

In Conversation with Dr. C. Rangarajan

Dr. C. Rangarajan is an Indian economist and a distinguished former Member of Parliament and the former governor of the Reserve Bank of India (RBI). He is currently the chairman of the Prime Minister's Economic Advisory Council.



EB: There has been a lot of talk lately of India's growth engine losing its steam. Growth rates have plunged as compared to previous years and things are looking grim with rating agencies revising the status of Indian sovereign bonds. According to you, at this point in time, in which direction should the trade off between inflation curbing and growth oriented policies be?

Well, the Indian economy has done well if you look at the last seven years. The rate of growth of the Indian economy in this period beginning from 2005-06 has been 8.3%. Growth has slowed down in the last two years. Partly this is because of external factors but it is also due to a variety of domestic factors. The output of some of the key industries like coal has fallen and this has affected the generation of power as well. There have also been some price shocks because of the external factors. Moreover, the investment sentiment has also been affected for both economic and non-economic reasons. As we look at it, the most important thing is to raise the level of investment in the economy. The savings

rate in 2007-08 was 36% and the investment rate was 38%. Even with an incremental capital output ratio of 4:1, we could get a growth rate of 9%. However, since then the savings and investment rates have fallen by almost three percentage points. Therefore, one of the things that we need to do in order to get back to the high growth path is to raise the savings and investment rates. I believe it would be possible to do so and to some extent taming inflation will also help. In the long run, I believe there is no conflict between inflation and growth. Over a long period, a stable price situation is conducive to faster economic growth. There could, however, be some periods of conflict between the two but we need to resolve it. I think the whole question of 'either or' is not the right way to look at it. We should control inflation and also aim at higher growth in the economy. We should work on both fronts. I would think that the growth rate of the Indian Economy in the current fiscal could be between 5.5 and 6 percent, perhaps closer to 6 percent. In the next year, it could be 1 percent higher than what we see in this

year. Thereafter, I expect the Indian economy to pick up, move on at higher growth rate of 8 percent and subsequently we can get back to a 9 percent rate of growth also. In achieving this nine percent rate of growth, the external environment will also be important. But I see the economy moving to higher levels beginning the next fiscal.

EB: Do you think the Direct Cash Transfer scheme that has been introduced recently is a step in the right direction for the Indian economy at this point of time?

I think the direct cash transfer is a means of ensuring that subsidies reach the intended beneficiaries. Initially, direct cash transfer is being introduced with respect to the delivery of those benefits which have a direct cash component, whether it be disability pension, old age retirement pension or scholarships. These are already cash transfers. What we are now doing is to ensure that these cash transfers occur in the bank account of the beneficiaries to achieve two things: one, it reaches the intended beneficiary and two, there is a greater accountability. So, in that sense, I believe that the direct cash transfer, with respect to a number of schemes, is the most appropriate way to transfer subsidies.

EB: The government has been cutting its subsidies on fuel to control its fiscal deficit. Don't you think that this will adversely affect the poor and lay a greater strain on their already limited resources?

Well, we can, in the case of some, provide subsidies. It is not as if we are not providing subsidies in all cases. In the case of LPG or kerosene subsidies are being provided. But in relation to other commodities, it is very difficult to provide subsidies on a large scale. Therefore, we have some idea of the extent of subsidies that can be given with

respect to petroleum products and that subsidy will definitely be provided. However, beyond that, I think the prices will have to be adjusted.

EB: You were recently quoted as saying that the RBI should give preference to the non-corporate sector for new bank licences after the approval of the Banking Laws (Amendment) Bill. Why do you think this is important?

This is still under discussion. The point really is that certain amendments were required and felt necessary on the part of the Reserve Bank of India. Until we resolve all the issues, the priority can be given to entities that do not necessarily form a part of corporate business, because that discussion relating to corporate business will go on and RBI will come up with appropriate condition. So, what I was saying is only that at the moment, priority can be given to non-corporate business sector. If there are fit and proper entities in the non-corporate business sector that is, the financial sector, they may be given licences first. Regarding corporate business, it can be considered after the RBI comes up with appropriate guidelines.

EB: What do you think are the downsides of giving licences to the corporate sector?

Well, the problems that have been raised are that there could be conflict of interest and therefore we need to resolve or put in place the appropriate mechanism to prevent this from happening.

EB: The poverty line has currently come under a lot of criticism and its actual definition is a topic of debate. Do you think that there is a better way to identify the actually needy?

There are two things; one is identifying the beneficiaries for the various programs.

Now, this need not necessarily go by a particular definition of poverty. It will depend upon the particular program and its nature and there could be different criteria. But we need some definition for poverty line in order to indicate how the economy is behaving over a period of time in terms of the distribution of income. So one idea is, if there is a defined line of poverty then in relation to that defined line, we can see how the economy has behaved. Therefore, there are two different things, one, just as a matter of measurement within the economy, to find out the distribution of income in relation to a given line and this given line can be defined in a number of ways. Secondly, as far as entitlements are concerned, different programs can have different criteria. So, one can define a poverty line in relation to certain basic minimum needs and in terms of this poverty line, measure how the society has behaved over a period of time. At the same time, the entitlements for different safety net programs can vary; there need not be one single criterion by which different programmes are administered.

EB: What would be your advice to prospective economists and young students like the readers of Aapoorti?

I think India has a big future and the youth of today will be members of a growing and stronger India. In one sense, the future of the students depends upon how the economy behaves, but at the same time, they also have an opportunity to contribute to the way in which the Indian economy will behave. I would only say that the young should seize the opportunities that are available in the Indian economy and make their contribution towards building up a stronger and more humane India.

Note

EB: Editorial Board

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