B. R. Shenoy Memorial Lecture 2026 - Is Neoliberalism Relevant for India today?

By Professor Arvind Subramanian, Economist & Former Chief Economic Advisor, Government of India

Centre for Civil Society, in partnership with the Economics Research Centre, is pleased to share that the B.R. Shenoy Memorial Lecture 2026 was successfully delivered on 16th July, 2026. The Lecture held annually in memory of Late Prof. B.R. Shenoy (1905–1978), featured renowned economist Professor Arvind Subramanian.

In his address, Professor Subramanian examined whether neoliberalism remains a useful framework for understanding and shaping India's economic future. The discussion explored the achievements, limitations, and role of market-led policies in a changing global and domestic context.

We extend our gratitude to Professor Subramanian for his insightful talk and to all attendees for their engagement.

Professor Kumar Anand

Welcome to the 2026 B. R. Shenoy Memorial Lecture organized by the Centre for Civil Society, in partnership with the Economics Research Centre, Mangalore. My name is Kumar Anand and I will be your host this evening.

Our distinguished speaker today is Dr. Arvind Subramanian, senior fellow at the Peterson Institute for International Economics (PIIE) in Washington, D.C., and the title of his talk will be, ***Is Neoliberalism Relevant for India Today****?*

The talk by Dr. Subramanian will be for about 45 minutes, after which we will have about 30 to 35 minutes for a question-and-answer session with the audience joining us live. You can please type your question in the Q&A box in Zoom, and we will take them up.

Before introducing our speaker, let me first say something about Professor B.R. Shenoy. Bellikoth Raghunath Shenoy was born as one of the 11 children of a poor farmer in the small village of Bellikoth near Kanhangad in Kasaragod district of Kerala in 1905, when Lord Curzon was the Viceroy, and he passed away in Defence Colony in 1978, 31 years after India's independence.

Inspired by Gandhiji, B.R.S. ran away from home while still in school. Arrested in a Bombay procession carrying the flag, he was put in Nagpur Central Jail. One of his much older prison mates, who was also the founder of Banaras Hindu University, offered him a scholarship if he successfully completed his schooling after his release from prison.

Later, moving from Bellikoth to Banaras, B.R.S. completed a BA and an MA in Economics and then, as a topper, received a scholarship to study at the London School of Economics. He took courses from Professor F.A. Hayek and submitted his first paper, one of the first five in India and still available online in the 1934 volume of the Quarterly Journal of Economics.

Returning to India, he worked on monetary economics at the RBI, advised on setting up the Central Bank of Ceylon, and served between 1951 and 1953 as the Executive Director for India at the IMF in Washington.

He later resigned from government service to be able to write freely and joined Gujarat University as Head of the School of Social Sciences, and later set up his own Economic Research Centre in Defence Colony, New Delhi.

The story of Professor B.R. Shenoy's note of dissent to the draft of the Second Five-Year Plan is well known. Twenty distinguished economists said yes to the draft plan, and one said no. An emissary of Pandit Jawaharlal Nehru, then at the height of his power and prestige, was given a courteous but unyielding reply: "Please tell Panditji, I will not withdraw."

Over the next 20-plus years, B.R.S. kept writing and lecturing, largely unheeded, making the case for a free-market economy in India. His arguments slowly helped *turn the intellectual tide. By 1991, a full-blown economic crisis – one that forced the government to pledge its gold reserves to foreign banks – pushed the country onto a new path of reform.*

He passed away in 1978 and did not see it happen. But Professor B.R.S. proved prophetic in many ways. He called the complex and rigid constraints on businesses the "permit-license raj" and predicted that removing this system would lead to prosperity.

He said a flexible, adjustable exchange rate reflecting reality would remove the unceasing balance-of-payments crisis and foreign-exchange shortages, even saying the Indian rupee could one day become a hard currency. He said we could follow Gandhiji's talisman of seeing the faces of the poor when considering policy. Economic growth was not a statistic but a better life for the country.

On Indian economic policy and development, the 2018 Survey had 20 million views from over 190 countries in its first year of publication. He was closely involved in the design of the nationwide Goods and Services Tax and several other policy initiatives. His reflections on his tenure were published in the book, ***"Of Counsel: The Challenges of the Modi-Jaitley Economy."***

His critically acclaimed book, ***Eclipse: Living in the Shadow of China's Economic Dominance****, sold over 130,000 copies and was translated into four languages.*

On behalf of the Economic Research Centre, Bangalore, and the Centre for Civil Society, New Delhi, it gives me great pleasure to welcome our speaker, Professor Arvind Subramanian, to deliver the B.R. Shenoy Memorial Lecture 2026.Professor Subramanian, welcome.

Professor Arvind Subramanian:

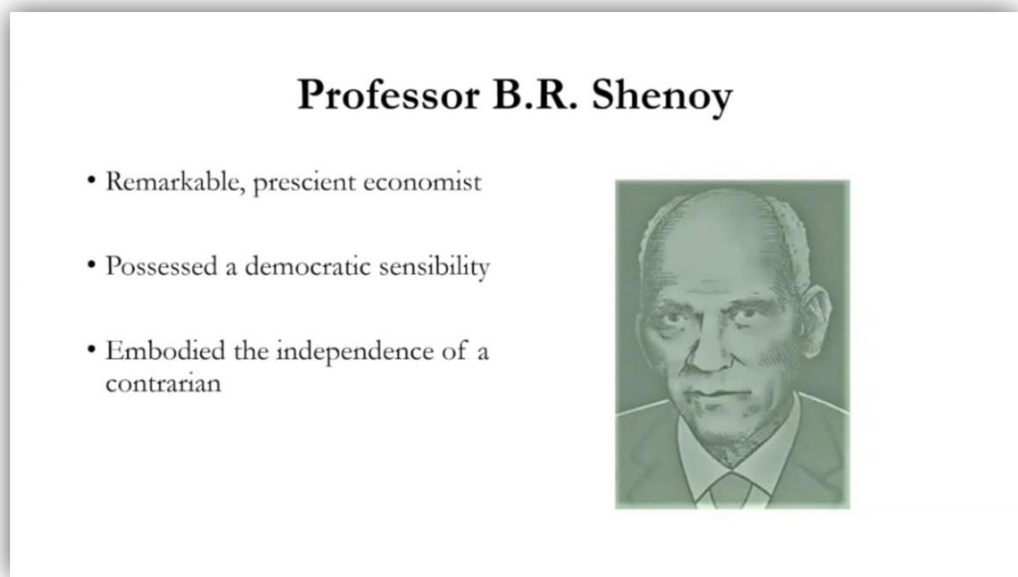
Good evening. Thanks, Kumar.

I'm really honoured to have been invited to deliver the lecture to the Society. Shri Giridhar Prabhu, Dr. Parth Shah, Dr. Amit Chandra, thank you so much for inviting me. Knowing what we all know about Dr. Shenoy, it is really an honour to be here.

The title of my talk is, "*Is Neoliberalism Relevant for India Today?*" A lot of what I'm going to say draws upon my recent book with Devesh Kapur, "*A Sixth of Humanity. – Independent India's Development Odyssey* ".

Let me begin by saying that, to the question, "Is neoliberalism relevant for India today?", my answer is going to be yes, yes, and mostly yes. Why those three yeses? I want to keep the suspense hanging over the next 15–20 minutes, and I will get to that. But the short answer is yes, yes, and mostly yes.

Now, we just heard a wonderful description of Professor B R Shenoy's life. I am not an expert on his life, I don't know in that much detail, but I did read up a little bit about him, of course, in the research for the book, but more recently there have been some excellent writings on him by Aditya Balasubramanian in his excellent book. I also consulted Niranjan Rajadhyaksha, some of his writings as well. It seems to me that three qualities are quite amazing about Professor Shenoy.

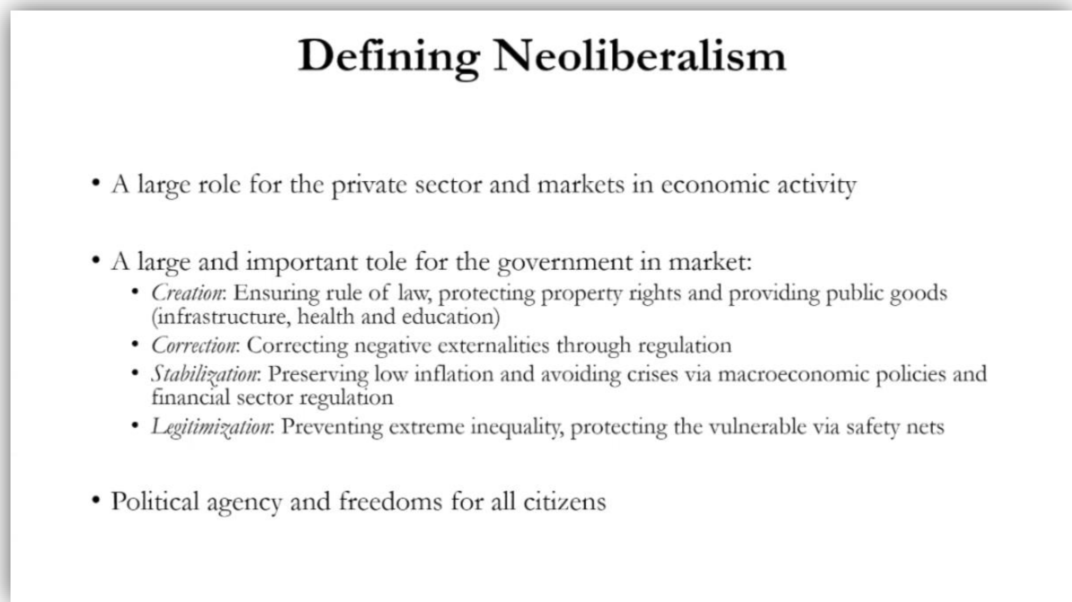


One, obviously, which is going to be the subject of this talk, that he was a remarkably prescient economist in his advocacy for markets, openness, and freedom.

Second, if you read his writings, you do come across a man who possessed a deeply democratic sensibility. I can highlight that even in his dissent note, and I'm going to highlight that.

And, of course, what has been most appealing to me is that he embodied the independence of a contrarian – the willingness, as Kumar just said, to reply to Panditji, "I'm going to stick to my guns." That echoed with me personally because, not so long ago, I was on a government committee. I wrote the sole dissenting note to that committee. I was even asked by Mr. Arun Jaitley, "Arvind, please reconsider." And, of course, in the spirit of B.R. Shenoy, I did not reconsider, and I stuck to my guns.

Even closer to home, and a bit more controversially, as you know, I have questioned the government's GDP statistics and the COVID numbers. Questioning authority and not taking things for granted is one attribute of Dr. Shenoy that I truly admire. It is inspirational for all independent, disinterested analysts, especially in this era when such independence is becoming a much scarcer commodity, I think that is a trait that is truly inspiring.



Now, one has to define what neoliberalism is. We can be here until the end of *Kali Yuga* and still not agree on its definition. You can over-define it or under-define it. But let me just give you some simple tenets that I think most people, especially Professor Shenoy, would agree on.

One, a large role for the private sector and markets in economic activity. Second, nobody would disagree that markets need governments to create them by ensuring the rule of law, protecting property rights, and, very importantly, providing public goods such as infrastructure, health, and education.

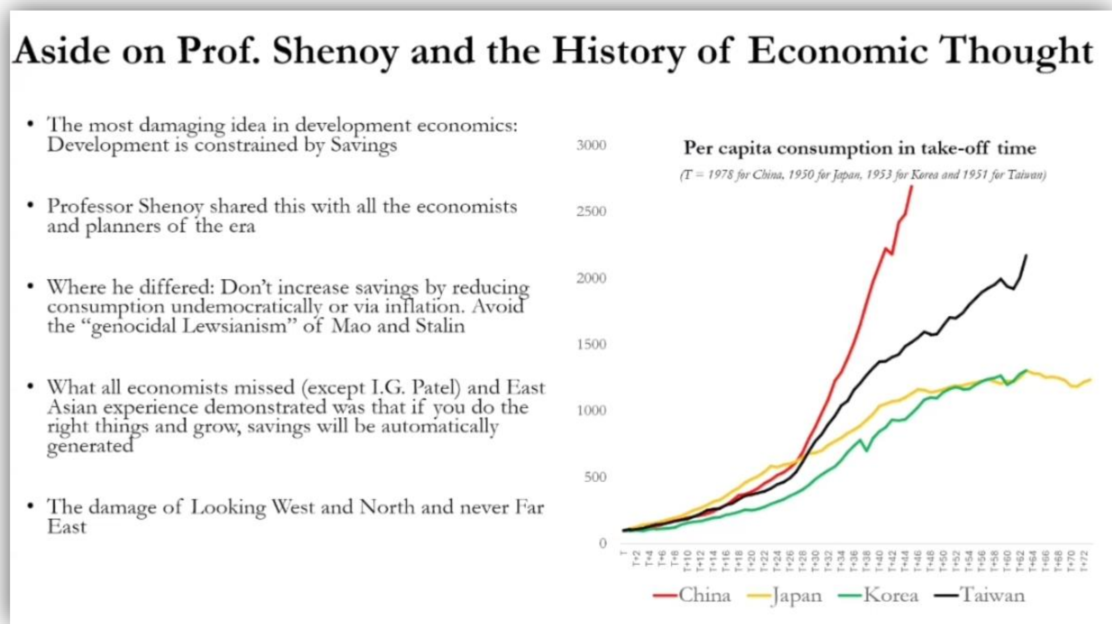
The government also has to correct markets often – for example, to address negative externalities and monopolies. Governments have to stabilize markets – I think this comes through in the writings of Professor Shenoy. I mean, by preserving low inflation, avoiding crises through appropriate macroeconomic policies and financial-sector regulations. And, of course, the state has to legitimize markets as well.

