

# In Conversation With

## Meghnad Desai

**Q1. How true is the belief that modern mainstream macroeconomics plays a vital role in shutting out a crisis like the 2008 Financial Crisis?**

**Ans.** First of all, there had not been a crisis since 1945. That is 63 years without a crisis, before the 2008 Financial Crisis. When the crisis came, although unpredicted, its lieu of building stabilisers and policies were known. So unlike in 1929, when everyone failed to predict, here, it was basically common sense. Suppose to overcome a famine in India, you ask people to dig and pay them money. The work, despite not being very technical, has the ability to pull people out of it.

But economists had to understand technically. As you know, we had two phases, the Keynesian phase, when things seemed simple and then there was the neoclassical macroeconomics, in the view that these things won't happen. However, knowledge doesn't go away, and you can use it to combat crises in the present. There's another way to think about it. In my book *Hubris*, I've talked about a long term perspective. Capitalism is a system which can never be completely stable. When a boom lasts a while, people start doing foolish things and no longer make investments, but rather make nuisance. Mad investments happen and eventually, the market punishes them. The market cleanses itself with a crisis.

One insight here is that even with the best macroeconomic policies that the government opts for, people make their own interpretations. Alan Greenspan said there was irrational exuberance during the dot com bubble and later was seen to be following policies that were market trendy. Of course, there are a lot of people trying to redo, reform, restructure the macroeconomic theories but presently, nothing big has happened. However, I think that we have three or four robust structures already available and something will come out of those.

**Q2. What do you think about the interdisciplinary nature of economics where people are integrating other physical sciences into economics, such as psychology with behavioural economics or even neurosciences?**

**Ans.** In the 1930s-1940s, physics was a dominant subject and economists like Samuelson come from the generation who wanted to make economics like physics. Earlier generations of economists like Alfred Marshall thought that biology was the future of economics. Thus, economics became a younger sibling of the big subjects. Astronomy was related to economics because Adam Smith was very impressed by Newton's work and wanted to have a system based on a few principles with the idea that they will call it social astronomy. They thought that mapping hunting and gathering, agriculture, feudalism, commercial things would be like mapping the movements of the planet. Eventually physics became very important mechanically and Samuelson, a physics enthusiast, ultimately realised that there is a limit to which

mechanical modelling can control theory and cannot take us too far, as human behaviour is more complex than physical bodies. The realisations of the importance of behaviour in analysing these crises lead to the gradual advent of behavioural economics.

What is interesting to note is that while every crisis has a macroeconomic nature, people don't appreciate the microeconomic originity for any kind of higher modelling of macroeconomics. It was when I was a graduate student way back in the early 60s, that behavioural economics was born. Hence, it has been around for 58 years. Herbert A. Simon published a book on The Behavioural Theory of the Firm in 1962 and at that time too, companies were just coming in operation research, experimental economics, and psychology. The thing about traditional economics is that it is very economical in its requirements. You sit down, and it's like you are in the middle of a road, with a pencil and a paper and you're like okay, what is being maximised? What are the constraints? Then you get an insight into the first three steps and that advantage, none of the other subjects have. Recently we had the bitcoin and crypto currencies - it is very simple. It is a model of bills of payment and store of value. You examine that. You don't have to go into how bitcoin is produced, the mining and none of this is relevant. Simple thing is, it is not a means of payment and it is an uncertain store of value. That kind of power of economic reasoning is why economics is good and realism is not indispensable in that.

