

In Conversation with Dr. Isher Ahluwalia

Dr. Isher Judge Ahluwalia is a renowned Indian economist. She is a Member of the Eminent Persons Group on India-ASEAN (Association of South East Asian Nations) set up by the respective governments and is presently the Chairperson, Board of Governors, the Indian Council for Research on International Economic Relations (ICRIER).



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. What is your take on this and do you still see India as an economic superpower in the future?

I have never thought of India as an economic superpower by 2020 or 2025. What I do see is, that India is making a transition from a low income to a middle income country and because of its large size, we will see India as the third largest economy by 2030, which means that we will have the third largest GDP in the world and we will have a tremendous market for both domestic and foreign investors, given the fact that the developed economies have a lower growth rate. Our second strength is the fact that we are at a stage of

demographic transition where the percentage of the working population is increasing continuously. In China and some other major countries, this is not the case. India is the only major emerging country where the percentage of the working population will continue to increase for several decades and if we can empower this young population with education and requisite skills, then we will be in a very strong position to realize our economic potential.

EB: Do you think the Direct Cash Transfer scheme will work in the coming year in plugging leakages in welfare schemes? Opponents of the policy say that the money transferred may be misused thus nullifying the very purpose of the program. What is your take on that?

Our first concern is that when we subsidize any item, be it food, fuel or fertilizers, then our systems of delivery are such that in passing that subsidy to the right person, a lot gets siphoned off because of inefficiencies, delays and corruption. For every one rupee worth of food grains that you want to give to the poor, he gets only 15 paise. Some of that goes into buying, storing, transporting the grains while a large part is siphoned off by the intermediaries.

The second issue is that when you give the family money, the men may end up spending it on liquor or gambling. We need to develop a population with values which believes in depending upon itself. How far can you expect the government to solve all problems? We need to have family units, where parents give priority to feeding the children. Merely giving them food and not giving them these values will lead the families to spend everything other than the food, on things which are not the right priorities. There are studies that show that female heads of the family are much more inclined to look after the family welfare than male heads. So until the time when we can create a generation of men which can behave more like women, we have to somehow ensure that the money gets into the hands of the women heads and empower them. If women are economically independent, are in positions of power and have an equal say in family decisions, then we can save the aforementioned 85 paise, especially when these women can go to the banks and get their money. It surprises me that we do not get something as simple as this. It has worked in countries like Mexico, whose 'Progresar' scheme is all about Cash Transfers. Those indulging in corruption and adulteration will not be able to continue with their practices. To me there's no question that Direct Cash transfers, especially into the hands of the women of

the family, will go a long way in ensuring food security.

EB: It was recently reported that while Gujarat is a high-growth state, it's faring poorly on social indicators, such as poverty, hunger etc. Do you believe that these two factors go hand in hand in the short run?

While it may be true that Gujarat has high growth indicators and low nutrition levels, look at other states' hunger levels and compare. Is it true that the hunger level in Gujarat is higher than Bihar's? I do not know but please check.

The challenge of poverty and hunger is very much there in our country. But unless you have high growth, where will you get the revenues required to alleviate these problems whether it is Gujarat or Maharashtra or any other state for that matter? The reason we have seen so much money being spent on social protection over the last 8-9 years of the UPA government is because these were the years of very high growth rates for the Indian economy and with high growth rates, the government could spend large amounts on health, education and poverty alleviation. But I think where they made a mistake was, that they just took growth for granted and did not realize that you also have to make sure that the conditions which create growth remain intact.

It is true that the external environment became adverse with the global slowdown but there were also a lot of internal economic lapses. Some measures, for example, retrospective taxation, were taken in the last budget, which hit at the confidence level of the investors.