If markets produce outcomes that are completely beyond what is socially acceptable, such as preventing very extreme inequality, the state must protect the vulnerable. So this false opposition between the state versus markets, it is a bit overblown, and I would submit it is a bit of a Western imposition.

We in India, we have always been aware of this because we came from a position where the state did everything and wanted it to do less, but we were never under the illusion that the state should walk away from economic activity. It has important roles to perform. So, the false opposition, I would say, we should get away from.

And of course, the third thing would be a degree of political agency and freedom for all citizens. I think this would also be part of the neoliberalism's playbook as it were. These three things are fairly unobjectionable, and that's what I will mean by "neoliberalism" in this talk.

Now I'm going to now do an Aside on Prof. Shenoy and the History of Economic Thought; in which I am going to mildly criticize Professor Shenoy, but it was just useful for me in writing this book and thinking about development more broadly, it seemed to me that, if you go back to the 19th century, the most damaging idea in development economics was the notion that development was constrained by savings – that the whole objective was how to raise savings to finance a given level of investment.

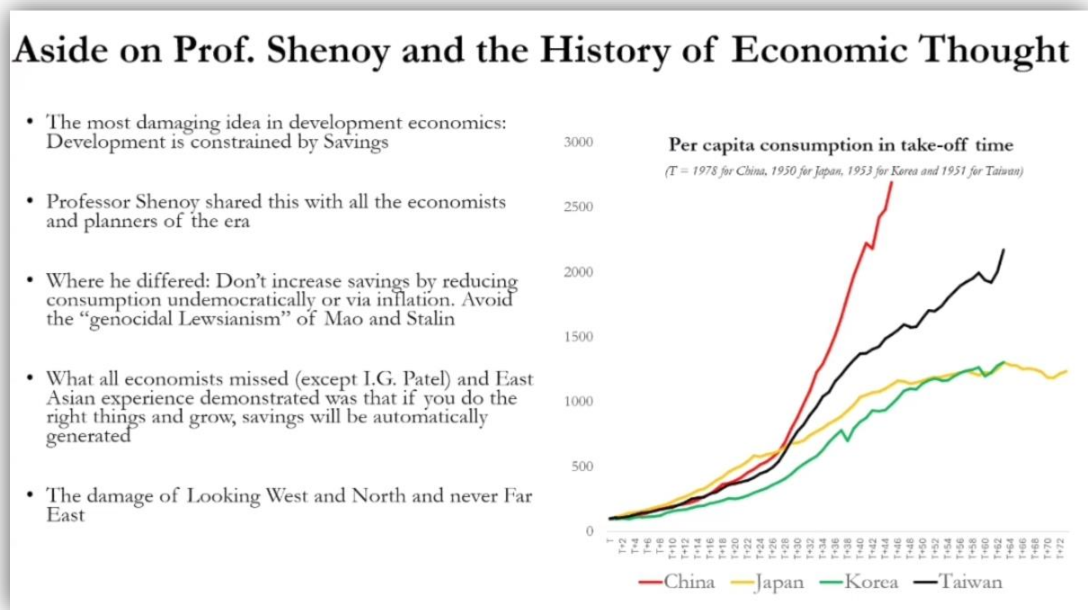


Professor Shenoy, I think, shared this with most economists of that era. It was not that he believed that savings was not important. What was important to him and where he differed from everyone else on the Second Five-Year Plan was that he said, *"Don't increase savings by reducing consumption undemocratically or via inflation."*

I think the main thrust of his dissent note, that yes, we require savings, but do not achieve it through undemocratic means. He had that famous line about the KMT, and he was also deeply averse to inflation as a way of reducing real consumption because he felt it affected the poor.

In some ways, he was saying, "Don't do what Mao and Stalin did," because, as you know, they basically reduced consumption by killing tens of millions of people. Professor Shenoy was totally against that.

But what all economists of that generation missed – including all the growth and development – very illustrious names, and notable exception was I.G. Patel, and which the East Asian experience demonstrated – savings are not a constraint on development. If you grow by following the right policies, savings will come automatically.

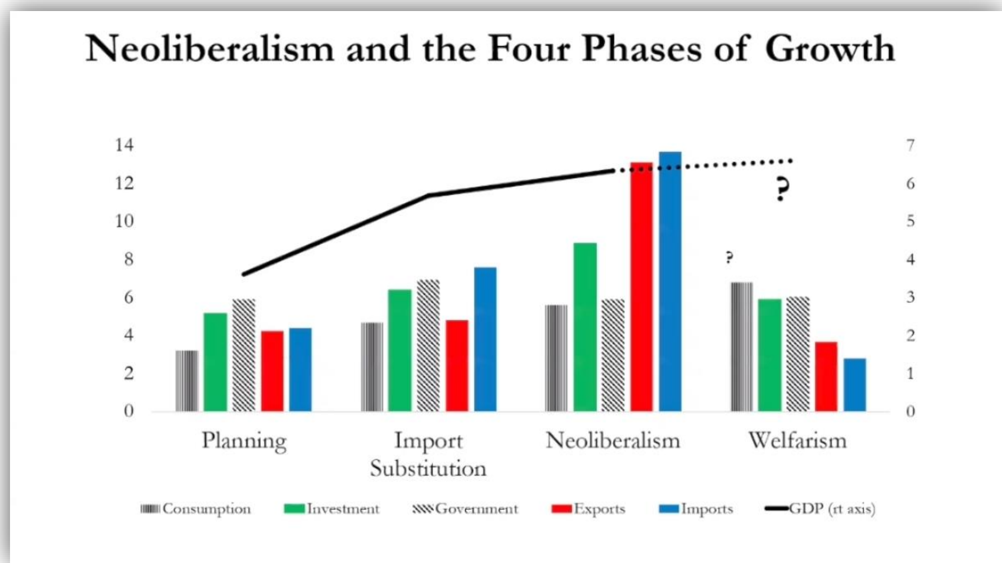


And this is a chart I have, which I've written in a recent piece. It compares per capita consumption growth in China, Japan, Korea, and Taiwan, indexed at the takeoff point to 100. And what you find, and this is very important in the current debates on Chinese mercantilism, is that China is a country that is arguably the highest saver in the history of humanity. Right?

But its high savings came about through high growth. Therefore, what this chart shows is that if you can deliver growth, you can also have very high consumption growth. So the whole notion that there is some sacrifice between current consumption and future consumption – I think that was the big ideological mistake at that point.

And that happened because the planners at that point, you know, the famous Lewis-Feldman-Mahalanobis model, thought that savings were fixed. And the damage came from looking at the Soviet experience, instead of looking at the East Asian experience, where they basically said that if you improve agricultural growth and agricultural productivity.

Indeed, China after 1978, you will have savings coming out of your ears, and savings will not be an impediment to development. So, I think this is just an aside on the history of economic thought, where I think Professor Shenoy also shared this idea, although he had his own differences with others. Now, in India, this is just a chronology.



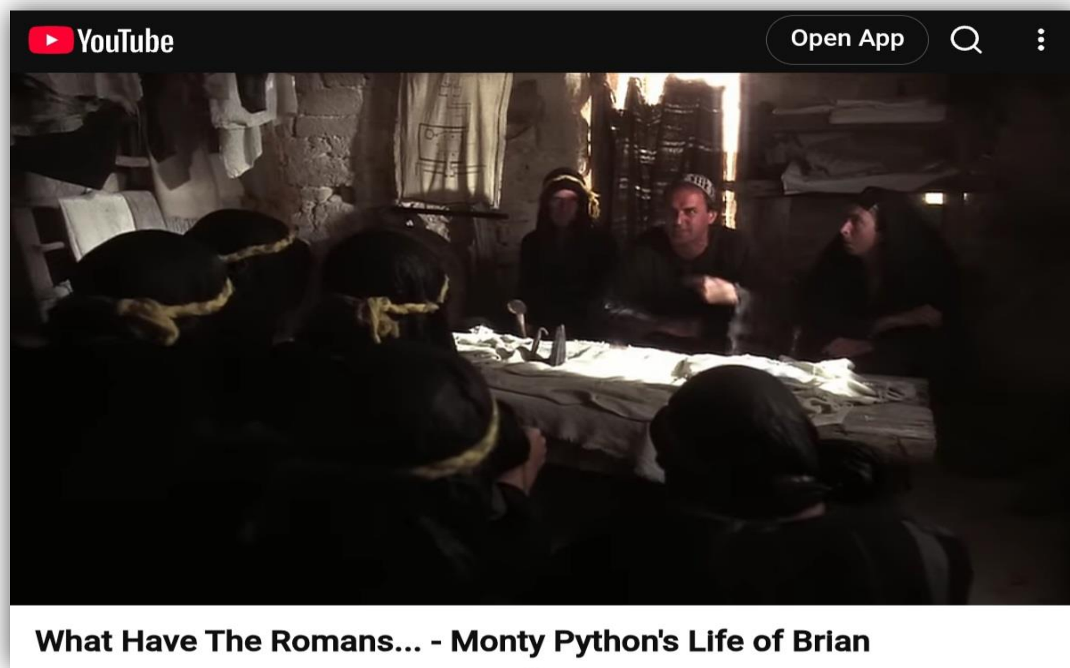
Broadly, what we say in the book is that India has had four periods of economic growth and economic policy. 1950 to 1980 is the era of planning. Dani Rodrik and I wrote about how the 1980s is the first era of import substitution.

And, of course, the neoliberal era was somewhere between, I would say, the late 1980s and then, after the 1991 reforms, going up until 2010. And then we have had a period thereafter, which I will talk about later. So roughly the mid-1980s, and especially 1991 to about 2010–2012, was kind of the peak era of neoliberalism in India.

What Did Neoliberalism Ever Give Us?

https://youtu.be/Qc7HmhrgTuQ

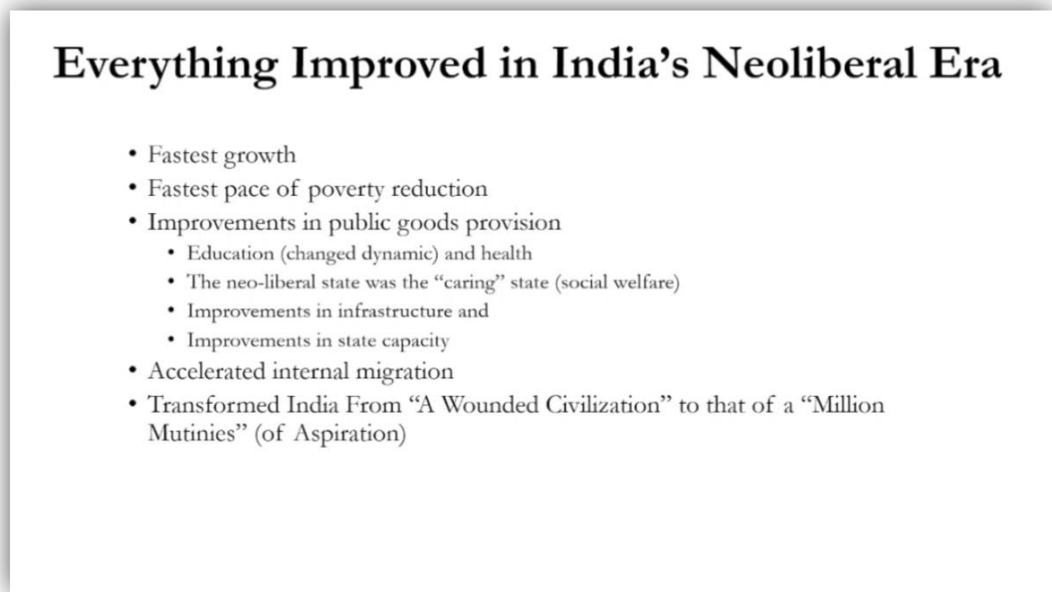
So, the question is, what did neoliberalism ever give us? And this Monty Python sketch is basically the famous one about the complaining, "What did the Romans ever give us?"



And they said they gave us aqueducts, sanitation, freedom, the rule of law, and peace.

In that sense, if you think about that era, everything improved in India's neoliberal era. It was not just the era of the most rapid economic growth.

As we show in our book, it was the fastest pace of poverty reduction. India's poverty came down from about a 55–60% headcount ratio to the low teens – about 11% by 2011.