**Q3. You wrote about targeted basic alliance in your blog and you mentioned how targeting is a very difficult task because the person above it or the person below it feels deprived. Why do you think that women are the best category to target and how is income not going to play a role even then?**

**Ans.** The first thing you have to know is targeted basic income is different from anti-poverty measures. It is very logical. You do not have a target income above which you will not pay. My argument was ultimately if you are going to pay everybody some income, the calculation is very simple. Total income of the country is per capita income times the population. The total amount you will spend on universal basic income is whatever you fix the basic income times population, so population cancels out. Now, the question is what proportion of per capita income can a country afford to give as basic income? Obviously the government has other expenses so you are an addition to that. Suppose we ignore all that, then the question is- can you give 10% of per capita income to everybody? The government of India only collects about 18% of GDP in taxes and 10% is a huge part of that. Ultimately, it is not going to be enough. So how do you construct universal basic income while as it were, making the money go far?

I say women because I have this thing about unpaid work and women do unpaid work. In India, the proportion of working and paid women is very low, internationally. So clearly, because of patriarchy and other things, there is a disadvantage in economic resource. If you make universal basic income just given to women, first of all, there is limited scope of cheating. People say, 'why do you want to pay Mukesh Ambani?' 'that kind of argument does not occur because nobody thinks women are very rich. So paying to rich does not occur, as UBI includes everybody. There is an intelligent Belgian philosopher Philippe Van Parijs who said surfers is meant for surfers, people don't want to hurt, they just surf. It is a liberating concept of freedom. So basically, we are

rewarding people substantially for unpaid work and we don't want to send a target level of income because that will lead to cheating but also, at very high level of incomes, sometimes unpaid work is, especially in taking care of elderly falls on the women of those families, it's unavoidable.

**Q4. The female labour force participation has been declining in the past few decades, not just in India but also in the US. Do you think having family - friendly policies such as a paid maternal leave or a paid parental leave could contribute?**

**Ans.** Oh yes, absolutely. It is very simple, whenever you have a meeting with a businessman, what do they say? Cut taxes. So why should they object to other people getting some breaks? The thing is, in essence first of all, we have a very strict separation between the home place and the workplace, especially for women with small children who want to take their small children with them. So to some extent the workplace has to cater for more than just working time. Working time is helped by having these supporting mechanisms. Now, obviously these things are costly. Whether the government has tax concessions for crèches or not is a question, but undoubtedly, these policies help out.

**Q5. Economists such as Milton Friedman have often said that paid maternity leave has unintended consequences. Such as, women don't get hired if companies have to take into consideration that women will be on leave for a greater period of time?**

**Ans.** It's important to keep it mind, that through this leave, you will not be away for a long time. People make all sorts of excuses. People have the conception that if women have to drop out and come back, they will not get the same seniority or post. Firstly, what is so great about seniority? Does it really matter? What are the things we can do to remove the obstacles to women working? It can only be unintended consequences, not unanticipated consequences. For example, given the current technology, can we work from home? Can you make it easy for them to do so by providing ancillary facilities? For the firms, this would enhance productivity as well as provide continuity of the working person. We need to think about what we can do to remove the obstacles that stand in the way of women working.

**Q6. We've heard so much about all the great work that you've done so far. What are you currently working on?**

**Ans.** Oh wow! Well, I wrote two books last year; 'Politic Shock' which was about Trump, Modi, Brexit and the prospect of liberal democracy and 'Raisina Model' which was about the 70 years of Indian democracy. I completed that in 6 months. You see, I felt a very dangerous thing; I write too much. So this year I, of course, continue to write my weekly column in The Financial Express. I write a blog for a London think tank called OMFIF and I am working on a book, (well I am writing several books) but this particular book is on Savarkar, Ambedkar and Jinnah, who were the three people who were not charmed by Gandhi. Recording their interaction, it will be three against Gandhi and we will see what happens. It is in progress and I have written two novels which I am trying to finish. Currently, I am not doing any serious work in economics.

**Q7. In recent interviews, you have mentioned that when you read books, you learn a lot about yourself as well as the world. Which books have helped you learn more about yourself and your world of economics?**

**Ans.** I have read so much that it is very hard to say. You see, I more or less don't remember when I couldn't read, let's put it that way. I come from an over-educated family, so I didn't know when I could not read, and soon as I could read, it was my principal pleasure. When I was an undergraduate in college, Bombay being a crowded place, art lectures were in the morning and science lectures in the afternoon. Art lectures would get over by 12 o'clock and I never went home right after. From the first week onwards I spent the day in the library. So I read everything there was to read. Many things have changed my life but I'll mention the more unusual ones.