The data shows that between 1993 and 2004, the percentage of people in poverty declined by 0.8% per year but between 2004 and 2011, the decline was 2% per year. Now, you could say that the cut-off should be higher. I have no problem with that. The poverty line may not have been rightly defined. If you want to see if the extent of poverty has changed over a long period, you have to fix a line to see how

many people are crossing the line over time. There is no doubt that many more people have crossed that line in the more recent period. Growth by itself will not reduce poverty, growth will enable you to reduce poverty. If you do not have growth, you will have neither inclusion, nor employment.

EB: In the context of the last question, isn't it true that long term effects of policy will not be taken into account in democracies like India where power changes hands every few years?

That's actually a very good question. It is true that in a democracy, the short-term takes precedence over the longer term. But a vibrant democracy is one in which people like you and me, the think-tanks of the world, the civil society, make the government accountable and therefore, put pressure on the government to ensure that it delivers. In our case, now that the younger people are increasing in numbers and are technologically empowered, you can have mass mobilisation through just a mobile phone. I think this is going to change the way governments think. This trend of demanding good governance will continue no matter which government comes. To some extent, anyone with money can create false movements because it is easier to do so using the technology. But at the same time, governments have to learn to effectively communicate, deliver and make their case. And I think that is where this government has been weak. They have done a lot of good work but they have not been effective in communicating with people. They have to account for a cumulative slide in governance in our country, which has reached the level where it has crossed the tipping point. The younger generation is less patient with the incremental changes.

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?

One way of defining the poverty line is that you define a cutoff, and you say that people below that cutoff should be the target of welfare programs. I think that a lot of this debate is governed by people wanting to use the poverty line as a cutoff. The minute you say that the poverty line will not be the basis of your deciding who will get what subsidy, people will not get that agitated about the poverty line. The technicians have been defining the poverty line for a long time and many economists have been saying that poverty is not just consumption poverty or income poverty; it is also education poverty, health poverty and housing poverty. For example, it is not only the poor who live in slums but also the not-so-poor. This is because they can't afford to rent a living space as the housing market is very highly distorted. For the last eight to ten years, when economists talk of poverty, they talk not only about income poverty but also about millennium development goals and social indicators. Perhaps the simplest way of defining the poverty line is to say that the bottom 30% or 40% of the population will always be called poor. Then you don't waste energy on counting the poor, but you get on with the business of getting people out of poverty.

EB: There has been uproar over allowing Foreign Direct Investment in retail. While it is true that FDI will bring in the much needed foreign exchange for India but at the same time the profits that accrue to the foreign investors will lead to a simultaneous outflow of foreign exchange. Does this defy the purpose of the policy?

Look at what foreign direct investment in retail will do to the economy. In our country, 70% of fruits and vegetables go waste. By contrast, the retail sector in Malaysia and Indonesia, for example, is modern. You can walk into a store and

nicely buy your vegetables and all. Different locations in Delhi have different prices for the same fruits and vegetables. To this day, when I go to buy my vegetables, I know my *salwar kameez* will be filthy by the time I have finished with shopping for my vegetables, walking through the biodegradable waste in the lanes. We must modernize retail, especially when women are joining the workforce. We don't want to sit there and haggle and buy our vegetables like our grandmothers did. We want to walk into a store, see the things displayed nicely, and pick up what we want. And in the process, the fruits and vegetables that rot away, simply because there is no refrigeration, can be saved. Once you have refrigeration, the life of fruits and vegetables is enhanced. You can process them, add value to them, and create several employment possibilities.

A large percentage of the FDI in retail will have to be put into backend investments in logistics and refrigeration, modernizing our retail sector. Indian companies just don't have that kind of money to invest in back-end investments. Suppose five years later, if these foreign companies were to go away, their investments would still be there and our economy would be modernized. So there's no question in my mind that FDI in retail will be a game-changer. It will actually connect the urban and the rural sectors in a very modern way.

EB: We see some sort of a tiff between the stance of the finance minister and the governor of the RBI in relation to growth and inflation. According to you, at this point in time, in which direction should the tradeoff between inflation curbing and growth oriented policies be?

