

In Conversation with Dr. Surjit Bhalla



Editor: Research cannot come about in isolation to the current ecosystem of work. How do we, as economists, produce research that is transparent and true to the data, without placing it in an ideological context. Is acknowledging the said ecosystem important while producing research that might be contrary to popular ideologies nationally and globally?

Dr. Surjit Bhalla: Let me first thank you for having me for this interview. I have had a long, long connection with Miranda House. My wife as well as my two sisters were students there back in the 70s and 60s respectively. So, I've always looked forward to your association. And I welcome this opportunity.

You know, I really empathize and maybe even sympathize with your generation. Because when I was growing up in the 60s and the 70s and all through until about just a decade ago, that discourse was very straightforward and the society wasn't so polarized but it's not so much the polarization. I just returned from the US for one month, and the US is obviously very, very polarized. But in the economic debate, they go by the data. So there is no polarization possible because you must have seen and you should see debates between Larry Summers and Angus Deaton and so on and so forth. It's all very transparent, all in reality. Now, that's the first point about polarization and economic debates in India.

And as you very astutely noted, through the set of questions that he provided, that I have been somewhat of the, not the mainstream, but certainly divergent from the conventional

wisdom. And this happened when I was at the World Bank and so on and so forth. And at that time, also, while there was a divergent view, everybody accepted it and challenged it on a legitimate basis.

Today, the ecosystem in India, in particular, and the liberal left, what I call the left liberal west, that is not in the universities, but in terms of publications, in terms of outlets, you know, like Project Syndicate, etc. I would suggest that you look at Project Syndicate, these are all columnists, so-called experts, etc. and show me one which is of the very, very narrow mainstream of left liberal things.

And it is pronounced in spades in India. As I said, this is a global phenomenon, less so in the US, probably strongly so in England, and very strongly so here. So, it's very difficult. And I've stuck to that, and as you will see from the questions and the answers, that to give my story, my interpretation, based on quote-unquote facts. Now, everybody in India and in the world is allowed to invent their own facts but when they do so, they should be called out for doing that.

Editor: Sir, before the general elections, you predicted that the ruling party could secure 330-350 seats, and in a recent interview, you attributed this forecast to the belief that economic progress and welfare are the primary factors influencing voter behaviour. However, if we examine the World Bank's data on India's annual GDP growth rate, we observe that after the pandemic, India's growth rate was 9.7% in 2021, then declined to 7% in 2022, before rising slightly to 7.6% in 2023, and remaining relatively stable during the first quarter of 2024. Given this data, could you elaborate on why you predicted such a high number of seats for the ruling party? Additionally, what do you believe could be the factors contributing to the potential loss of votes? Are there specific economic policies that you believe have been underappreciated by Indian voters?

Dr. Surjit Bhalla: As I explain in quite detail in the book, *How We Vote*, which had this forecast of 350 seats for the BJP, remember a key line in that book, so my guiding lodestar for that book was Bill Clinton's comment on the 1992 election in the US- '*Is the economy stupid?*'. That was the centerpiece of my book, has been the centerpiece of mine, even when I was in the US when he made that statement. So I've had that belief. I didn't have as articulate and as catchy a slogan as *the economy is stupid*. But that's been my belief throughout and remains my belief today.

Now, I will get to the second part. What happened? *Very important question.* But let's just look at the economy. You've cited aggregate growth rates. It so happens that those aggregate growth rates are the highest in the world.

And remember, our population growth rate is down to 1%. So 7%, 8% translates into 7% per capita. In the 90s, when we had the reform, and we were growing, or even in 2004 to 2011, when we grew at 8%, 9%, the population growth rate was 2% or 1.8% or whatever. So equally stupid is the per capita stupid, not just the aggregate growth rate. And I did present a very detailed table showing how '*was the economy stupid?*' throughout more or less our history. I think the crudest statistical test was looking at the per capita growth rate and whether you won or lost.

And 10 out of the 14 elections I was able to explain by this very, very crude aggregate statistic. Now come to the second most important part and actually the most important part of your question is 330 to 350 and they get 250.

What the hell happened? I've worked on it since.

