the agencies that we have, I think we have done a pretty good job.

SEBI, for example, has been a very good Regulatory agency. I cannot say that for all agencies but I do not follow them adequately. Let me say that the danger of regulatory capture is not a unique problem for India.

It is a constant problem and the only thing that will reduce that probability is a very high quality of debate and discussion combined with us staffing these agencies with real experts.

In the early stages there were not too many real experts because there was not a marketplace. So, every agency was staffed with retired bureaucrats. I do not think that is a good idea at all. I do not mind bureaucrats moving into Regulatory bodies, but if they want to do that, that should not be a post-retirement job.

I mean, for example, if somebody says I want to be in SEBI and I want to move out of Government, as long as his retirement age remains the same, he is sacrificing an important job in the Government for going into SEBI, I would not object. But what should not be done is that these things become post-retirement jobs because then everybody wants to be in whatever Regulatory agency they can be and that is not really a sensible thing at all.

Shri Kumar Anand:

Thank you, next question is from Giridhar Prabhu and he asks - with foreign investment in lower level production in China beginning to slow, what can we do to capture these flows?

Prof Ahluwalia:

Well, I think, this is not so much a pivot against China. It is just a natural process that China is becoming competitive at the higher end of the manufacturing sector. We are just entering into that area.

I think, as long as we have an environment which remains positive both for entrepreneurship and for FDI we will be able to attract such investment. My feeling is that right now, one of the signals that the Government has given, which is actually quite clear, is that they are pro foreign investment.

So, the old idea that somehow the BJP is anti-foreign investment, maybe some sections of it may be, but the Government is certainly giving a very clear signal that FDI is welcome.

The question is, is the working environment or the business environment in India attractive? And that is not just attractive for FDIs, but also for business. So, I think we need to focus on that.

On the other hand, lots of money is coming in. For example, in venture capital and all these new startups etc., they are attracting a lot of money. So, I do not think that India is reasonably well positioned to get this sort of investment if Indian entrepreneurs are keen to have it.

The key point about China is that foreign investment in China is not directed at serving the Chinese market. It is directed at serving the international market. Whereas for too much of the foreign investors we are still viewed as a closed economy. We have higher tariff barriers than anybody else. We have been raising these tariff plans.

So, the approach to India does not seem to be that it is a big market, they like foreign direct investment, let us get it. We have not yet created an environment in which people say look,

India is a great place with lots of very great people, lots of market capital, human capital, let us put a base there to serve the rest of the world. That is what we really need to attract.

Shri Kumar Anand:

Coming to the last couple of questions, Jedidiah Ezreal asks this question - how do we follow self-reliance, that is, Atmanirbhar Bharat while also maintaining open trade?

Prof Ahluwalia:

I mentioned this right at the beginning that there is room for picking a few strategic areas and recognising that we have to do something special here. But in general, we ought to be having low tariff barriers and running an open system.

Clearly in areas like cyber security, artificial intelligence, I would even say things like batteries, for example, because we are going to be a very important market for batteries, we should be able to attract people. When you say Atmanirbhar, does it mean Indians setting up only or does it mean Indian units with FDI? The government has not ruled out FDI as part of Atmanirbhar as long as you are producing in India. I think the real problem is that somehow what we have done in raising tariffs in the last few years has sent a signal that we are reversing the open economy direction.

And I think the first thing they should do is send a very clear macro signal that that is not the case. We have raised some. Ideally and personally I think we should have a strategy for reducing tariffs to a certain target level, maybe with some elements, which get some special support, preferably subsidy support in order to make them more competitive.

I think if you set up a committee to do your tax reform, that committee should give some advice on what the average level of tariff should be. A clear signal should be given to businesses, that look, do not start lobbying for higher tariffs because you have a problem. I mean any business interest if they believe they can lobby for higher tariffs they will do so. Not just in India, anywhere in the world.

Shri Kumar Anand:

A few people have asked this question about lateral entry, so I will just ask this and we will kind of club them.

Should the Indian Economic Service instead of being restricted to only bureaucrats also actively involve, consult, and hire from the outside the Government?

Prof Ahluwalia:

Well, by the way, Indian Economic Services is not open. It is a service. It is a regular service which you join at a young age and it keeps you going etc.

If the question you are asking really is, should the Government bring in expertise from outside? I think it should and I think it is doing some. The real problem is, at the moment these are sort of fixed term assignments. We are not saying, look you can come in at this level and you are then permanently in the Government until you are willing to leave and you have an opportunity to get promoted. It is a 3-year assignment as Joint Secretary at the end of which you leave.

I personally think that, mind you, in the United States, that is pretty much what happens because at the end of the Presidency, all these guys who come in go out.

Lateral entry in whatever form is a good idea. If you can create an environment where you attract more people you will improve the quality of decision making within the Government.

Shri Kumar Anand:

Thank you, so we will take this last question. I do not have a name here, the question is - as the government is opening the higher education sector for private players, what do you think is a way ahead for students from low socio-economic backgrounds in institutions?

Prof Ahluwalia:

Well, I have said earlier that the role of the Government in providing educational access is not meant to be reduced but I have no objection to private universities coming in and providing perhaps a slightly better-quality education if they think it is better quality. The only solution if it is a private university, of giving access to less privileged students is through a system of scholarships, which can meet the gap between what they can afford to pay and what the fees are.

I think that private universities should work towards such funding. Elsewhere in the world that is what happens. I mean, places like Harvard and so on, they tend to follow a policy where if a student is good enough then he is not denied a seat because he cannot afford it.

But for that you need well-funded private universities and it will take a long time before we can get there. I certainly would not prevent private universities from coming in because it gives some people opportunities. Actually, what is happening is, these privileged people otherwise go abroad. So, what we have got is something in between. They go into Indian universities. And actually hopefully, the Indian universities themselves through some cross-subsidisation can create a scholarship fund where at least 10% of the students are actually from economic classes which cannot afford the university but they are themselves meritorious.

Shri Kumar Anand:

My apologies, I will just make this one the last question. It comes from Anviti and she asks - some ministries enjoy the unequal distribution of power among them. Does creating more ministries widening this cleavage lead to more silo decisions?

Prof Ahluwalia:

The incentive structure under which bureaucrats work is a huge area of political science and it is a well-established principle that all bureaucracies ultimately are driven by the self-interest of the bureaucrats, unless you have very vigilant both public opinion and politicians who keep them in check.

I mean I am sure you all have seen the British serial 'Yes Minister,' which gives you a sense of how bureaucrats manage to create shields around themselves and I am sure that happens in India too but that is a universal feature it is not special to India.

Shri Kumar Anand:

Thank you very much. This brings to close the B R Shenoy Memorial Lecture 2021 and I would like to thank our speaker Prof Montek Singh Ahluwalia on behalf of the Economic Research Centre and Centre for Civil Society once again for sparing time and delivering a very stimulating lecture as well as engaging with questions from the audience at length.

Thanks also to Shaurya, Samruddha, Mansa and others from under the CCS team, who have helped organise an efficient and wrinkle free lecture. Goodbye and good luck, Thank you once again.

Prof Ahluwalia:

Thank you very much. Many thanks. Thank You.

Sent from my iPad