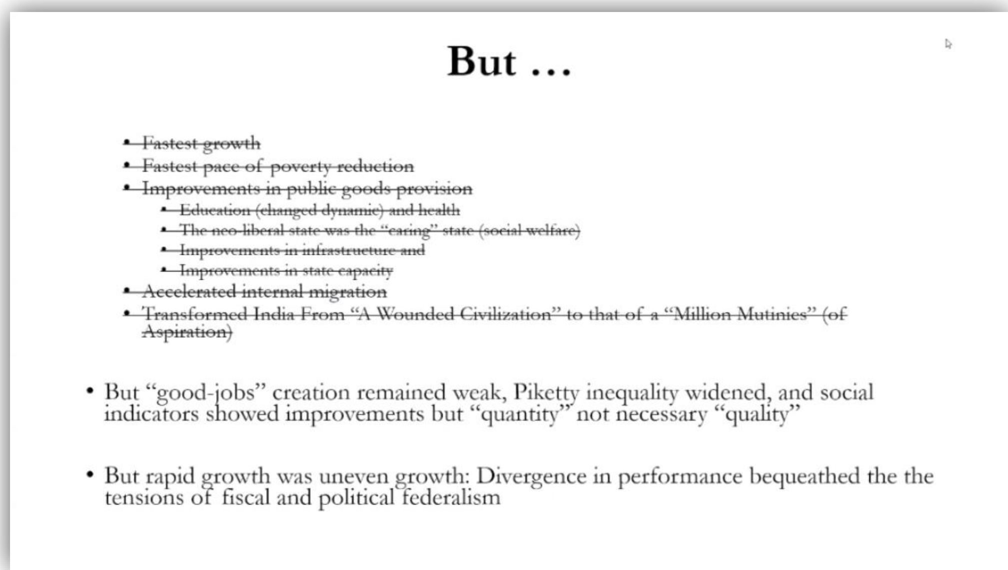


Even in terms of all the things we care about in distribution and society, you see the biggest changes happened in the neoliberal era. People forget that the neoliberal Indian state became the caring state after the 1990s. Investment in public infrastructure and education increased.

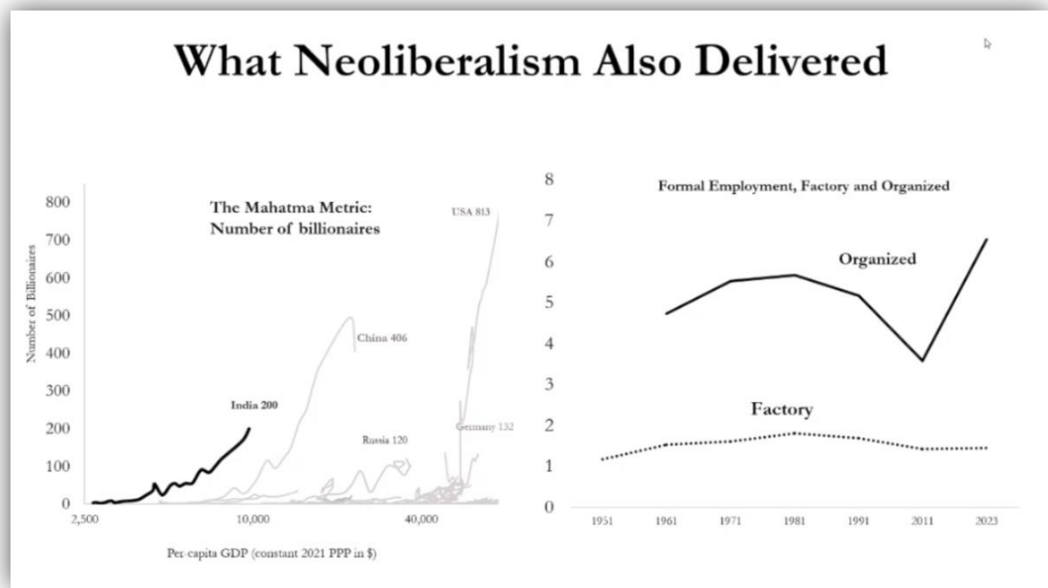
Of course, a lot of this was because of rapid economic growth itself. In some ways, infrastructure improved, educational attainment improved, and state capacity improved. Before this, Rajiv Gandhi used to say that of every rupee, only 10–15 paise reached the poor.

Over the last 20–25 years, we've seen that improve considerably, and we'll come to that later. Much more importantly, it transformed India in a very cognitive sense. To use the Naipaul trilogy as a metaphor, India went from civilizational grievance and darkness to an India of mutinous aspiration because people believed anything could happen and that the future was going to be better.

That was the fundamental cognitive transformation that happened during India's neoliberal era. Now, of course, there were also things that were somewhat problematic. We got rapid growth, but what we say in the book is that we got East Asian levels of growth, but we never managed the structural transformation of the economy.



Even today, if you see the chart on the right-hand side, organised employment – or factory employment, however you want to measure it – is still very small.

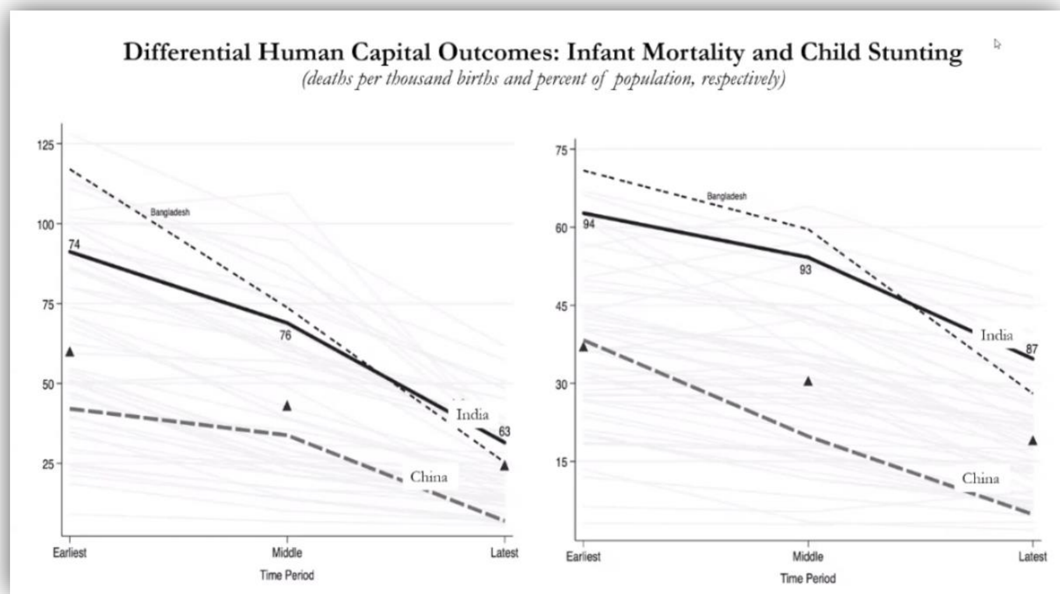


India never managed to create the kind of jobs – a formal-sector, reasonably well-paid jobs for a vast majority of its population. That's a kind of endemic Indian blot, as it were, on the Indian economic landscape, which did not happen of course.

On the left-hand side, you will see the critiques of neoliberalism would say that it created extreme inequality. To some extent, that's true.

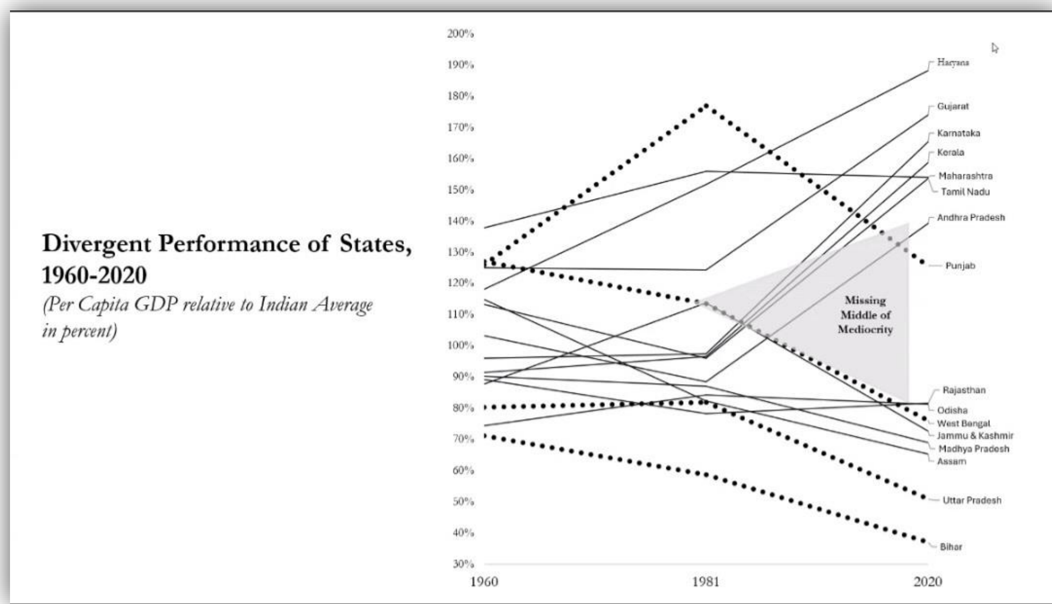
This chart shows the number of billionaires in different countries at different points in their development trajectory. You do find that India has many more billionaires, and there is much more extreme inequality in that sense compared to other countries at a comparable stage of development. I'm going to talk about that later in terms of what neoliberalism did not deliver.

The other thing is that, although there were vast improvements in all the social indicators – health and education – I think it's fair to say that these were improvements more in quantity rather than in quality.



This chart shows how India, on the left-hand side, did very well in improving infant mortality but made less progress on child stunting. Similarly, enrolment improved, but learning outcomes have not improved. Life expectancy, on the whole, has come down, but nutrition, as reflected in height, has not made similar progress. So, these are challenges that remain. But things were still much better in the neoliberal era than they were otherwise.

The one last thing, which we can talk about later on, the other legacy of the neoliberal era, was that we had very rapid growth, but very uneven growth across the states.



This chart shows the per capita GDP of the different states.

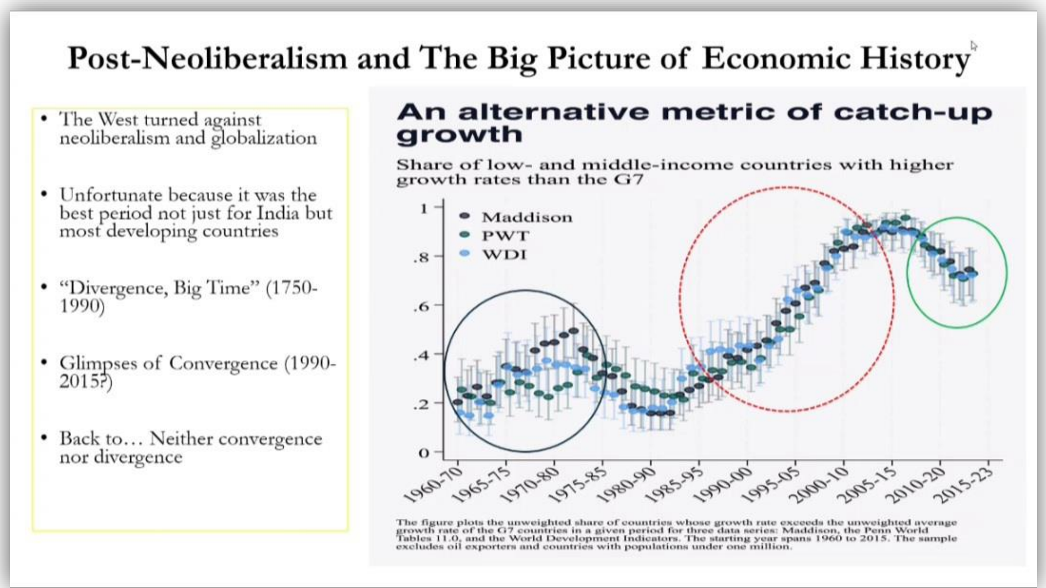
In 1960, you can see that all expressed as a share of the national average; they were all bunched up, close to each other. The richest state was only two to three times richer than the poorest state.

But beginning in the 1980s, and especially today, that divergence has exploded.

Today, the per capita GDP of the richest states is five to six times that of the poorest. So, this was a consequence of rapid growth – rapid growth was uneven growth.

This has created the problems of fiscal federalism that we can talk about during the Q&A.

I just wanted to note that neoliberalism delivered a lot but also had these outcomes, which I don't think we can gloss over or ignore.



Now, just to step back, the neoliberal era in India was also the neoliberal era globally.

I've done some research with my colleagues from Harvard and the Center for Global Development showing that it was not only a period of growth for India but also a remarkable period of change and development for developing countries as a whole.

And, this chart based on our research, shows the share of countries that were growing faster than the G7 from about 1960 onwards.

