

PGDM Convocation Address

Dr Arvind Subramanian

Dr Rahuram Rajan, Chairman of the NIBM Board, Dr Bhattacharya, distinguished guests, Members of the Faculty, Responsible Journalists, and I am assuming there are no irresponsible ones, proud parents and most of all the bright, energetic, graduating students of the class of 2013-15, the 11th batch, I am told.

First of all, I think this is an occasion to congratulate all the students, the students to be bankers, the students to be Lords of Finance. I am sure today must be a day of really mixed emotions for all of you, relief that the last two years are over, presumably. But these must be too difficult, challenging but also very exciting, yes, but, nevertheless you must have got over it. Congratulations! I am sure there is sadness also, leaving behind the association and the friends you have made not to mention the beautiful campus that you are soon going to be leaving. It is really a wonderful campus. Congratulation to NIBM for this.

You must have also been full of anticipation about the future and the promise of the future and of course equally you must be very anxious about the future. You know, its potential to surprise on the downside. Believe me, I am as nervous as you are about this because you know delivering a Convocation Address is a fairly kind of responsible job and this is my first Convocation Address. And I really don't know what I should be saying but I was reading what I think is the best Convocation address ever delivered, not that I have read too many. I have read a few, and the one I am talking about is that of the Author of Harry Potter, J K Rowling. She gave in 2008 a Convocation Address at the Harvard and so I am going to kind of, say something from that. May be I should not be so nervous about this because you will probably forget almost everything that I would say today. I certainly do not remember a word of what was said at my graduating, and I am completely honest when I say that I do not even remember who gave that Convocation Address. I should be light now and I hope you are light as well. So it is a big responsibility to give this Address because I am obliged to give a few life lessons to you. And I feel completely hypocrite giving this because what I am going to say, I want to guarantee you that I do not fulfil that lesson by any means, but I have to give it in any case. And I am going to give it. I am going to give you one life lesson.

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I am the Chief Economic Advisor not the chief moral tutor here. So I have to go beyond and talk about India and the Indian Economy and as Dr Bhattacharya said, it is an exciting economy that all of you are going to enter for reasons that he so eloquently spoke about. So what is the life lesson for you? I think seriously, the life lesson is, it is going to sound like a cliché and I am going to try and make it less of a cliché if I can. It is really that you know both your professional and personal lives in that really what is going to matter is the process and not the outcome. I think that is something I would really like to internalise. It sounds a cliché but let me, as I said, try and un-cliché it for you. Apparently when you walk into centre court of Wimbledon, just before you enter, there is an archway and apparently on the arch are these lines from Rudyard Kipling famous poem which actually Raghuram Rajan plagiarised for his speech. It is a citing that says something like (I am not exactly right), if you meet triumph and disaster treat those two imposters just the same. And let me just say a word about your triumph and disaster, success and failure. All of you just by virtue of where you are and what you have done and I referring to, it is true for almost everyone in the audience but especially for the graduating students. Just by virtue of what you have done and accomplished I think you have been fantastically successful. If you were actually to do this scientifically I am sure that you are amongst the top 1 or 0.5 per cent of your co-opt compared to the rest of India in terms of your education, ability, your income, what you're going to earn over the things, so your conception of failure is probably going to be very, very close to 99 per cent of your co-opt conception of success, so you need to be proud of that.

But that being said it is absolutely the case that you are going to encounter failure and a lot of failure in your life. Again, just to give you a confession you think of me as a very successful person, Chief Economic Advisor, and so on. But let me tell you, I failed the IAS exam, I failed in getting into the most prestigious career stream at the IMF, I wrote an embarrassingly mediocre and totally forgettable Ph.D. thesis. I have had many more academic papers rejected than accepted. And just so that Raghuram doesn't get too bloated, let me remind him that he and I wrote a paper which was rejected three times and before it got published in a second rate journal. So you want to know, did I treat these failures as imposters like Kipling wanted me. Absolutely not, I thought it was the end of the world and dealt with it very badly. So it is easy for Kipling to say treat triumph and disaster just the same but I think how one kind of does that, it is very difficult. And I think here I have to borrow from the eternal wisdom of the Bhagwat Gita like you did Dr Bhattacharya. I think the essential lesson is that if you're passionately engaged in the effort and kind of are equally almost disengaged from the reward, I think that is the way I think trying to meet the standard of treating triumph and disaster just the same.