I have some non-economic explanations, which I wrote in a piece on June 4th, the day of the election results. So I was in the U.S. when the Kent State Shootings happened. In the Kent State, four students who were protesting against the Vietnam War got shot and got killed on a campus at Kent State. So the principle I have for all governments since then and including them, never ever mess with students and we made that mistake. Remember when the police or whatever sent you to jail? *Stupid.* You gain nothing. You guys at your age are supposed to do all kinds of weird things, which is what makes that age very exciting.

So let them be. One is you don't mess with students. The second is you don't mess with the middle class, especially with a rapidly growing middle class that we have in India today and over the last 10 years and over the last 50 years.

Now, look at the tax to GDP ratio for India. It's at 19%. Now what the ecosystem will tell you, oh, I was just at a function yesterday as somebody from India.' Why are you saying that India's tax to GDP ratio is 11%? That's the center. You don't pay taxes to just the center, you pay your state taxes and your local taxes and so on.

So India's tax to GDP ratio is close to 19%. What is the US tax to GDP ratio? 19%.

We are one of the highest and given up our capital income, which is very low, the highest in the world. And for reasons which we can go into perhaps another time, why this high tax to GDP ratio is with our unusual, maybe usual, but certainly unusual given the circumstances,

obsession with decreasing the fiscal deficit. But for most countries, I would say 95% of the countries, the fiscal deficit has nothing to do with the price of tomatoes. But we have a monetary policy on that. We need to reduce our debt for future generations.

You've heard or you will hear all of that nonsense. But the tax in China, for example, in East Asia, which is our model for fast-growing countries and very successful, the aggregate tax to GDP ratio is 13%, 14%, 15%. So what do we do with 19%?

I think that and the middle class is very genuinely upset. And I think, you know, that is a factor that I didn't take into account because the aggregate numbers were so good. But when I did the study, which was, unfortunately, I did it after the election rather than before, because I was trying to find out what happened.

Certainly, the end of taxation has been underappreciated by Indian voters? I think broadly, our economic policy has moved very much in the right direction. And this started in 1991 during the economic reforms.

After 1991, we've had ups and downs. Basically, we have done exceedingly well in the last 30 years. And that doesn't mean all the policies have been correct, but broadly in the right direction. I would point, however, one policy that we've had since the 70s, which is a disastrous policy, and which is on this entire protection and subsidies to the agricultural sector. As you know, the best way for you to become rich is to go and start a farm somewhere. All that land is allocated as farmland. You don't have to pay any taxes. That's a little bit of an exaggeration, but not too much. But what I want to emphasize, if you recall, and explain to me the following. In 2019, the Congress Party, in their manifesto, said that we need to get away from the MSP system, and agriculture has to be reformed. And they laid out a blueprint for that. In 2021, Arvind Singh, who was the Chief Minister of Punjab, asked none other than one of India's most distinguished economists, Montek Ahluwalia, whose wife, incidentally, was also at Miranda House way back. But he wrote this report saying that agriculture should be reformed in the following fashion, the MSP system. Then, Prime Minister Modi has an ordinance and the whole story, or the whole advocacy of changing agricultural policy in India. And actually, I've been involved in discussions about agricultural policy for the last 20-25 years. The most dominant part of the ecosystem was when the Congress government had advocated the same. And when PM Modi does it, then you have the ecosystem led by the Congress Party.

Call in, right? *Nihana*.

And Thakberg is now the leading agricultural policy expert for India. There is no country in the world which has done good in terms of growth rates, which has done it without agricultural reforms.

We are the only country. So think where we would be if we had had agricultural reforms. And where we would be tomorrow if we had agricultural reforms. So this is the other policy that I think is to be held. And this is politics. This is the ecosystem. But we shouldn't get away from the recognition that this is a bad policy. And we should oppose it. And obviously the issue is a lot more complicated. It's not that complicated really. But I'll grant you, it's slightly more complicated than I'm making it out to be. But this is the other policy that leads to the high taxation and therefore policy that is not really appreciated.