What you find is that from about the mid-1980s onwards, globally more and more countries started growing faster than the advanced countries. We call this the period of rapid catch-up convergence, as it were.

So, this was not only good for India; it was great for developing countries around the world. Because, prior to that, for 200 years, poorer countries remained poor because they consistently grew slower than richer countries. It was a period that Lant Pritchett called "Divergence, Big Time."

But the global neoliberal era was also a thing when that dynamic globally changed, and developing countries as a whole started catching up.

So, the Indian neoliberal period coincided with the global neoliberal era. But then something happened, and this is important to note as intellectuals, around 2010, the West abandoned neoliberalism and globalization.

They abandoned it because they believed it had led to China becoming too powerful, China de-industrializing the West. It happened because the global financial crisis also happened, bringing the whole model of finance-based capitalism in the United States came into disrepute. Other events, such as the Iraq War, also happened.

Essentially, neoliberalism became discredited, and of course, inequality also rose very rapidly in the West. So, all the ills of the West were attributed to neoliberalism as it was and globalization. As a result, the West turned inward.

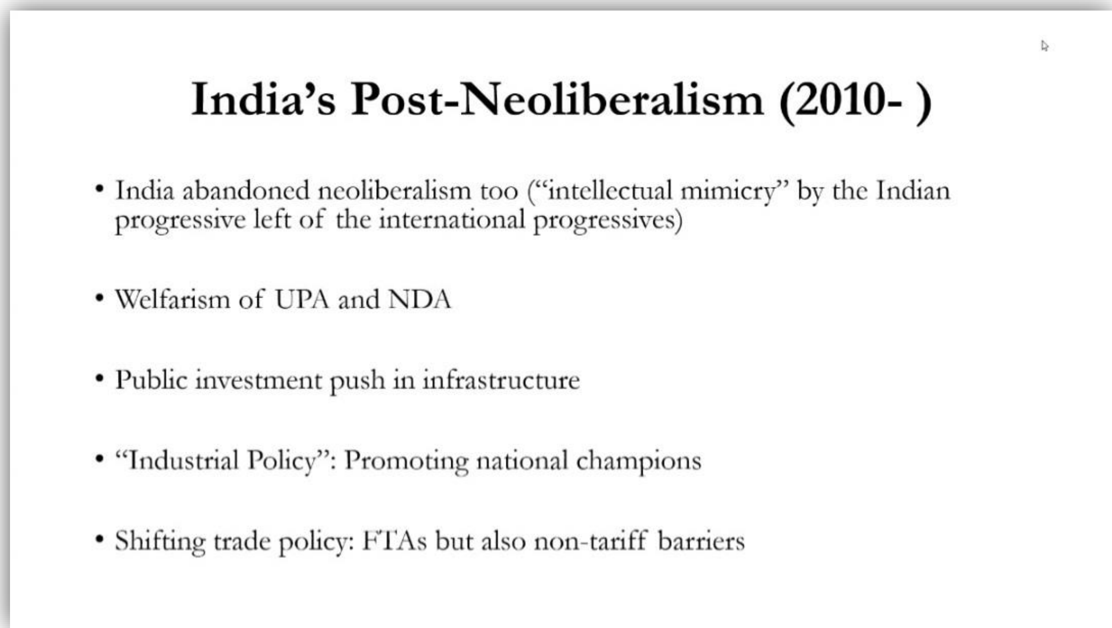
I think one of the tragic things is that India also turned away from neoliberalism. It is a bit of a tragedy because, I would say, in some sense, we were intellectually enthralled to the West. We engaged in a kind of intellectual mimicry or imitation of the West. We too turned against neoliberalism, when in fact, this neoliberal era served India, China, and many other developing countries like no other period in modern economic history.

It is a pity that we took our cue from Western intellectuals, especially Western progressive intellectuals, who turned against neoliberalism because of ailments in their own countries, which may or may not have anything to do with neoliberalism. We turned against it despite it having delivered for us. As I showed you, what did neoliberalism give? It gave us aqueducts, sanitation, the rule of law, freedom, peace – and good wine. That is one piece I missed earlier – good wine as well.

I think this is one of the major intellectual tragedies of the South – that we imitate the West even when it goes against our own interests. This was particularly true of the Indian progressive left, that it imitated the international progressives.

So, what did we do after 2010?

In the book, we say that it is not easy to characterize what happened after 2010. How would you describe it? The planning era was something clear. The import-substitution era was clear; the neoliberalism era was clear.



But after 2010, it is kind of a mishmash of many different things happening. Let me say that four strands are discernible in policy and economic policy and development.

So, we call this the post-2010 era in India – the era of welfarism. Remember, welfarism began under the UPA with MGNREGA, the rights-based assessment, and the Food Security Act. It began as a way of sharing the prosperity created during the neoliberal era.

And of course, under the Modi government and the NDA backed the Food Security Act, it has been embraced with a vengeance – if anything, expanding it further and further – because now food is available free to almost everyone in India.

Initially, the government played it somewhat fast and loose, but with MGNREGA, it evolved its own welfare model, which I call the new welfarism, which is the public provision of essentially private goods and services – chulha, cooking, toilets, bank accounts, power, and drinking water – culminating in I think, in the most extreme form of welfarism, which was the cash transfers.

So, one could argue that India today is basically a mega welfare state, and for 80% of the population, welfare is kind of the opiate of the masses today. So, we have basically, since 2010 kind of gone away from neoliberalism to much more serious welfarism.

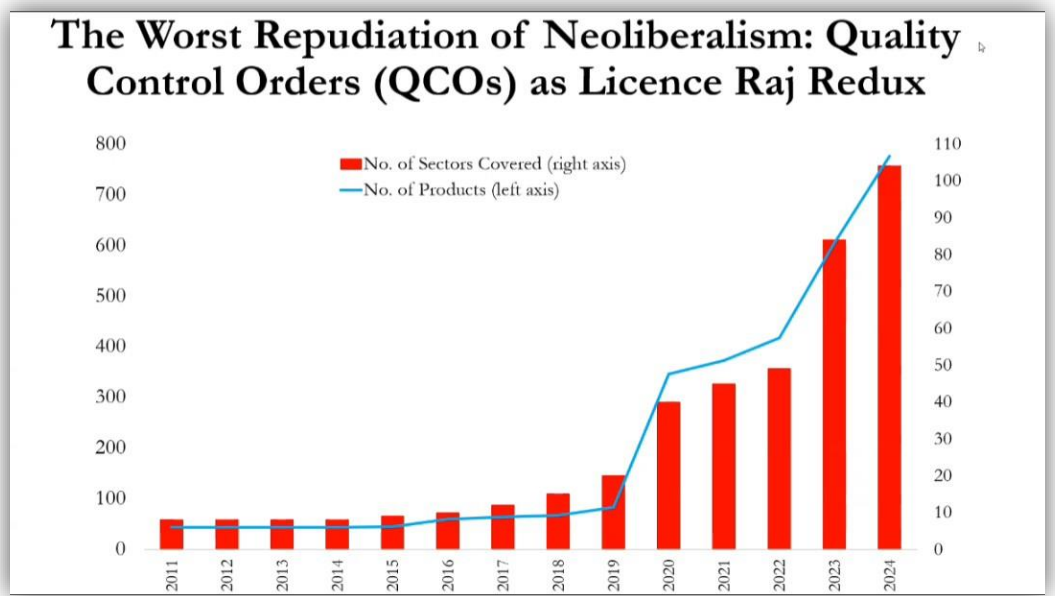
I am not saying it is all good or bad, I think there are elements of both, but as a kind of analytical proposition, I think that is what we went into.

Then we got the public investment push in infrastructure under the Modi government, partly because under the previous government, much of the push was in the private sector. But after the financial crises and the twin balance sheet challenges, we got more of a public investment push.

But then there were two distinct things about the Modi government, especially after 2018. One, for all those now in the West who are dying for industrial policy, to abandon neoliberalism, let us do Chinese-style industrial policy. Well, the good or bad news for all those who are pining for this is that the Modi government has delivered on a kind of industrial policy, which is basically promoting national champions. Under the planning era, we promoted public sector champions; in the last 10–15 years, we are promoting a few national champions, which I will talk about later.

That seems to be a fairly distinctive turn in the Indian development strategy. And then, of course, we really did abandon neoliberalism. Beginning 2018, we raised tariffs. You know, a 25-year consensus that we should have a slow and steady opening of the economy via trade policy – we kind of reversed and went back on that. To be fair, we have gone back and forth on that. I think we have gone forward in negotiating all these Free Trade Agreements with different countries, which I think is kind of, would be a part of the neoliberal agenda.

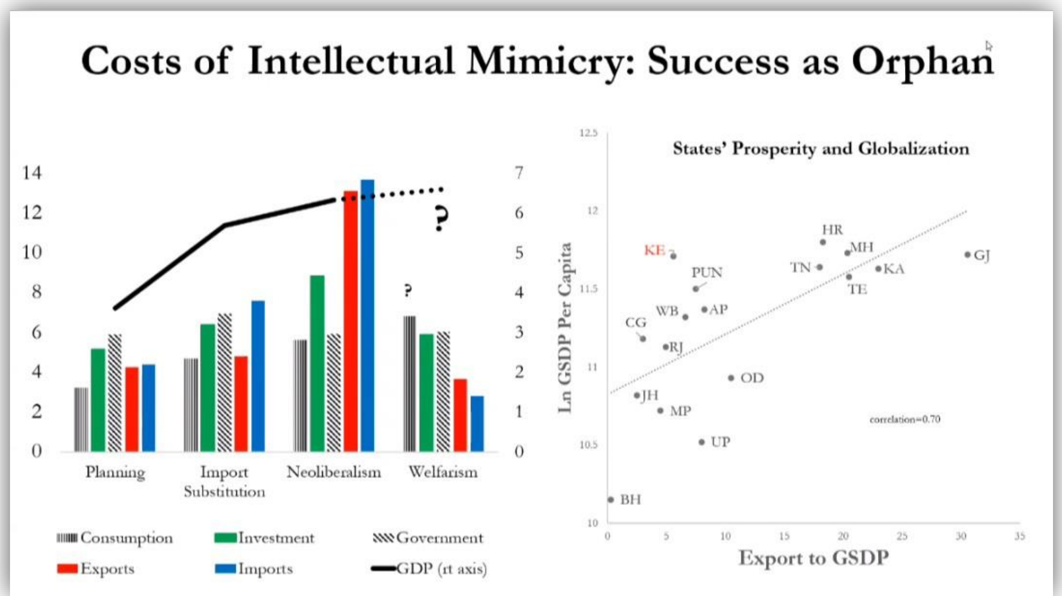
But then we have done something which is just completely egregious and atrocious on trade policies. We brought back the worst of the license permit quota raj in terms of these quality control orders. These are basically non-tariff barriers.



And this is research done by my colleagues Abhishek Anand and Naveen Thomas. This is a chart that shows how many quality control orders there are on the left-hand side and how many sectors they cover on the right-hand side. Basically, after 2019, it has exploded.

And this is, believe me, the worst form of crony capitalism, the worst form of arbitrary policy, and absolutely detrimental to India's trade-based, low-skill exports-based strategy. Because many of these QCOs are on sectors to promote capital and energy sectors in India, which provide inputs into labour-intensive sectors. So, by issuing these quality control orders, we have made inputs into labour-intensive sectors that are prohibitively expensive. And this implicates two or three major business groups in India. They have got this.

So, in some ways, I think Professor Shenoy would be most unhappy with this development because in some ways, we have gone back to the worst instincts of the License-permit Quota Raj in the form of these non-tariff barriers, arbitrary cronyism, detrimental to exports. And I think this is something that's going to continue to haunt us for a considerable period of time.



Now, the amazing thing, as I said about the neoliberal, the turn away from this is that usually we say we will make an orphan of failure. Here, we made an orphan of success. The chart on the left-hand side shows that in the neoliberalism era, you don't have to know what – you just have to know that all those bars are very good, which means everything was doing well.

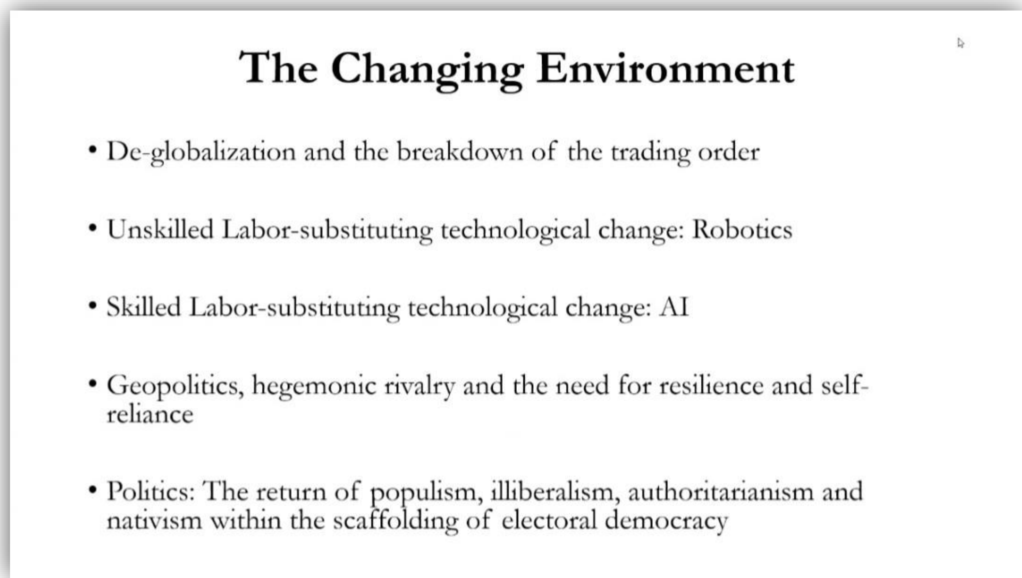
And in the post-neoliberal era, everything collapses except, of course, officially measured GDP growth, which we will come to later. But basically, we have gone from everything growing rapidly to everything collapsing. And the chart on the right-hand side is especially important.