I think, for example, in your professional life if you are passionate about what you do, if you are interested in what you do, it is probably almost the case that you will do very well because you are so passionate about it. And also you are going to work very hard to do all the good things that Dr Bhattacharya wanted you to do and to be. So my message to you is the way to focus on the process, try to be unconcerned about the outcome. Get up every morning and say I'm really excited about what I do, I want to go to work whichever job I am going to do, and if that doesn't happen every morning or doesn't happen for say 20 or 30 mornings in a row, I think you should reassess your career choice. So that wisdom of Bhagwat Gita is really quite fantastic. I would urge you that outcomes are not under your control. In that case you can focus on only what you do, process is all important, outcome is secondary.

Let me now go on to Chief Economic Advisor giving you moral lessons. As Dr Bhattacharya said this in some ways these are very exciting moment in the Indian economy. I certainly remember that when Raghuram and I graduated and were at a comparable periods in our history, India was well, not a basket case but it was doing pretty badly. Dr Raj Krishna called this, the 30-40 years preceding the 80s, as India having the experience of the Hindu rate of growth. He did not mean it in a complimentary way at all. Since the 80s the Indian economy has picked up that critical juncture, specially 1991 was in a sense repudiating the past, kind of bad past, a past of relative failure. But today in a sense we are not going to not so much repudiate the past because the last 30-35 years have not been very bad. Have been pretty good actually. But we are trying to cease the moment to propel India into really something close to double digit growth and as you quite rightly said so, it is one thing to go from 3 to 6 but now it wants to go from 6 to 10, the possibilities, the dynamism and the world is very different. You are entering the Indian economy, the Indian job force, the labour force at really a very interesting moment. And the economic survey call this moment, a rare moment in Indian history from an economic point of view because two things are coming together.

One, there is a mandate for change, there is a political mandate for economic change and also the international environment is relatively benign towards India. You know we are an oil importing country, oil prices are down that gives us a lot of room but also in a deeper sense if you look around the world India is one of the few bright spots in the world. Europe is in a kind of depression. Japan has been in depression for 20 years. Brazil and the other emerging market countries and even China is slowing down. That's why, even if you look at the cover of the economic survey, it is a graph of Indian growth rate overtaking Chinese growth rates. Of course that was helped a little by the statistical office. Why not use something that is going to help you make a point in any case.

So this is a rare moment in history. I want to use this to look back a little bit about the Indian economy and what I call absolutely, it is a unique development model and I call this the precautionary development model of India. By precautionary what I mean is that, you say a child is precautionary when it does things far ahead of its time. I am going to argue that the Indian economy is a very precautionary economy in both good and bad senses. It is not necessary always a good thing to be precautionary. You end up doing things you regret and you would wish you had done much later in life. But anyway, the precautionary development model I think is – so I am going to talk about three aspects of this precautionary development model. One, something about India, I think is particularly unique from a social science perspective. Second, I am going to talk about the three kinds of precautionary achievements of India and then I am going to talk about also what is special about the manner in which this development model is unfolding. How is change, how are reforms happening in India and why should it give a cause for optimism and also for some pessimism. Point number one, India is absolutely unique in one sense and that is from a social science perspective. I think no country in the world that I can think of has so many social cleavages, so many fixtures, and so many points of differences. Every country has class differences, gender differences, and regional differences but in India you are on top that you have this overlay of/variety of religions, a variety of languages and of course we have the cast. So we have at least six access of differences or cleavages or fixtures, which actually are very crucial in determining the economic and political outcomes of countries. Even if you take something like language, the Europeans can come back and say well you know, we too have many languages but the historian Ramachandra Guha when he has confronted with this, he kind of fished out a rupee note and said, look you guys have many languages but we have 15 different scripts quite apart from the bewildering variety of languages we have; so even on linguistic difference, ours is very special that way.