That sort of tiff is not only in India but everywhere, at every point in time. The RBI's objective is to look after inflation and

protect the value of money, and therefore, they keep their eye on inflation and exchange rates while the Finance Ministry and the Planning Commission are working to attain higher growth rates. Since lower interest rates create better conditions for growth, there is tension. The RBI would say that they are also for higher growth rates provided the government reduces its fiscal deficit. Higher fiscal deficits put upward pressure on interest rates. I agree with the RBI. If the Government does not cut the fiscal deficit and continues to borrow, then it is crowding out private sector investment. That is the real challenge. Both the Government and the Reserve Bank of India have to work together. Lowering the interest rates and curbing the fiscal deficit should go hand in hand, and if that happens, the growth rates will improve automatically and, demand side pressures on inflation will also go down.

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

I would ask prospective economists to conduct research on issues relating to the challenges of urbanization in general and of urban service delivery in particular. We economists have focused our research on socio-economic issues but failed to look at the spatial implications of the development strategy. The Indian economy is going through a phase of significant structural transformation. Urban share of GDP is projected to increase from its current two-thirds to 75 per cent by 2030-31. Urban population is projected to increase from its current 30 % to 40 % by 2030-31.

The target in the 12th Plan is to have an average growth rate of 8 % over the five year period. Agriculture can grow at most at 4-4.5 %. Most of the growth has to come from the Manufacturing and Services

sectors. In the past 10 years, growth came mostly from the Services sector, but efforts are being made to ensure that the industrial sector contributes its share to the growth story as well. Where will that growth be hosted? In the cities and towns of India. And just as the Green Revolution acted as the engine of growth in the 1970s and 1980s, likewise, for the foreseeable future, the cities of India will act as the engines of growth.

We economists often talk of improving the investment climate by reducing the transaction costs of doing business. However, even if minimize the cost of doing business by having a perfect government and a sound financial system, why would anyone want to invest in cities whose water and sanitation conditions are abysmal and which lack basic infrastructural facilities? The whole point of investing in cities is that they provide agglomeration economies. Instead, if we create congestion diseconomies, why will investors invest? Unless you improve the quality of life in the cities of India, you will not be able to achieve sustainable growth of 7%, leave alone 8%.

I want to bring the urban agenda to the mainstream of economic discussion in our country. I do not mean urban vs. rural. This is a political construct. What we need is rural-urban synergy. That is why FDI in retail is a game changer. It will not only change the urban facilities but also the face of rural India. The first chapter of the Report of the High Powered Expert Committee on Urban Infrastructure and Services which I had the privilege to chair, will tell you how the urban sector is connected with the overall structural transformation of the Indian economy. The political economy of our country has remained focused on the rural for a long period of time, neglecting the growth of the

urban India. It is high time that we looked at the challenges of urbanisation and the connection between the rural and the urban sector.

Notes

EB: Editorial Board

UNCONVENTIONALLY YOURS

Stirring the Pot

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The common notion: Legalization of drugs doesn't go down well with people. Majority still believes that it will increase the amount of drug usage in our country and that by making it legal, people who haven't tried it before might want to indulge as there wouldn't be a law governing their fear. The gut instinct is that demand would increase in the short-term, as the penalties for being caught go down (to zero) and the drug should be easier to attain. Both of these factors suggest that in the short-term, demand should rise. And one cannot simply put the blame on the masses for having such stereotypical beliefs. After all that's what our bollywood movies have endlessly taught us over the years. The Police officer ignores the would-be-buyers and gets into the jeep right after the pusher. After a good chase of overtaking the other cars and shooting bullets, the officer captures the miscreant with a high Krishh-type jump over half a dozen cars lined up in a jam that ends in a perfect landing. But that's not the end. The real target is the supplier, smuggler. And needless to mention, a deal is made – Exemption from the punishment in return for the name of Mr. Mafia!

Like it or not but that's what has influenced our thought processes, society and the economy. Why the supply side approach-