Editor: Sir, recently the budget announced the removal of indexation benefits for long term investments in real estate and other unlisted assets. Given your expertise in portfolio management, how do you believe this would impact long term investments, and reporting of assets, specifically in the real estate market and gold? Additionally, as indexation is a basic economic principle, how far does this change hold in terms of economic validity?

Dr. Surjit Bhalla Again, I would recommend that before we make any pronouncements on India, etcetera, please study how the rest of the world you know, the developed world has a major advantage over countries like India. They are much further advanced on the income curve. So they have, you know, they have faced these problems. And that is the origin of his team on this. They have faced these problems and come to grips with it. I don't know any country in the world that doesn't give special recognition to real estate in terms of its the taxation of real estate. So that's point number 1. That it's not like the real estate is like buying, you know, computers. Yeah. When you buy real estate, it's not like buying or any other goodie that you get. It's not like buying education. It's, you know, it is special. And the point is, it shouldn't be so special that it detracts. So now the government came out with a policy on you know, and we do have a problem that, basically, housing prices went through the roof starting started to go through the roof in 2002, 2003. Prior to that, you look at real estate prices in India, hardly any growth.

So we've had exceptional growth in real estate prices, especially in the larger metro areas, not so much elsewhere. But we've had so there is a particular problem as to how to treat, and all governments in India have recognized the special nature of real estate, and, so it's not as if they have been not aware. So what they did here, which they have now rectified and

brought it up to a later stage, is, you know, you don't do the “jhatka” method. You do a gradual adjustment, which I think is what we are approaching now in terms of the real estate, fiasco that we the budget, came up with, and they protested.

And it's the middle class again, that faces problem in this space. So I think we are now on the right path. One thing you should if you are economic students, and some of you might be, that, you know, we've had a reform of corporate taxes, and we introduced the GST, which is really the form of indirect taxes in 2017. Now I think what is awaiting, is the form of the direct tax code, which the 2 governments which I think was first started by Vijay Kelkar in Bajpai's tenure 99 to 2004. And when we first wanted to to, if you will, reform the taxation system. In 2009, under Manmohan Singh, they advocated and got out the form of direct taxes, which has was shelled first by the by then Manmohan Singh government, and delayed now by the, Narendra Modi government. But I think the time has come. And the issue here is should all assets be, should all investments be treated the same long term versus short term, cap against taxes, etcetera. And it is something that we need reform on. Absolutely no question. I've been advocating it for at least a I was part of the Gilker Committee report back in 2004. So I you know, we need that. Let's hope it comes in the next budget in February, but it is something that, should be on top of the agenda for the government to bring about a modern, direct tax system rather than what we have, you know, we have tinker with and patched up and, you know, band aids like IOM into the old tax code. It really should not be that complicated. But, that's what Band Aid's do.

You know? So we need we need a reform, and let's hope it comes.

Editor: Based on your IMF Working Paper titled *"Pandemic, Poverty, and Inequality: Evidence from India,"* - The paper discusses the divergence between CPI and PFCE deflators and their implications for consumption growth estimates. Could you explain how this divergence affects poverty measurement, particularly regarding the “pass-through” rate?

Dr. Surjit Bhalla: There are several questions in the formulation of one question. One can have detailed discussions on all of them, they are important questions. First of all, my cardinal principle about economics and economic policies is separate and a lot of these questions are, this ‘conflict’ separates growth from distribution. So, what does that mean? First of all, policy should be there to maximize growth. It could be ecological growth, climate-free growth, whatever it is, you maximize the growth. Please separate distribution from growth. You get growth, you get taxes and you use taxes to redistribute, for whatever

redistribution policy. I think at JNU they still teach you Marxian economics or maybe at Calcutta Presidency College, there's still a course. It's got to be the stupidest idea in the world that there is a system which will both produce good work and good distribution, impossible. So, what you have to do as a policymaker is generate growth. As a good policy maker what you have to do is to make sure that the distribution is socially desirable and that's what this government succeeded in the pandemic, with the free food and everything else. What was the decline? Minus 6 percent GDP per capita growth and for the poor, they provided free food grains and food pulses, much more than what was required, as I discussed in the paper, in the pandemic. So, the simplest answer to that is, don't confuse, and Congress in India confused it, it's part of the Indian psyche that we can combine growth and distribution into a *khichdi* which will taste good all the time. *Ni hoga*. So, that answers the question.