Why is this important? If you look at it from political sense such diversity, such difference, actually makes for a lot of conflict, so political development actually is impeded to some extent by these differences, these cleavages, these fixtures in society. So it affects politics. It also affects economics in a very deep and fundamental ways. Because what many people have argued is that when there is a lot of diversity and difference and conflict in society it actually becomes difficult to provide public goods like education, infrastructure, rule of law because people can't agree on these common things. Lot of conflict and public goods and specially of the kinds that government has to provide are absolutely critical for development and for growth and so if we have a lot of conflict it makes actually very difficult to evolve politically but also to grow rapidly in economic terms. It is sometimes overlooked when we think about the East Asian miracle. It is sometimes overlooked at East Asia, including Japan, China and Korea a very homogenous societies, and so one can argue endlessly how

important and how influential these things are. But the fact that they have to deal with much less heterogeneity than India. It is not unimportant thinking about our accomplishments versus those of East Asia.

The central fact about difference and cleavage and diversity and heterogeneity is something quite unique about India. So that which leads me to my second point about India, that we have actually had three very significant pre-cautious achievements. All political scientist will tell you that India is very unique politically because we embraced and sustained democracy at very low levels of income and as I said with very high levels of heterogeneity and difference. India is absolutely unique. So if you were to draw a chart or you know let's say political development and income India would be a complete outlier. The typical pattern, something that Raghuram also said some time ago. The typical pattern is that the country, you know grow rapidly. They start off as autocracies or authoritarian regimes and they overtime grow and then evolve into democracies. Of course, but then bang in one stroke of the pen in 1952 we had universal franchise and at per capita GDP levels of Rs 350. And think of India in 1952, how young a nation we were, and yet we managed to sustain this democracy. So I think politically we were very pre-cautious sustaining and embracing democracy at very low levels and maintaining that. It is not that it has never been done but it is being done. Botswana, for example, a country in Africa that's done it but it is a very small country and fairly homogenous country as well. In terms of economics, I think we've also had some pretty pre-cautious achievements. And what do I mean by that, so one thing is that people forget that between 1980 and today, it is about 35 years, India has grown at about 6 per cent, something like 4 to 4.50 per cent per capita.

Now if you look at the post-war experience there have been very few democracies that have actually done as well in terms of economic growth. Most of the fast growing nations have been either authoritarian regime or autocracies in East Asia or there have been countries with a lot of oil or there have been countries which have just recovered from World War II. So very few democracies have been registered about 6 per cent growth sustained over such long periods of time. That's a kind of special achievement. But what is really special about India in terms of economics is that it is trying to develop based not on exploiting its comparative advantage which is relatively unskilled labour but based on its relatively under supplied skilled labour. And all of you here represent that phenomenon very well. So Lee Kuan Yew who just passed away, the sage of Singapore, said no country has become a great power without being an industrial power. And that's the sense in which I think the make in India, an initiative kind of draws upon that. But instead of talking about Industry, manufacturing services I think from an economic point of view what is interesting is what I have said is to think in terms of what do we have. A lot of which is unskilled labour that's our comparative

advantage but we are developing not on our comparative advantage. It is not that our skilled level people like you are not skilled and we do not have advantage. But we do not have enough of you in the economy. What we have is many more unskilled people and India is trying to grow based on that.