This is some work we did for the Economic Survey. If you look at India's successes, you find that the states that are more open and more globalized are the states that have been more prosperous. And we talk in the book about how they have been open and global in different ways.

So, for example, Gujarat and Tamil Nadu have globalized in terms of manufacturing exports. New Delhi and Haryana opened both in terms of manufactured goods and services. Karnataka via Bangalore globalized via services. And what you will find here is that there is one outlier, Kerala, which neither produces manufacturing, agriculture, nor services, but is still very prosperous because it is globalized in a very different way via exports of labour.

So, the lesson from this is that openness has served us not only at the national level but also at the level of the states. We have turned against that, and we have made – you know, I was joking with someone the other day that most countries learn from their failures or don't learn from their failures. We don't learn from our successes either. And this kind of turn away from openness has been one of the sadder features of the post-neoliberal era.

Now, I think to break it down today, I think it is fair to say that in the post-Trump world today, even compared to 2010 with the global financial crisis, there are four or five major changes in the global economy.



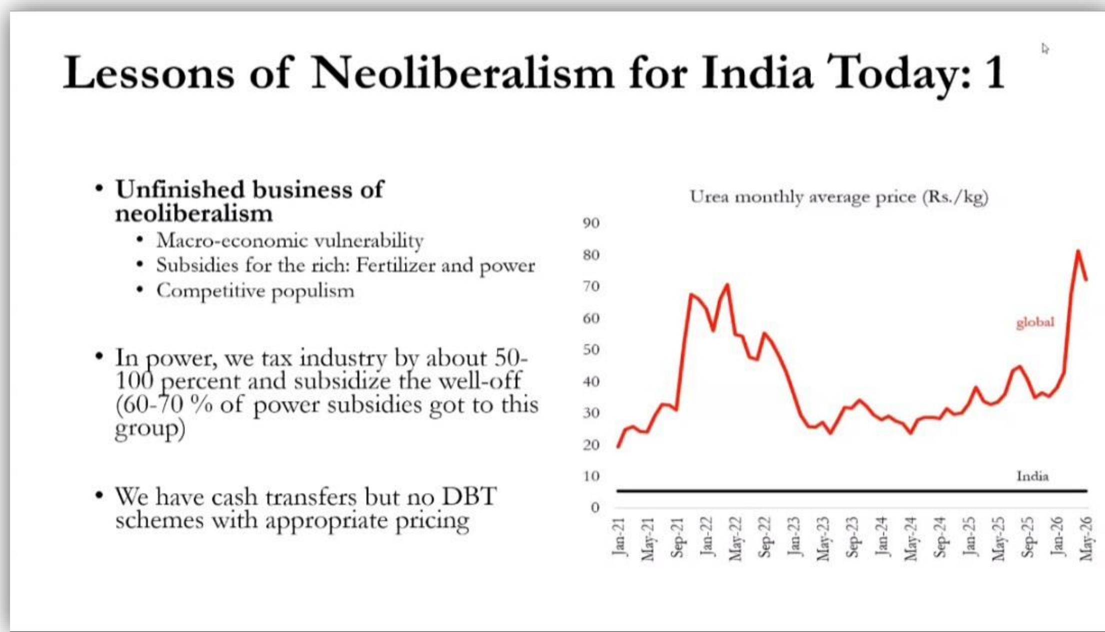
One, of course, is de-globalization and the breakdown of the trading order. The second, I think, is what I would call a technological change that substitutes for unskilled labour, like robots, and this is going to have implications for any manufacturing-based development strategy. But we simultaneously also have technological change which is substituting for skilled labour, and that is artificial intelligence.

So, it is one of those unique moments in history where you have both kinds of technological change – not just unskilled-labour-substituting, but also skilled-labour-substituting. That is why I think the fear going forward is that if AI and robots take over, the labour share of income will completely collapse because of labour-saving technological change.

Of course, at the same time, we have geopolitics, hegemonic rivalry, over-reliance, the need for resilience and self-reliance in the wake of all these shocks – the COVID shock, the Ukraine war, the Iran war – and I will talk about some of these.

And, of course, on politics, we have the return of, call it how you want, populism, illiberalism, authoritarianism, nativism, and often within the scaffolding of electoral democracy. It is not that countries are becoming dictatorships or authoritarian. It is that a lot of this is happening within the scaffolding of electoral democracy, and this is a global phenomenon.

It is not just at home; it is true in Hungary, it is true in China, it is true in Russia, it is true in any of those countries, Turkey, Hungary, Poland – all parts of the world, the United States, the UK, Brazil, and so on. So, these are the big changes taking place.



And therefore, if you learn the context, what does all this mean for today, especially what does it mean for neoliberalism today? And remember, I said I had three answers – yes, yes, and yes.

So, this is my first yes – there is a big unfinished business of neoliberalism which is very, very relevant today in the context of what is happening in the Ukraine war and the Russian war. What has become clear in India is that we are still very vulnerable to energy shocks. I did a calculation with my co-author Navneeraj Sharma recently in a Project Syndicate piece.

India imports about 35% of its overall energy needs, and this has been rising for the last 25 years, from about 15% to now 35%. China is about 20% and has been declining. So, the dependence on energy and import dependence has been rising.

So, how do we respond to this? We have to get energy prices right. This is one example. Remember, what the Iran war showed is that it is not just petroleum, it is not just natural gas, but it is also things like urea and fertilizer.

And this is a chart that shows the global price of urea and the Indian price of urea and shows how much extra consumption takes place wasteful because it is heavily subsidized.

Now, here is a very, very important point that we have to realize when we talk about subsidies on all these energy products. And this is true not just of fertiliser, but of electricity as well. Is that these are subsidies that are wasteful because it leads to a lot of over-consumption?

But here is the critical thing to remember about fertiliser, MSP, and power, on which I have actually done detailed work. 60% to 70% of the subsidy goes to what we would call the middle class, upper middle class, and rich.

In writing one of the surveys, Arun Jaitley called me and said, "Arvind, *tu hamesha subsidy subsidy kehte ho, middle class subsidy ke upar ek chapter likho*." And he was so right, because so many of the subsidies in India are not – if you give free fertiliser to poor farmers or to poor consumers, that would not be a macroeconomic problem.

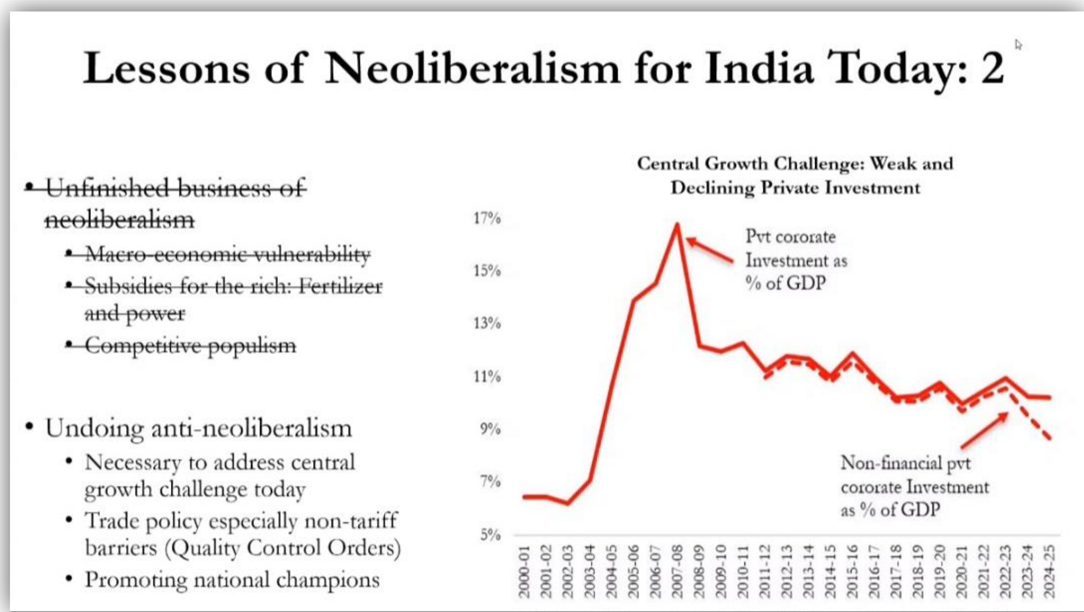
The macroeconomic and fiscal vulnerability comes because of energy subsidies to the middle class, upper middle class, and the rich. And by the way, there is nothing about democracy that says you should provide subsidies to the rich. These are very few in number, and the quantities are huge. And of course, one of the downsides is that the competitive populism that we see across the states in India, very much extends to the energy sector as well.

So therefore, in terms of India's macroeconomic vulnerability to energy shocks – which is significant because 35% of energy is imported – I think it is the unfinished business of at least getting prices right, without, and this is the key point here, we have so many cash transfer schemes. We do not have one cash transfer scheme in India which says we will give these transfers for fertiliser, for energy, for poor consumers, for poor farmers. But we will make sure that the prices are reasonably close to what the oil costs and the market prices are.

So, we have cash transfers, but we do not have one direct benefit transfer scheme in India that does this. Given that we have made so much progress on the JAM, and given that we have such energy dependence, it seems to me that a critical unfinished business of neoliberalism would be to use the latest technology, reduce wasteful consumption of energy, and reduce subsidies for the very, very rich in order to achieve macro-economic vulnerability.

I think this is an unfinished business of neoliberalism that Professor Shenoy would wholeheartedly approve of. So, that's the first "yes." When you ask, "Is neoliberalism relevant today?" This is the first yes.

The second unfinished business is undoing the anti-neoliberalism that we have seen over the last 15–20 years.



So, if you were to ask me what the central growth challenge is today, the chart on the right shows it. Since the peak of the global financial crisis, private corporate investment has declined, and declined, and declined. Weak and declining private corporate investment is the central challenge, and I have argued with colleagues that even the macro-crisis that we saw – why is capital not coming into India, which is also a trigger of this crisis – is, in part, because opportunities for investment are declining.

So, then the question becomes: Why? Because it is a bit of a puzzle. If you tell me that India has been growing at 8% for the last three years, which the statistics are telling us; if you tell me that the banking system has abundant money to lend; if you tell me that we have enacted corporate tax reform, we have macroeconomic stability, and we have high growth, then the puzzle remains. Why is private investment so weak? Why is capital leaving India rather than coming into India? Indian corporates are investing abroad instead of Foreign Direct Investments coming in.

And I think Josh Feldman and I have argued that this has a lot to do with the kind of anti-neoliberal impulses that have crept into the Indian economy over the last 10–15 years.

One is the quality control orders. The reversal of openness that we have seen is chilling investors very much. I think we need to square up to another fact that if you promote national champions and favour them, if you tilt the regulatory field in favour of a few big players, you are going to chill investment by other domestic and foreign investors. This anti-neoliberal streak that we have seen is important.

In macroeconomics, we used to have this famous debate – does public investment crowd out or crowd in private investment? But here we have a case of some private investment possibly crowding out other private investment.

I was once at an airport in Chennai not so long ago. Someone came up to me and said, "Sir, we read your articles in Foreign Affairs on the stigmatized capitalism of promoting a few national champions." He said, "I work for a large company – in fact, I am the CEO of a large company in India – and I will not invest in areas that the big people, the big corporate houses that operate today, or potentially in the future, because the regulatory field will be tilted against us."

Similarly, I want to come back to the notion that I think Professor Shenoy had, is that neoliberalism also has a broad and pretty severe embrace of the rule of law.