Now, coming to the interesting one, addressing unemployment in the higher educated sector of the population. I previously on some other issue, on the ecosystem, where I felt sorry for you guys, and on this issue, I'm doubly sorry. I think I mentioned somewhere about the New Wealth of Nations in one of the previous questions and look at chapter 7 of New Wealth of Nations and what chapter 7 does is to look at, in 1993 the amount of new college graduates in the Western world, were something like 50 million and in the rest of the world, it was also 50 million. The number in the Western countries has gone up from 50 million to 962-963 million a year, the number for the rest of the world has gone up from 50 million to something like 25,300 million college graduates. Then also there was the same problem of quality. Unemployment rates for college graduates in India are not that high, but look at what other countries are. I have just returned from the US and in one of my articles that I've presented at the Conference in Aspen. This is in Brazil, for 3 applicants for the post in Biomedical something, there were 600 applications. The reason people in India apply to government jobs is because you don't have to work really hard, you get a pension and you get a very rich income so that's why everybody applies for government jobs. At low levels, at high levels, at whatever level. And then, you become a feudal aristocrat by getting into the IAS, I mean it's a fantastic life. But don't delude yourself into thinking that everybody can get that job, they cannot, this system won't work and as it is the system doesn't work but nevermind. But the point is, there's excess supply of college graduate students, bigtime excess supply. Even China, they stopped publishing the data on unemployment. In the US, for one job in a museum, there are PhDs applying and there are 600 applicants. Now, it would be a great job but there are 600 applicants for one job. What we think is that what's happening in India is unique and what pains me are Indian scholars who should know better are articulating this nonsense and it is nothing less than pure unadulterated nonsense. Now, on unemployment,

the figures are as follows, graduate unemployment in India, that is from the ages of 22 to 29 is at the lowest level in the last 20 years today and it's something like 10%. Now, let's look at what's happened in India since 1980 and this is my whole problem with Indian economists, left ecosystem, etc. The unemployment rate for those between the ages of 29-64 is around 1% and has always been that whether you're college-educated, poor or not so poor. And in, 22-23, that unemployment rate for those above the age of 29 was 0.6%, one of the lowest ever in India. And in China it is like 20%. The youth unemployment rate everywhere is high, except maybe the US. Look at France, they're having riots there. What happened in Bangladesh? Ask your great Indian economists, when they talk about this. So, I think this is a great question, I'll be talking about this on the CSCPA on 10th of September with Santosh Malhotra taking the opposite view. Just look at the data, it's a part of the ecosystem here, you can become a big scholar, respected with certificates and you'd never have looked at the data. So, you guys are at the start of your journey, just look at the data and nobody is above board, you have to do your own work and obviously you have google and you can decide. So, yes unemployment at 10% is high, unemployment at 15% is even higher, unemployment at 20% is even higher. So, yes what you'd like is somewhere between 0-5% unemployment. Anything above 5% is high. I'm not denying that there is a problem and you guys are going to face this. You will not get the job, all of you will not get the job you want. I worked this up at the highest levels and I was told that even cabinet ministers, cabinet ministers don't get the cabinet ministry that they want and they complain. That's human nature. Maybe there are a few people, maybe I'd say 5% of the total population, 10% of the total population who have the job that's their ideal job. And they don't have to be educated, upper class twits to have a job that they enjoy. So, yes all of this 10% employment is too high, we need to get it down and policies should be in place but we have to be somewhat realistic.

Editor: Sir, in your book 'The New Wealth of Nations', you put forth the idea of education being this 'new wealth', being more important and more equally distributed than financial wealth is today. So my question is how do you see the balance between expanding access to education and improving the quality of education? What should be the priority for developing nations?

Dr. Surjit Bhalla: The balance between expanding access to education and improving its quality is often less complicated than we make it out to be. Primary and secondary education have traditionally been the responsibility of governments in most countries. This approach aims to provide equality of opportunity, rather than equality of outcomes. In India, although

the government typically only allocates around 3% of the GDP to education, the private sector contributes enough to raise the total spending to approximately 6-7%.