It is not just in services that you see, the fact that our services have grown very rapidly which reflects the skill intensive growth but even within manufacturing it has been very skill intensive and the thing that I like to highlight most prominently as an example of this precautionary model of development is that we are doing things at levels of development in income much earlier than what other countries did. Let me give you one example. If you look at Foreign Direct Investment flows, all the theory tells you that Foreign Direct Investment should flow from rich countries to poor countries. Why, the rich countries have the technology, the capital, the finance, and the entrepreneurial skills. And the poor countries have labour and resources and the way the world develops is by these things coming to poor countries and poor countries growing. But if you look at India, it is actually one of those few countries which are actually exporting Foreign Direct Investment (FDI). In fact as a share of GDP, India, at least in 2012 exported more FDIs as a share of GDP than even China. And what is very special about India is that even Chinese Foreign Direct Investment is a lot in resources. It invests a lot in Africa because it wants to tap the resources. But we actually export FDI to countries that are far more advanced and are far more skilled and sophisticated than we are. Whether it is Tata running Jaguar or Chorus Steel or all these software companies that we takeover in the US. And all the theories says that we should not be doing this. We should in fact be importing FDI, importing capital and doing this. Now is it good or bad and you can argue it both ways? You could argue that it has downsized because we do not use our unskilled labour, do not provide enough, good formal well-paying jobs for our relatively unskilled labour. But on the other hand it also has some advantages.

I think if you look back at what has happened to education in India over the last 20 to 30 years, one of the striking thing is that primary education never did very well, for very many complicated reasons including the fact that the Government was not very good at providing primary education. But when growth took off and when skill intensive growth took off, English skill intensive growth took off, the demand for education increased very rapidly. So whereas hitherto education litigants were low because the supply of educational skills was poor. Over time parents said we want education for our children and that led to a dynamic quill, the education attainment in our population is actually improving much more rapidly than it would otherwise have had, had we continued to specialize, had we not grown at all or even if we had grown based on our unskilled labour.

So one accomplishment is politics sustaining democracy at very low levels of income and second, trying this very unusual pattern of growth. Believe me, in history, no country has developed without either based on resources or on unskilled manufacturing. Typically countries do skill intensive activities much later in the developmental process and we are trying to do it earlier on. Remember this is still work in progress, we cannot declare India success as yet, but if we do become a success based on this, then we could look back and say this is an absolutely unique developmental model.

Politics, economics, social change, I think, when we speak about all these differences in India, caste, religion, language, especially caste, it is not just horizontal difference. I mean, we have to really be honest about that, that some of these forms of difference have very pernicious vertical consequences about power, misuse, corruption and exploitation and so on. I don't know whether a great favourite of mine is a book by Aravind Adiga, "The White Tiger". I think, the last line of the book is something like the protagonist was actually a murderer. He says, he reflects back on the murder that he commits to kill his master and he says, looking back basically I don't really regret having committed the murder because something like just for one day, one moment, one hour, I felt what it is like not to be a servant. And that's I think a very powerful image speaking to these vertical divisions in the Indian society in the past.

But actually what I want to say is that some recent research by Devesh Kapur, et al has shown that social transformation at least on some of these axis are occurring very rapidly. There is this research they have done in Western and Eastern Uttar Pradesh based on surveying this area where they show that the improvement in the situation of Dalit's not just in terms of what has happened over 20 years in terms of their economic opportunities, and in terms of their economic outcome. Higher income, buying more goods etc...etc... But what has happened to social markers, you know, some fantastic changes in 1990; less than 20 per cent of the Dalit's household would be visited by non-Dalit's mid wife. Within 20 years that number rises dramatically. How often would Dalit's be invited to non-Dalit weddings and that also changed dramatically. So the point that they make is that some of these social changes in Europe which took about 150 to 200 years under feudalism, in some cases, thanks to growth and thanks to our democracy, are happening quite rapidly in India which is something that we should be proud of. Having said that, we have to recognize that this kind of progress has not been made on all axis of difference. It is not the case that we have cracked. We have reconciled with our heterogeneity very well. But it is something that and the phase that they use is that they may be rising in equality of income in India but certainly in terms of inequality of dignity that is coming down in India and that's something to be very proud of as Indians. So on Politics, on Economics and on some aspect of social change this is actually a very unique precautionous development model.