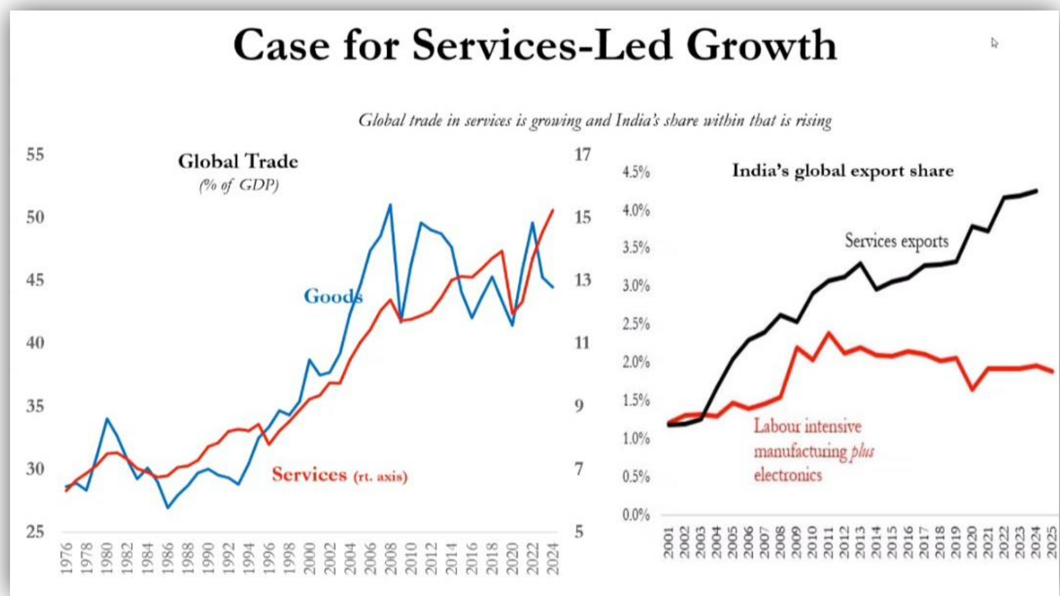
And if you don't have the rule of law, if you have arbitrariness in implementation, if you have arbitrariness and overzealousness in tax administration, or if you tilt the regulatory playing field in favour of some. So, in some broader sense, this collapse of the rule of law has taken a toll on private investment. In fact, the sharp way to pose this is to say, to be fair to the government, it has done a lot of things to reduce the cost of doing business.

But what I would argue is that the risks of doing business in India, because of this kind of degeneration of the rule of law – arbitrarily going after subgroups and sub-business houses, overzealously implementing tax laws, favouring some – I think this collapse of the rule of law has affected Indian growth quite significantly.

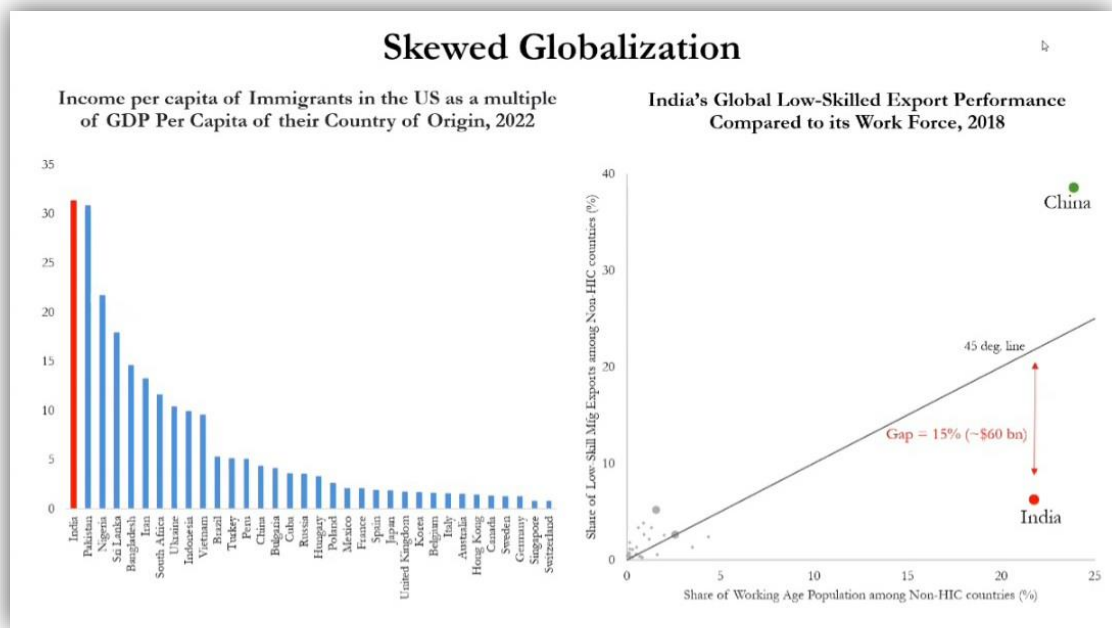
Therefore, the second "yes" is this. The first “yes” was that there is unfinished business in neoliberalism. The second “yes” is that there is something that we actually reverse – the anti-neoliberal impulses have crept in, and that we need to reverse.

The last point is, of course, beyond neoliberalism. And let me just say two things here.

Several people have argued that we should now have because on the left-hand side, you can see that global trade in goods is stalling, but global trade in services is rising. On the right-hand side, India's share of global services exports is rising, but India's share of labour-intensive manufacturing has been declining.



So, some people have said, therefore, the new development strategy should be a services-led growth. I would unambiguously resist this because, when people say this is what we should try, my answer is that we have already tried this over the last 25 years. While it has favoured some – and this is a stark way of showing it – on the left-hand side the policy of favouring services has led to a great deal of emigration of highly skilled talent from India because we emphasise high skills.



This is a chart based on work by my co-author, Devesh Kapoor. How much do Indian immigrants earn relative to other immigrants? It is fantastic. India has global influence because of its diaspora.

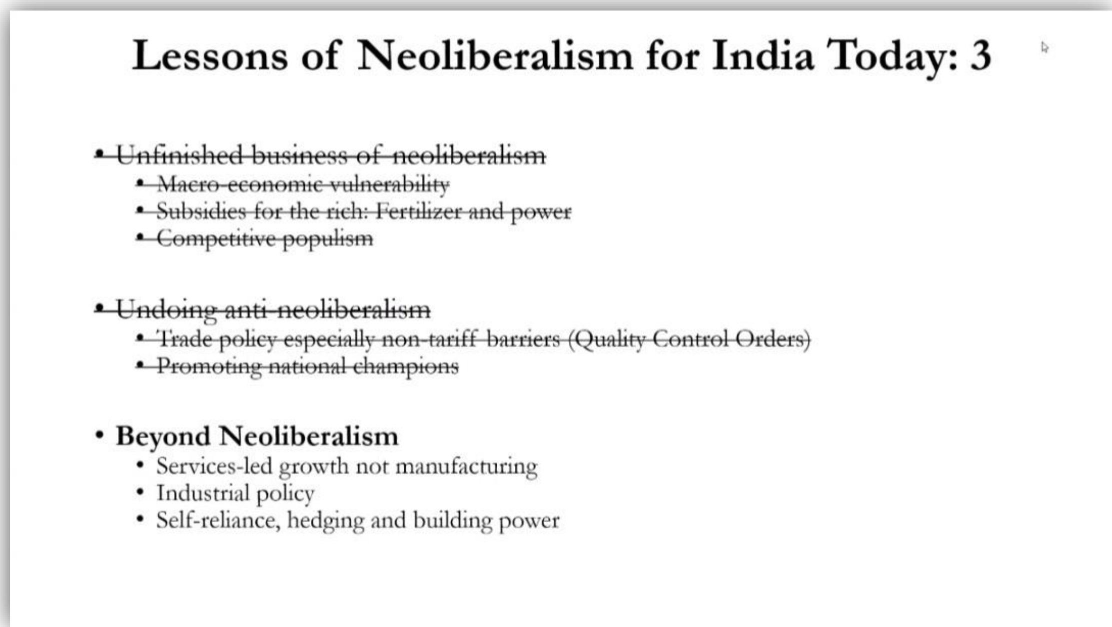
But the flip side is shown on the right-hand side. This chart shows, on the y-axis, what is your share of global labour-intensive manufacturing and, on the x-axis, what is your share of the working-age population.

China and India are outliers. China and India have roughly the same share of the global labour force, but China accounts for about 50% of global exports, whereas India accounts for only about 2–3%.

So, any strategy that emphasizes only skilled services, etc., is doomed not to provide opportunities for a vast share of India's labour force. In some ways, we cannot give up on labour-intensive manufacturing because this is the potential that still exists.

And the China Plus One opportunity, although it is slipping away, we have to do our utmost, like some states in India, like Tamil Nadu, have done. So, when people say beyond neoliberalism, one is the services-led growth.

The second thing people talk about is industrial policy. China is pursuing industrial policy. Look, I do not have a strong view. Maybe we should do more industrial policy. That would be somewhat anti-neoliberal.



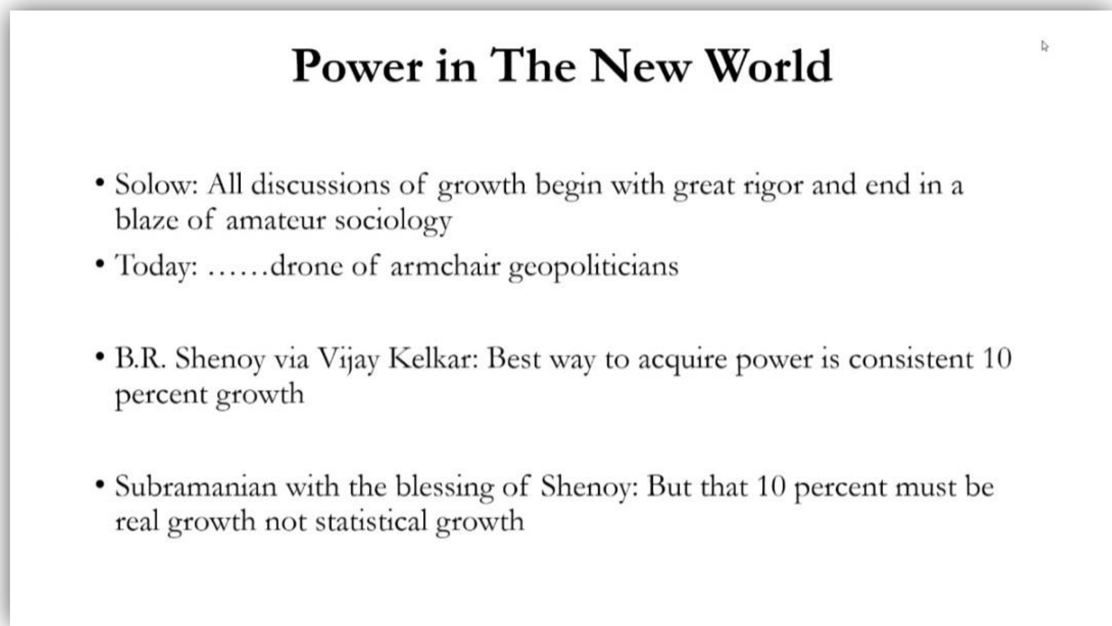
But I just want to go by the experience of what we did in India under the PLI scheme. What you found about the PLI scheme, maybe it worked in electronics, but it did not work in the other sectors.

If you look at the emphasis given under the PLI scheme, it was all on skills-intensive, technology-intensive sectors, with very little emphasis on labour-intensive sectors.

So, when we do industrial policy, my two suggestions would be:

One. do we have the capacity to do it? Because if industrial policy results in quality control orders or in promoting national champions, then it is simply terrible industrial policy.

The last point I will make before I stop, is Power.



Let me try to be slightly mischievous and say the following:

Robert Solow used to say, in one of his famous lines, "All discussions of growth and development begin with great rigor and end in a blaze of amateur sociology."

Now, what I would say about the current moment is that all discussions of everything begin and end with a drone of armchair geopolitics and geopoliticians.

It is about big powers, superpowers, middling powers, converging powers, convening powers, the Indo-Pacific, Indo-this, Pacific-this. And yes, power is important. People have different views on what we should be doing by way of innovation, technology, and so on.

But I am a fairly simple-minded person. To me, when you're dealing with a world of complete uncertainty – real uncertainty – there is only one thing you can control in this world, and that is domestic strength.

So, I would like to think that Professor Shenoy would agree with a piece of real wisdom from one of my mentors, Vijay Kelkar, who I think was very much in the Shenoy mould of liberal economists.

He famously said, "The best way to acquire power is consistent 10% economic growth."

Essentially, it is a way of saying that you have to have a strong economic base domestically for having any illusions or any hopes of exercising power internationally.

Domestic strength is a necessary – and almost sufficient – condition for exercising or projecting global power or projecting power, and without that, we cannot achieve it.

So, I want to channel Professor Shenoy via Kelkar by saying that the best foreign policy, the best way of acquiring power, is 10% growth. And I want to channel

Professor Shenoy via Arvind Subramanian by saying that this 10% economic growth must be real growth, not statistical growth.

In the spirit of being upfront and honest, what we really need is that kind of strong domestic base, which would require, just to summarize, completing the unfinished business of neoliberalism and reversing some of the worst anti-neoliberal impulses that have crept into the economy. And, of course, in some sense, perhaps we do need to go beyond neoliberalism with industrial policy and so on.

But at the core, even there, you need a strong domestic economic foundation for projecting power is also, I would say, a core neoliberal tenet.

