

INDIA DEVELOPMENT REPORT 2015

Remarks

2nd March 2015

Professor Mahendra Dev, Professor Abhijit Sen, Dr. Rajiv Kumar, Dr. Rajat Kathuria, and friends,

I would like to express my gratitude to Professor Mahendra Dev, for inviting me to be the Chief Guest for release of the book **India Development Report 2015**. The invitation compelled me to go through the Report. That itself has been an education for me. The Report's USP (Unique Selling Point) is the application of rigorous scholarship to contemporary issues of significance for policy cutting across various sectors of the economy. It also provides data with reference to which the analysis and the recommendations could be related. The invitation also enabled me to visit Delhi and meet several friends. Above all, I look forward to listening to the distinguished panelists. I will be brief in my opening remarks. However, I will retain the right to participate in the session on questions from the audience, or make concluding remarks.

This is not the first time that I am releasing the India Development Report. I released it earlier, perhaps, in 2006. That has been an unforgettable experience for me. At that time, I had expressed the importance of managing capital account, and suggested that we should keep all options open, including financial transaction tax like Tobin Tax. Within an hour of my speech, the Finance Minister went on Television to assure that he has consulted the Governor on the speech, and that it

was only an academic comment by the Governor and that the Government does not share the same views. There was some abuse directed against me in the TV channels, from the analysts. There was also a very high level of discomfort in the global financial markets and in Delhi, despite the Finance Minister's assurance. I was, therefore, forced to convene a Press Conference around dinner time in order to "clarify". That was not enough for markets, and I was forced to make some changes in the copy of my speech which was already on the RBI website.

I concluded that the policy makers were virtually terrified at annoying or irritating global financial markets. The global financial markets would like to extract assurances from policy-makers essentially in their own favour. After the crisis and recent revelations about the activities of global financial conglomerates, we now know that they are not angels. We also know that we cannot, but be doing business with them. Therefore, the challenge for the policy makers, both in the government and in the Reserve Bank, is to manage the potential downside risks in dealing with the global financial markets, while depending on foreign capital. I would, therefore, flag the issue of managing risks in development strategies as an important subject to be considered by the academia and the policy-makers alike. For example, our analysis should focus not only on the flows but also stock, and not only official forex reserves but also external assets and liabilities, especially their composition

Currently, the global oil prices are low. It has provided relief to us to some extent, both in regard to external sector and fiscal management. It is a source of comfort now. One should recognise that it could easily be a source of shock if there

is reversal in global oil markets. In a way, therefore, just as in the case of Capital Account, in the case of Current Account also we should analyse the strategies to minimise the downside risks in the management of Current Account, in particular, in terms of dependence on imported energy.

I have carefully read the outstanding Overview by Dr. Mahendra Dev and Dr. Veeramani. In the Introduction, there is a reference to expectations from the new Government on the part of markets and the common man. It says that the common man expects low inflation, jobs and livelihoods in private and public sectors, better housing and transport, good governance and better public services in health, education and so on. I would like to elaborate a little more in regard to the common man's expectation about what constitutes good governance. Common man expects ease of dealing with Government in his day-to-day affairs. Anecdotally, I understand that the common man faces hassles in all matters relating to day-to-day dealings with Government. It may be getting a copy of the Birth Certificate or access to crematorium. In other words, development may not be equated with public investments alone or creation of capital assets alone, but ease of dealing with Government in the day-to-day life as far as common person is concerned. Interestingly, there is access to subsidized power but not assured power. What constitutes index of development? There is a reference to the requirement of local and regulatory frameworks for a market economy. I would add that we should look at the local and regulatory frameworks for a just and fair economy, which itself will enhance compliances with law. As long as the governmental policies are perceived to be unfair or iniquitous, the compliance will be low.

There is a considerable emphasis on public-private partnerships. The major issue here is the sharing of risks between the public and private sector since the risks in infrastructure are, in many ways, considerably higher than other sectors, both during construction and in terms of operations. In India, the private sector draws considerable financial resources from the public sector banking system. Hence, the public sector in India is burdened with both financial and non-financial risks of public-private partnership in infrastructure. In many ways, the private sector in India in such PPP projects is highly leveraged with nominal equity.

The Report rightly points out that the demographic dividend varies across regions. The risk here is that economic growth is accruing in South, and the demographic dividend is accruing in the North. There is a risk of tensions arising out of this unless large scale migration takes place along with accelerated development in the North. In fact, in Kerala, the number of people migrating into Kerala is more than the number of people migrating out of Kerala, and that is a good trend.

I want to place on record my appreciation of the Report which provokes several thoughts. I look forward to the remarks by the distinguished Panelists.