Achieving equal quality of education is nearly impossible, regardless of how much a country progresses. For developing nations, the priority should be to ensure equal access to education at least through high school.

Editor: Given the significant role of the service industry in the Indian economy, how do you anticipate the advancement of artificial intelligence and automation impacting this sector? Specifically, considering India's large workforce engaged in various service roles, what are the potential challenges and opportunities that arise from this technological shift? How do we mitigate any negative impacts and maximize the benefits of AI and automation?

Dr. Surjit Bhalla: Technology will inevitably be adopted; this is something we cannot mitigate, and it almost always leads to positive outcomes. Let the markets function freely. Our concern should be intellectual rather than regulatory. Government intervention is not the best solution in this case. The net impact on employment could very well be positive. India's population, which feeds into the job and college markets, has decreased by approximately 300 million over the past decade due to a lower birth rate. In some ways, AI is a byproduct of this societal shift.

Editor: According to you, what do you think could have been improved in this budget? Did the coalition government cause the budget to be different from if it was made otherwise?

Dr. Surjit Bhalla: Coalition governments have existed forever, so this is not something that's new and not challenging in the formulation of economic policy and some might argue that in a coalition government the way the checks and balances in the formulation of policies, both economic and non-economic. So, I think that there was a very genuine case to be made for the fact that it won't be worse and might actually be better if coalition government is making the budget. Indian politics being what it is and we saw and I discussed in detail the fiasco of the agricultural policy, we now have the leader of the opposition, Rahul Gandhi arguing for '*jitni abaadi utna haqq*'. If that interferes with economic policy, then I think, it'll be disastrous. You guys should have this discussion on what I consider one of the most neanderthal policies ever advocated. Just think about it okay, that no more than 10 seats, no more than 15, 17, 20 Muslims. I get terrorized just thinking about the consequences of '*jitni*

abaadi utna haqq'. I hope it doesn't, I'm confident it won't interfere in the budget making process. Good sense almost invariably does prevail in India. I'm hoping that the 2024-25 budget will have a reform of the Direct Tax. I think it's too much to expect that they will get back to the agricultural reforms of the MSP's but let's see. It's to be welcomed, the key point about the coalition government is that it allows for checks and balances internally. We have enough checks and balances externally but at least the policy's formulates that they go through checks and balances. This government came out with the policy when it wasn't coalition government and you have to think about what gets the government to come out with policies like this and then there's history of economic and budget policy making to deal with these movements. If you're using a credit card which is an American credit card or whatever and if you purchase or take a loan in the US you'll be taxed on it via TDS and then you will have to file to get the TDS back. So, I would say that you guys should in your class suggest to your professor to have a discussion as to how even this be thought about let alone be part of an officially announced policy which thankfully they didn't implement. For me, the fascinating part of Indian policy making in this discussion is how do these things come about. We have a very elaborate system that it has to go through. We have IAS officers and writers and we have other people coming in and making policy and everybody thinking of the greater good and they're all well meaning and they're all honourable men and women. But what comes out is not always very honourable so I think that's to be expected maybe in a democracy but I think in the aggregate we have succeeded in making good policy, not optimally good policy, not always good policy but the system works. And it has been working and let's hope it continues.

Editor: Earlier this year, we had the pleasure of hosting Dr. Arvind Virmani at our international conclave. During his session, he discussed the "trickle-down" phenomenon, where the positive changes in the economy primarily benefit the lowest sections of the population. Given that you co-authored the paper *"Pandemic, Poverty, and Inequality: Evidence from India"* with Dr. Virmani, do you believe that this "trickle-down" effect is a key reason behind the positive conclusions drawn about the pandemic's economic impact on poverty reduction? Moreover, considering the current scenario of rising unemployment, particularly among the educated class, do you think this model might overlook their challenges? What strategies do you suggest for addressing unemployment in the higher-educated segment of the population? Finally, is there a potential conflict in simultaneously

addressing the welfare of both lower and higher economic classes, or can these goals be pursued harmoniously?