So, in some ways, I think we have to say three cheers for Professor B.R. Shenoy.

Thank you.

Q&A Session

Prof Kumar Anand:

Thank you very, very much, Professor Subramanian, for the most illuminating talk. We have a bunch of questions in the Q&A section of Zoom and a bunch of questions were sent to me ahead by looking at the Speaker and hearing about the topic of the lecture. I think they are exciting enough.

But I will use my privilege of being the panelist here, and quickly recall, in 2018, if I am not wrong, I was reading the Economic Survey of India, and there you have a chapter on UBI, where you talk about food, fertilizer, fuel subsidy rationalization, and how rationalization could be one way of financing UBI for a certain percentage of the population.

This reminds me of the little bit of time spent at the Ministry of Finance as a consultant, and one of the bureaucrats there said, "Any program started by the

Government of India never shuts down." So I am wondering if any kind of UBI of that nature wants to attempt becomes very difficult for, you know, democratic multiparty system, first-past-the-post, etc., etc.

I have a thought, and this is a question that I have asked multiple people in the past. Our friend Gurcharan Das keeps quoting this story that a big percentage of a politician's job is not only to do reforms but also to sell the reforms. And he quotes Margaret Thatcher as an example and says a big chunk of Thatcher's job – and I think Thatcher is on record saying this in the British Parliament – was that a certain percentage of her time was spent trying to sell the reforms.

I also recall reading something by Ashok Desai in a 1995 piece. In that 1995 piece, Ashok Desai said that in India, neoliberal ideas are being implemented, but they are not being sold to the public.

So, my first question to you, coming from me directly, is:

To what extent do you think that a turn of neoliberalism to some extent was never really adopted and championed by people at large, and that there was never an earnest attempt by intellectuals and politicians to market it to the people, so that any positives of higher economic growth that percolated through were never attributed to these reform ideas?

So, there was never a connection been made. Your thoughts, please.

Prof. Arvind Subramanian:

I will answer the UBI question as well.

It is true that, you know, when I see the proliferation of cash transfer schemes in India, I am reminded of the quote, "Be careful what you wish for, because it will actually happen."

To some extent, the proliferation of cash transfers at one level is a kind of variant of universal basic income. But I think, apart from the insight of, no program in India ever dies, they are only created, which is absolutely true.

We spoke about the lack of exit in India more broadly, right? But, looking back, I have two reflections on the UBI. Because remember, we always said UBI but at the expense of other schemes and things, and I think the proposal was maybe politically naïve. If you think schemes can't be killed, why would you think the fertilizer and fuel subsidies would be killed? So, this was always going to come on top of, as another thing.

But the other thing about the UBI which I think is under-recognized is an insight due to President Tharman Shanmugaratnam of Singapore. He used to say that, you know, if you take western democracies, they have something called this earned income tax credit scheme, which is a very complicated way of providing subsidies to the poor. You know, you get a rebate if you have a certain thing.

And what he said was that a simple scheme has the virtue that, you know, it is appealing, you can sell it, but the simple scheme also has the virtue or the vice of being abused.

So, you know, if I give you a thousand rupees cash transfer. It is very appealing for someone to come and say, oh, he gives you a thousand in your bank account, I'll give you two thousand. So, this competitive populism that comes with cash transfer is intrinsic to, you know, cash transfers per se.

The very appeal, is the very source of abusing it and that's something that I think would be under-recognized. On the question of selling reforms and so on.

By the way, I thought you were going to say that the job of an economist is as much killing bad ideas as promoting good ideas. I think there is some truth to that. But on the selling of reforms, I think what you are saying is correct, or there is some truth to that. And this is the evidence that I have for that. Which is, don't listen to me or to you, or someone else.

Look at the Congress party manifesto, even today and over the last many years. They have made an orphan of the very success that they created. They don't talk about reform, openness, or increasing the pie. The Congress party that shepherded and presided over this rapid growth, this neoliberal turn, has itself repudiated it and publicly will not own up to it.

So, there must be something to this. Here is where I would kind of push back on. Take something like a middle-class subsidy. I think that is something that should be eminently sellable.

You could say, for example, why should the rich farmer, the rich consumer, or the rich industrialist be subsidized? So I think there are areas where governments can make a better case, and policymakers can make a better case. But I think, broadly, what has happened is that if the state cannot sell real change, then it uses the prop of gimmicky, easily saleable change.

And really, I think the new welfarism of Mr. Modi – the genius of that – was that it became saleable, eminently saleable, in two respects. First, you actually gave tangible things to people. Not "your children will get educated five years from now." Instead, it is, "You get A, B, C, D, and you get it today."

The second thing is that it also overcomes the trust deficit with politicians. People don't take politicians seriously, but if a politician says, "I will give you this," and can show you in real time because of the JAM technology, etc., so, I do think, therefore, that what has happened is that, it is not that politicians don't do it. It's that some things are intrinsically easier to do than others.

Selling growth is intrinsically more difficult. I do feel sometimes that politicians may have to come to grips with the fact that good economics may mean bad politics, at least for one or two terms, and that they should be willing to sacrifice power in order to achieve it. So, I think it is more difficult and complicated. I agree.

Professor Kumar Anand

Therefore, the challenge is always to try to sell good ideas and take down bad ideas. Maybe if politicians had the foresight of knowing that they were going to be in power for the next three terms, then they could do it no matter what.

Professor Arvind Subramanian:

But then that brings with it other problems, right? It leads to over-centralization, abuse of power, and a staleness of ideas.

One could argue that the greatest virtue of democracy is its short time horizons. That's true, as you just said. The flip side is that you get staleness of ideas, status-quoism, and laziness. So, you know, it is what it is.

Professor Kumar Anand

I'm very grateful to all the audience members who have joined and asked questions. I would also like to apologize. I forgot to apologize in the beginning. We started a bit late. I think we have about 20–25 minutes or so, depending on how long Professor Subramanian can spare, and we will try to take as many questions as possible.

The first question comes from Himanshu Hari. He asks: "In your book, you mention the presence of the state in society through specific functions such as market creating, market stabilizing, market legitimizing, and market complementing. With the recent push toward deregulation, decriminalization, and digitization, how do you see the role of the state evolving now?"

Professor Arvind Subramanian:

Look, we see worldwide that all these new technologies are, in some ways, wonderfully decentralizing, but they are also awesomely capable of abuse by the state – whether it is surveillance, identity, or all of these things.

So, in that sense, I think it's going to be a constant battle. The role of the state may change to some extent, but fundamentally, all the things it has to do don't go away. However, because it has acquired these new means, I think, if you are on the side of political freedom and agency, you would always want to be a little anxious about the state acquiring more coercive power and more surveillance power, especially if the countervailing force of an active civil society, active institutions, and independent institutions are weakening.

If you don't have that, and in some sense one could argue that the world did – the United States, for example, and I think it is true for India as well – we are seeing the state acquiring more surveillance and coercive power while, at the same time, seeing the weakening of the countervailing force of other institutions in society. I think that makes for a somewhat dark and foreboding future, and I'm more worried about that than about saying the state has to do different things.

I think the state still has to perform all those functions that I've spelled out. But the new development is really the combination of broader illiberalism taking shape and the state acquiring more coercive power. That combination, to me, is a little anxiety-imbuing as well.

Professor Kumar Anand:

That's also my favorite part of Professor Shenoy's Note of Dissent, the third part, where he says that pursuing socialism and democracy together will lead to the weakening of democratic institutions.

The second question comes from Rahul Basu. He asks: "From the definition of neoliberalism, it would seem that China would be called neoliberal. If China isn't neoliberal, what can we learn from their successful growth experience?

Professor Arvind Subramanian:

I think China is not neoliberal. Let us be honest about that. You don't have the political freedoms and agency, and the surveillance state that we spoke about is only getting worse. But China is different because it has what I would say is the most efficient institution in the history of humanity, which is the Chinese state.

The Chinese state, for a variety of reasons, has been able to do all kinds of things, including creating the basis for technological innovation and creating the basis for competition.

I mean, if you look at what China is doing today in EVs and other sectors, it is this really weird combination of a Chinese state that can dictate a lot of things while, at the same time, creating the space and the freedom for the private sector to compete with each other.

So, the honest truth is that I think there are no lessons from China and the Chinese state for most other countries in the world. To be fair to the questioner, what China did do after 1978 was recognize that, instead of the state doing everything, there were lots of things for which it should give a greater role to the private sector. So it is that combination of a very strong state that then allows for a greater role for the private sector that has created this unique combination today.

I think we can write reams and reams about how the Chinese state functions and how effectively it has done these amazing things over the last ten years, but it is simply not replicable because we have nothing like the Chinese state, both in its good and bad manifestations.

Professor Kumar Anand:

Next question I'll take from the email. Mohit Satyanand asks: "Do you still believe that official figures overestimate GDP growth by 2 to 2.5 percent, and what has prevented India from gaining market share in government trade?"

Professor Arvind Subramanian:

Yeah, you know, Abhishek Anand, Josh Feldman, and I recently wrote a very detailed paper. But I want everyone to realize that there were two findings in that paper. We said that official GDP growth was overstated by 2 to 2.5 percent after 2011, but it was also understated – or rather, revised downward – by about one and a half percent before 2011.

So, both things happened as part of the changes to the statistics, and both, in our view, were half that both official actual growth was more in the period before 2011 than the official statistics say, and lower afterwards. So both are true. I continue to believe that.

Let me tell you a way of answering that question.

If you look at India today, you stay puzzled –

Growth is high, but private investment is weak.

Growth is high, but wages are weak.

Growth is high, but employment is weak.

Growth is high, but foreign capital is running away.

How do you explain all these things?

Growth is high, yet there has been structural de-transformation.

For each of these, you could have a really contorted, complicated explanation. But, applying Occam's razor, the simplest answer is that there is no puzzle because growth is not as high as it is claimed. So, it is a simple *Occam's razor* answer to all these many many puzzles that are now creeping up.

The answer to the second part of the question is, in Chapter Five of our book, if you want to read, it is exactly about that question. The puzzle is that, in the neoliberal era, we not only grew very rapidly, and our trade grew very rapidly – not even just trade in services, but trade in manufacturing also grew very rapidly. It's just that it happened to be high-skill, capital-intensive manufacturing, not labor-intensive manufacturing.

I don't think there is one answer, but I do think there are a series of answers, a lot of them. Some of it has to do with overbearing government regulation that prevents firms from becoming big in India. I think the government, as an employer, also plays a very distortionary role in favoring respect to labor-intensive manufacturing.

We have also shown that, when we talk about the power sector in India today, what I did not say was – but we have written about this – is that we subsidize the rich. We impose about a 50 to 100 percent tax on electricity going into manufacturing. So that is another tax we impose on the manufacturing sector via this.

I think the really subtle point is that I do believe there has been a kind of Dutch disease. When you have a skilled services sector that does very well, it holds back the low-skill manufacturing sector through all kinds of channels, including a more appreciated exchange rate than there ought to be.

So the causes are manifold, but I don't think they are irreversible. I think we need a mission-mode approach, saying that there's a China Plus One opportunity. Parts of Tamil Nadu, Karnataka, and Haryana have been able to do labor-intensive manufacturing. I think we should do it.

But our mindset today is such that, with the PLI scheme, we want to subsidize chips, we want to subsidize batteries. Maybe that is a good thing to do, but why don't we ever think about how we can muster the resources of the state and the states as well. You know, state governments to create the ecosystem to attract labor-intensive manufacturing? I think it is doable, but it requires the same mission-mode frenzy that we devote to other things.

Professor Kumar Anand:

The next question comes from Razia Khan. She asks: "If neoliberalism claims to reduce state intervention and maximize individual freedom, why do many contemporary right-wing governments simultaneously advocate free markets while expanding state control over culture, identity, surveillance, and civil liberties? Is this a contradiction, or does it reveal that neoliberalism selectively limits the state only in the economic sphere while strengthening it in the political and social sphere?"

Professor Arvind Subramanian:

That is a great question. I think it is absolutely fair to say that. The cop-out answer for me would be to say that is not neoliberalism, because neoliberalism says you must have political freedoms and so on.

But it is true that, over the last 15 or 20 years, for whatever cultural reasons, nationalism – and nationalism centered around identity – has become a very powerful galvanizing force – which has been used by – the right-wing governments, which unfortunately, also tend to be nationalistic governments. They harp on this whole history, the past identity, and so on.

That is almost hurled as an accusation against true neoliberals – that they don't address questions of nationalism and identity enough.

Yes, it is true. My answer is that I would not call them neoliberals. I would simply say that there is something about political kind of nationalism and identity-based politics that seems to attract right-wing free-marketeers as well. I just don't have a very good explanation.

Although, can I add one thing? If you look at India, for example, I would say that political nationalism and economic nationalism have gone together. Especially in the anti-neoliberal turn, the kind of other anti-neoliberal impulses that I spoke about go together with political nationalism.

I don't think it's not always the case that only right-wing governments sees this identity thing. But certainly, in India – and even in places like Turkey or China – you definitely see political and economic nationalism going hand in hand.