Last point I want to say is that what is also very exciting and special about India is something that augers very well for the future is the manner in which change and reforms are taking place in India. I think that there are two really important things to watch out for in terms of how change in progress will happen in India. One way of course is that we have good leaders like Raghuram who will take good decision and so top down change that happens and of course this government is trying to implement reforms, so there is going to be a lot of top down change in reforms as well. But I think what is going to then act on, what I think are two fundamental organic forces for change. The first force for change is what I call the competition between States dynamic in India. So India is a very vast heterogeneous country, but also as you know that political economic power are more and more wielded by the States rather than New Delhi. Now is there a good thing or a bad thing we can debate endlessly. But I think one of the good things about is that what it is going to do is to create a change from the bottom up. How is that going to happen? It is going to happen through this phrase that we use very often called competitive federalism, that is one State does well and then other States also starts doing well. But what is the mechanism that happens. It happens by what I call 'Model' and 'Magnets'. If a State does well it's a model for other States to emulate. So if Gujarat can provide uninterrupted power, no other States can say, Oh My God, in India it is very difficult to provide uninterrupted power because there is a model to emulate and to learn from.

But the other, I think more economic transmission mechanism is the magnet mechanism. If Gujarat does well it is going to attract all the talent, the capital and the labour from other parts of India and from the world as well. So that's going to force change in other States. I think that there is this famous example, I do not know whether it is true or not. For example, I am told that a big car plant was considering operating from Tamil Nadu but because it could not get power it chose to relocate to Gujarat, and apparently it annoyed the Chief Minister very much that the State could not provide power. I don't think subsequently anything was done about that but at least there was some pressure to change.

I think that magnet mechanism is going to work and more and more what is going to happen is that some States are going to follow others. And of course now we have the Rajasthan labour law, for example, is a change, Madhya Pradesh and Gujarat going to follow soon, and so that's the way in which the change is going to happen. So that's the first component. But now that is not enough. So what if some States are doing better than others. How is that going to lead to sustained change, and here the answer is Indian democracy. Now you know many of us really look wistfully to China and say, Oh we wish we could be like China, you know, China can take a decision very quickly. They take good decision and why can't we take such good decisions.

Donald Rumsfeld the great philosopher once said, ‘You go to battle with the army that you have rather than the army you wish you had’, and in a way it is the same about the political system. We have a political system, democracy which we cherish, and so it is no point longing for wishfully for things you can’t change. So the question really becomes, can democracy itself deliver this change? And the really good news of the last two or three election cycles in India; and this is the research done by Milan Vaishnav at the Carnegie Endowment in Washington, where he shows that in the last two or three election cycles, generally not always, not everywhere, generally bad performance is penalised in the polls and good performance is actually rewarded in the polls. So then you see what happens, you have this competition between States, dynamic which is going to force change that is going to happen in economic terms, and then politically good performance is rewarded and bad performance is penalised that is the incentive for maintaining change. So this competition between States and democracy finally starting to work itself through, that is I think the powerful force of a change in India. Until the 1980s we used to speak about routine anti-incumbencies in Indian politics regardless of what you did, you will be thrown out of power but in the last two or three election cycles, that has not been happening. And of course, the 2014 election was a good illustration of that where it was a mandate, it was a punishment for not so good governance and a reward for the hope for better governance going forward. In fact I was with the Finance Minister yesterday, and he gave me this fact which I need to check out. He said that the only Chief Ministers who have been re-elected three times have been those who delivered more than 8 per cent agricultural growth. So it tells you something about how politics is, kind of democratic politics is beginning to be a source of change in India.

Think of it this way. Each of you, when you look at this India and you say, what I can contribute. I think the motto you should keep in mind is, you think big but act locally and so I think through your contributions to the banking sector and finance which is going to be very important as many have pointed out. You can actually make this absolutely unique precautionary developmental model successful. It is in your hands, you should go out and do it. So that is enough about for bigger things for today. Today is about you, enjoy the day, and enjoy the moment. It is yours, you have earned it, and you deserve it.

THANK YOU