Dr. Surjit Bhalla: There are several questions in the formulation of one question. One can have detailed discussions on all of them, they are important questions. First of all, my cardinal principle about economics and economic policies is separate and a lot of these questions are, this 'conflict' separates growth from distribution. So, what does that mean? First of all, policy should be there to maximize growth. It could be ecological growth, climate-free growth, whatever it is, you maximize the growth. Please separate distribution from growth. You get growth, you get taxes and you use taxes to redistribute, for whatever redistribution policy. I think at JNU they still teach you Marxian economics or maybe at Calcutta Presidency College, there's still a course. It's got to be the stupidest idea in the world that there is a system which will both produce good work and good distribution, impossible. So, what you have to do as a policymaker is generate growth. As a good policy maker what you have to do is to make sure that the distribution is socially desirable and that's what this government succeeded in the pandemic, with the free food and everything else. What was the decline? Minus 6 percent GDP per capita growth and for the poor, they provided free food grains and food pulses, much more than what was required, as I discussed in the paper, in the pandemic. So, the simplest answer to that is, don't confuse, and Congress in India confused it, it's part of the Indian psyche that we can combine growth and distribution into a *khichdi* which will taste good all the time. So, that answers the question.

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ideal job. And they don't have to be educated, upper class twits to have a job that they enjoy. So, yes all of this 10% employment is too high, we need to get it down and policies should be in place but we have to be somewhat realistic.

Editor: Given your background in electrical engineering, what sparked your curiosity and interest in economics? Was there a particular moment or event that led you to shift your focus from a core science degree to the world of public affairs and economics?

Dr. Surjit Bhalla: An important question. And I'll tell you the honest, correct answer. This is when everybody's mind is in flux. You don't know what you want to do and where you'll end up. And this is part of a very exciting journey that you all are the beginning of. So in my case, I graduated from Delhi Public School in 1964, and everybody in my generation wanted to apply for engineering. Okay? And so did I. And I ended up at Purdue, which is another story. But be that as it may, I ended up in engineering as did practically every one of my friends in India. Then at the end of the 1st year this is 1965, I was good in math, the usual stuff, but, I wasn't enjoying that much. So my brother had graduated from the place. And he said, listen, stick with engineering. And, you know, you can do whatever you want afterwards.

At least that was completely the correct advice that he gave me. So the first job I wanted to do after engineering was to apply to law school. And because this interest in public affairs was always there. And, you know, every senator that you see in the US, etcetera, less so in India. You should have more, much more educated people, lawyers, etcetera, So I wanted to know. At that time, if you graduated with a law degree from the US, you could not come back to India and practice. Now that has changed over the last, I think, 10, 15 years. You get an American Board degree and come back to work here. I graduated in electrical engineering. But 1965 was the start of the computer revolution. You know, those massive computers that could fill this entire room with 16 k memory. And Fortran was a big language, And I must say I really, really enjoyed coding, and, you know, computer engineering. Now they actually have a course, computer science, computer engineering. At that time, computer science was part of engineering. So how did I get to economics? Well, I wanted to but didn't, couldn't go to law school. I was passionate about public affairs and politics and and a few other you know, I actually worked on Silicon Valley, but that's another story. And so then there was, you know, the Woodrow Wilson School of Public and International Affairs. Incidentally, now, because we live in a very, very politically correct world, they've changed the name. So there's no longer Woodrow Wilson School. It's called the Princeton School of Public and

Commercial Affairs. So that school had 4 departments. The first was political science, then it was organization, the third was economic development, and the 4th was economic policy. We finally get to, in a way, circuitous way to what I've been doing for the last 60 years. So I said, I will take political science discipline. And I took one course in political science, and I said never again. So then the choice was economic development or economics and public policy. And I chose economics and public policy. And that's how I got into economics. I did study philosophy, did study politics, and I managed to follow your courses. And it was at graduate level. And that's why I really got involved in economics. And then I did my PhD in economics. And, you know, if you're interested in public policy more, I would do economics. And so that's how I think I ended up shifting in focus. But, you know, engineering background, science background, mathematics is the same here. So, to the extent I don't know how much pure mathematics will help anybody other than, getting your fields priced, but mathematics is really cool, for all the sciences including economics.