I think therefore, it is just that identity has become such a powerful galvanizing force that it is amenable to easiest abuse.

Professor Kumar Anand:

Next question comes from Arjun Krishnan. He asks: "Is it possible to achieve rapid structural transformation and growth without significant reform to agricultural land markets? Even if manufacturing constraints are eased and services exports continue to grow, without making it easier for people to leave farming, a large share of the workforce will remain trapped in low-productivity agriculture."

Professor Arvind Subramanian:

I mean, that's absolutely true. But in doing the book, I realized – or rather learned – the following.

When I spoke about the history of economic thought, all these Indian planning models all said that the way to get people out of agriculture was through the pull factor. You make manufacturing grow, and people will come up.

But if you look at the East Asian experience, and especially the Chinese experience after 1978, this is where I think the early planners got it completely wrong. You get exit from agriculture both because of the pull factor and because of rising agricultural productivity.

In China after 1978, what happened was, when you had the household responsibility system introduced, and we had rapid productivity growth in agriculture, what it did was that it boosted incomes, boosted savings, and boosted demand for these low-skill manufacturing products.

So, markets were created for low-skill manufacturing. The first phase of Chinese industrialization after 1978 was, in fact, based on these township and village enterprises making manufactured goods – sewing machines, bicycles, lathe work, cutters, etc. – for a local market that had become richer through rising agricultural productivity.

So, in that extreme version, you get industrialization because of a nice push based on rising agricultural productivity. In India, we had neither. We neither had rising agricultural productivity nor did we have rising low-skill manufacturing as the pull factor.

So we had neither push nor pull, and I think that's been the failure of structural transformation. We know that if you rely on services, it has absolutely no trickle-down impact because it is concentrated. You know, only about one percent of the labour force works in high-skilled services.

So, to get really inclusive growth and structural transformation, you need both rising agricultural productivity and rising manufacturing, especially low-skill manufacturing. And, to the questioner's point, I do think that even today, if people leave agriculture out of distress, they will simply move from one form of informality to another form of informality.

What you really need is much more investment in agriculture. Something that Professor Gulati has emphasized is that, in our obsession with subsidies, MSP, and so on, we have neglected the fundamental question of how to achieve rising productivity across crops in India.

In fact, I have a co-author, Shoumitro Chatterjee, who is going to present something at the India Policy Forum showing that we've missed the boat on agro-processing because of the same problem of – not investing enough in all kinds of things needed to boost agricultural productivity – not just of cereals, but also of non-cereals such as fruits, vegetables, groundnuts, sugar, etc.

So I think you need both, and I think that agenda has gone a little bit missing. We need to restore that agenda.

Professor Kumar Anand:

Next question I'll take from our email. It comes from Shubhan Sharma, and he asks: "You have previously critiqued the so-called national champions model, whereby concentration of economic power occurs among a few large corporations. Even the late Professor Shenoy had said that the state can never pick winners. Do you think, with the ongoing supply chain disruptions and economic uncertainty, that a country like India can build up its resilience and infrastructure without these massive conglomerates, or does this model undermine the very aim of achieving economic growth and adaptability?"

Professor Arvind Subramanian:

Thanks for asking the question.

You see, Korea and Japan did build national champions, right? But there were two differences with the Indian national champions – or I would say even three differences.

The most important difference is that these national champions, for all the benefits we got, had to prove themselves through export competition. Famously, the chai bowls and things, they had to export in order to demonstrate that they were internationally competitive.

India's national champions mostly operate in regulated, non-tradable sectors. So you're always going to wonder whether they are truly competitive. I'm not saying there have been no successes – some of these champions have indeed delivered – but on an ongoing basis, that question remains.

Point number two is that the Korean and Japanese champions, and even the Chinese champions, their tentacles were never as widespread across the economy as India's national champions. If you take the two largest groups in India – or even the three largest groups – they are present in virtually every sector.

That is why concentration ratios have risen across the board. And that is a recipe for acquiring too much power, to the extent that, I would argue, chilling other entrants and discourages private investment into the system.

The third difference is that, remember, the essence of successful industrial policy, as they say, is not just picking winners but also letting losers go. Letting losers go is an important part of the process.

Do we really think that the Indian state – especially enthralled to these big groups – would ever be capable of doing that? I mean, we have never been able to manage exit, for God's sake, even with relatively simple subsidies, policies, and so on.

To think that we can allow losers to exit or leave, in a situation where these groups are strong and state capacity is weak, I would think that is also a serious concern. You know, we have to be very careful about promoting national champions. It is taking a macroeconomic toll already, and we have to find other ways, I mean, the objective of building resilience is absolutely right, but whether that should be done through national champions – I am most skeptical of that.

Professor Kumar Anand:

Next question comes from Arindam Goswami and he asks, "As per some research, in Indian manufacturing, productivity gains have accrued to capital, not labour. So productivity is not automatically a waste wage policy. Faster productivity growth goes with a falling labour share, almost entirely in manufacturing. This explain the weak wages behind India's consumption slowdown. The policy choices, therefore, also have to account for this. What is your take on how to tackle this?"

Professor Arvind Subramanian:

Firstly, I have not seen the Indian data, I do not think there has been a lot of productivity increase in Indian manufacturing. That is why we are not globally competitive, you know. But I want to leave you with this thought.

You know, just a big debate on China and how China invests too much and consumes too little – this is the kind of constant theme in the discussion of China. That China represses wages, you know, because it's a communist system, whatever, etc. But the fact that I showed you, it is very important that even if productivity growth lags behind real wage growth as has happened in China, the point is that the pie expands so rapidly that everyone benefits as a result.

So, just to give you the example of China, which is over-investing, but because it's growing so rapidly, consumption growth, real per capita consumption growth has been 6–7% annually. So, before we get into the concern that, "Oh my God, productivity growth will not lead to real wage growth," let's first get to real productivity growth, because the Chinese example shows that even if real wage growth lags behind, the real wage growth will grow so rapidly so that the living standards of everyone will still improve very rapidly.

But to put differently, our problem now is getting productivity growth in manufacturing to be internationally competitive.

Professor Kumar Anand

The next question is from Prof. Subodh Shenoy. He asks, "I'm a physicist, and my question is about data. You started the Economic Survey, and that was, frankly, one of your greatest legacies. Falsifying data for political reasons is a stupid effort. And *to put dirt on the windshield of a car because you don't like the road you are seeing. How do you prevent this? How do you lock in integrity in data?"*

Professor Arvind Subramanian:

The answer is – you cannot lock in integrity in data. As we are finding out, the first point I would say is – this deteriorating or impairment in integrity of data, is again, a global phenomenon. Just as identity politics seems to be a feature of illiberal politics, I think a feature of this global trend towards illiberalism is that data has become a casualty.

I mean, even in the United States, there have been periods in the last year, where there have been serious doubts about whether data are fair, accurate, and of high integrity and impeccability.

If you look around the world, Greece, for example, famously had this problem. China has basically stopped producing some data for a long time. And I do think illiberalism in politics will, especially in the absence of strong countervailing institutions in society – the media, the press, etc., is always going to continue.

That's why you can't lock in integrity. Because integrity, apart from isolated individuals like Professor Shenoy or their counterparts, is integrity going to be a function of broader political climate, how effective even rulers are, in being able to get away with these things, right? I mean, there is no locking in mechanism because that is determined by people in power and countervailing institutions. If all those suffer, then data is also going to suffer. And I wish, we could kind of create independent statistical commissions. But, ultimately, they are run by governments and will be influenced by governments.

It is sad to say that. Think about the institutions in India that have the most kind of independent power, as it were, where they can be relatively unscathed from the coercive power of the state, like the judiciary, for example, other institutions of society will not be able to exert that countervailing influence either. So there is no foolproof locking-in mechanism.

Professor Kumar Anand:

That reminded me of Sir Humphrey in the BBC series “Yes, Minister.” He says, "The government never sets up a committee without knowing the result in advance."

I have a couple of questions which are very similar, so I will take them together. Wasabi asks – Hello Sir! Thank you for giving this lecture. I just had a question. I was trying to connect the dots. You might have concluded the presentation, but I wanted to understand this. If we were to move beyond liberalism and push for labour-intensive exports, then in the age of rising AI and robotics, as you pointed out as well, how might this be possible and workable for the growth of the country?

A similar question comes from Abhinav Bhatia, who asks: "For those interested in innovation, higher education, and skilling, what would be the strategy for preparing a job-ready population?"

Professor Arvind Subramanian:

Both are very good questions. On the first question – It is a simple matter of arithmetic.

China occupies about 45–50% of global labour-intensive exports. We occupy only about 3–4%. We can never go to 20% or 25%, but we can try to go from 3% to 11%, 12%, or 13%.

If we do that, and even allowing for the fact that the employment potential will not be as good as in the past precisely because of robotics, it is still a recipe for creating a lot of jobs. So, that is the reason why we cannot give up on that.

Yes, robots are going to mean fewer jobs. That's what I spoke about – the unskilled labour technological change. But just a simple arithmetic. We are so underperforming that even if we become a normal performer, and even allowing for the reduced employment potential, it is still a lot of jobs.

I am not an expert on AI, but it seems to me that, in the era of AI, what is really important is a kind of proficiency across the board in India, you know, better education and better skills, both in the private sector and in government. So, the AI is just a wake-up call. We may have to do something specific, but more broadly, it is a broader call to improve education and skilling across the board. There is no single AI-specific intervention that I think we can undertake. It has to be across the board.

We have been very weak on that traditionally but this should be a wake-up call on that. Because, at the end of the day, if you follow all the debates, the benefits of AI is going to be not to those who produces the AI, but to who all can benefit from AI.

I think that is the diffusion side what is going to be very important.

Professor Kumar Anand:

I will take just two last questions. Babul has asked: "Does the Indian experience suggest that neoliberalism should be judged not merely by the extent of deregulation, but by the initial institutional conditions under which markets are introduced? Freight-equalisation seems to imply that the starting line itself was unequal, as you have discussed in your book."

Professor Arvind Subramanian:

Look, I 100% agree with the institutional thing, but I just want to be a little bit careful about how far into the past we want to go to explain today's outcomes, right?

Let me say one thing. In India, the fact that we have not had labour-intensive manufacturing – and what we say in the book – is that this is a puzzle in the post-1991 era.

If, in 1985, you had asked me why there was no labour-intensive manufacturing, I would have said there are hundred reasons, including freight-equalisation, for example. But 25 or 30 years after opening up the economy, with reasonably good institutions and a reasonable role for the private sector and markets, we still haven't been able to achieve that.

So, 25 years on, we have to look at what we are doing currently wrong rather than at what may have happened in the distant past. Yes, freight-equalisation had an impact, but today we have moved way beyond all of that. We have to look at why what we are doing now, or done recently, that is not working and that is not helping.

Professor Kumar Anand

I think the last question, which I am clubbing together because it sounds very similar to me, Akanksha asks: "How does neoliberalism benefit the poor? India privatizing parts of the public sector and service sector has seen rapid growth, but its consequences stayed. Say, the railways and the health sector, specifically, have failed to be inclusive for the poor and have not expanded as they should have. Also, education in government schools may be glorified on paper, but the reality is far, far different."

And Amit Chandra asks: "What are the barriers to building alignment between political and economic priorities?"

Professor Arvind Subramanian

The first question - How does neoliberalism benefit the poor?

I think, as I tried to say, perhaps, if you look at Indian historical record, the period from 1985 to 2010 – was when we had the neoliberal era – and the fastest growth in everything, not just poverty reduction; wages, employment, educational attainment, everything.

So, I would say that this is the strongest evidence. It may not have been as inclusive as some counterfactual, but certainly relative to India's historical record, there has nothing been as inclusive as the neoliberal era.

That's what we need to keep in mind.

There's nothing about neoliberalism that says the state should not deliver better – on health care, education, etc., etc. So, the two are not incompatible. There are serious deficiencies in that and we need to address them.

The last point I would make on this is that there has been a kind of rule of law, deterioration over time, which I think is the most anxiety-inducing development for me. In that sense, it is the same manifestation in politics and economics that we see.

And to that extent, we need to think about how we can address one – or perhaps both. Maybe we can't address one without addressing the other. I don't know.

I think that was the last question.

"What are the barriers to building alignment between political and economic priorities?"

Maybe the answer is yes. Maybe we shouldn't have too much alignment between.

Professor Kumar Anand:

Many, many thanks, Professor Subramanian, for spending your time so generously, for giving this fantastic talk, and for engaging with the audience's questions.

With that, we'll come to a close. Before we do, I'd like to thank my colleagues Kunal, Ginny, and Harsh, who helped put this together.

And thank you very much, of course, to the audience who stayed back and asked such interesting questions.

Once again, thank you very much, Professor Subramanian.

Professor Arvind Subramanian

Thank you very much.

The transcription above was created from the recorded event uploaded to YouTube. While the text is mostly accurate, minor adjustments have been made in certain places to improve readability and flow, without altering the original meaning or content.

as2020kochi@gmail.com