One was reading Henry Kipson, who's a playwright. When I was young my family used to say, "no no no let's not argue about this unless you read Laski or read Russel or read Shaw" so I used to go and look it up. I read 'Dolores' by Edwin Allen Baker and it completely blew my mind. I don't know if any of you have read that but it is a mind-blowing play. I mean it is the late 1880s, early 1890s and a real feminist play back then was fantastic. I then started doing theatre and it changed my whole perspective on life. Obviously, the classics of economics like the General Theory of Employment, Interest and Money and all of Marx's Capital three volumes which I've read not once, but several times have had a major impact on my life. I keep on reading because you see what is in the subjects and there is no bar on subjects.

**Q8. In your book 'Nehru's Hero Dilip Kumar', you talked about how Dilip Kumar's films portrayed the social economic changes prevailing in India during that time. Do you think that the cinema in India today is serving the purpose?**

**Ans.** Oh yes, I think Indian cinema, or actually Bollywood, since I can't really go into other languages, is the most amazing achievement of Indian culture because it reflects the social life brilliantly. That it always relates itself to social problems is quite amazing. Now, India never had a proper export sector for a long time but Bollywood has always been an export sector. The advantage of a Bollywood film is that it is made for people who don't understand a language or can't read. Hence, everything has to be unsubtle. There are no ambiguities and that makes very powerful narrative projection. It is possibly the only industry which is totally all India. Even before I.T. became a global industry, Bollywood was. There is a huge fan following of Bollywood around the world.

I basically put it in the context of Nehru, but Bollywood has never lost its ability to talk about social questions. It has done more for the Hindi language than any other force I know of. Secondly, it has done more for women, than anything. Bollywood has shown more and more women doing things which they are not supposed to do and succeed. In the 40s and 50s, it was a tragedy but in the late 50s and early 60s onwards there were capable women. So, it related to the national story. You could write a book on Amitabh Bachchan, the 'Angry Young Man', coinciding with a very unhappy country in 1970s. Then you come to 1990s and there is so much money floating around. 'Zindagi Na Milegi Dobara', is the most astonishing film. It is the most un-Indian film because it

has absolutely no problem that any Indian faces. There is no money problem; they can fly anywhere, no visa problem. That was a time when India was feeling very prosperous, diverse and very global. So, things go around and yes, Bollywood is serving the purpose.

**Q9.What do you think about India's fiscal deficit problem along the lines of recent GST cut rates?**

**Ans.** The most remarkable thing about the last 4 budgets is that at least the country is aware that there is a fiscal problem. Jaitley has said time and again that he wants to bring it down, and has managed to keep it lower than 3.5 times the GDP. Indira Rajaraman, a very talented individual, has recently written an article on the dire state of the fiscal discipline of the states of India. It would be political suicide to admit but 80% of farms in India are subsistence farms and are not viable as a means of livelihood. Since our manufacturing went the high-capital intensive way and not the low tech way it has not generated enough jobs. The standard model of development is that manufacturing demands workers and farmers leave land and join the industries.

The huge divide in the productivity between the agricultural and service sector is worrisome. Agriculture employs more than 60% of the population but contributes to less than 20% of the GDP, a stark difference from the service sector. No one tackles the question of the meagre productivity of this sector but rather supports more subsidies in it. Whenever farmer agitations happen, no one says we can't afford this kind of money, stop. The consequences of continuously giving and covering farmer loans and subsidies leads to huge government deficits as the probability of bad risk taking by farmer increases. The deficit problem, thus, due to political and developmental issues has become a precarious problem.

