

# Montek Singh Ahluwalia on Advocata Conversations

## **SPEAKERS**

Introduction, Dr. Sarath Rajapatirana, Murtaza Jafferjee, Montek Singh Ahluwalia

### **Montek Singh Ahluwalia**

One of the things I mentioned is that it was the American philosopher, George Santayana, who said that those who forget history are doomed to repeat.

### **Introduction**

After graduating from University of Oxford Montek Singh Ahluwalia began his career at the World Bank in 1968. From there, he went on to serve as an economic adviser to the Ministry of Finance in India, special secretary to the Prime Minister, commerce secretary, finance circuitry, and eventually the deputy chairman of the Planning Commission in India in 2004. He was appointed as the first director of the independent evaluation office of the IMF in 2001. After a distinguished career spanning over three decades, he retired from the public service in 2014. Montek Singh Ahluwalia is well known for his written work and including his 2020 book, *Backstage*. The story behind India's high growth is he has been featured in prominent Indian and international journals. In 2011, he was conferred India's second highest civilian award, the prestigious Padma Bhushan for his contribution to India's economic reforms and public policy.

### **Murtaza Jafferjee**

Welcome to today's event, which is the advocate conversation with Dr. Montek Singh Ahluwalia. This is a regular series where we have discussions with prominent people, including economists. And what we tried to do is understand the story behind the person and him as a person and what his policies have stood for. So let me ask my colleague, Sarah to introduce Dr. Ahluwalia. Yeah.

### **Dr. Sarath Rajapatirana**

It's my distinct pleasure and privilege to introduce Montek. We're known for some time he joined the World Bank much earlier than I did, not much, maybe seven years earlier. And but we have had the very common set of friends over the years. I get that love the names that are nice, from to get Bala to Shankaracharya, not in a particular order, who worked in the bank and went back to India and I'm like you, you let it you let the tea group. We have a lot of people who are there I can say the Magellan before you. Yes, someone very Shankaracharya Rakesh Mohan, Sujit Bala, Sobro Latif, they gave a good value to you to the country by going back and using the experience as you also did, working on other countries. So it's a very good connection. Unfortunately, we don't have very much many, many people who, who come to Sri Lanka back to Sri Lanka, and offer their services. So I think you did very interesting, leading the group. And I only have said thing I'm going to say a few things about it. That

your carrier at the carrier was your youngest DIVISION CHIEF in the World Bank, you had left your reputation as a person who worked on earliest people person to work on income distribution and growth. And you had the book with Polish polish. As a well-known book, people still read, keep looking at it because those issues have become the to the centre now, as they were not in the centre at the time and you're working on it. And then you have the people who you deliver for them. People like Jagdish Bhagwati, Ivan Ballard, panagariya or TNC nos and talked about the potential for India, you actually allowed him you to realise it, that I see that way that what he sent them to the miracle to happen happened, at least during that period, and I think that now continue for 30 years. So, I have a later question. How is it going to pan out in the future? How are these reforms are going to be continued? Or are they going to see so without much ado, I can say I will add the when we finished it about the Vinci dial a couple of questions for you. After reading the book, I enjoy the book. It's it's a very easy to read all the 480 pages. Very simple language clear. You feel that you are participating. Well, What we are doing, so I really enjoyed it. Thank you very much. montek.

### **Murtaza Jafferjee**

Thank you, sir. Thank you for that introduction. You read write this book backstage. before we delve into that, what made you write this book?

### **Montek Singh Ahluwalia**

Well, let me first begin by thanking you for inviting me to Advocata. And also thanking Sarah, for this very warm introduction. We have a, we have a, we really do have a shared experience, lots and lots of friends. And it was nice to see all their names mentioned. And thank you also, both of you for giving prominence to the book. And you know, if I may resort to a little bit of advertising, let me just hold the book up. Yeah, I mean, that's what it looks like. And I have no idea how easy just to get, I suppose it must be there in Amazon. But you know, one of the things that pandemic has done has to pretty much shut down the habit of going into bookstores. Hopefully, that will come back. But anyway, I do hope that those of your readers who are stimulated by the discussion will also go and buy the book. Now, let me turn to your question. What made you mean write the book? Well, you know, I, I mean, I had a very busy life in government, I should add, by the way that everybody's life in government is busy, whether they're doing anything worthwhile or not. Because one of the arts of government is to make everybody senior think that they're very involved in everything and fill their day. So, if you're in government in a senior position, even if you're doing not very much, your day is full, people are meeting cabinet meetings to go to people want to drop in on you, etc. I have not done much thinking during my last 10 years for like in government, other than in trying to make an impact internally on policy. And that is always something which doesn't enable you to put out stuff in public. I mean, you speak. But you know, when you're speaking, you're by definition, defending government policy, even if you, yourself have some reservations about something. So, I didn't want I thought it was a good idea. After I finished my government stint to put down my perspectives without the constraint of being a civil servant, and my what my wife, my late wife, Isha, issued earlier, very strongly urged me to do that. And so, you know, I took a little bit of time thinking about it, and then decided, yes, I would write a book. And she was very helpful also in reminding me that, you know, the book should read, like the economic survey, or the five-year plan, both of which I had a lot to do with in government or different types, in order to read

pleasantly, so that a person who's not an economist by profession, can actually read it and get a sense of what the issues were and what the positions were. I also wanted, you know, since I wasn't actually

the principal, I mean, I wasn't the prime minister or something, I wanted to write a book that would be a little bit objective, you can never be objective about a process where you are involved. But I wrote it not as a as an autobiography. In fact, in the introduction, I explicitly say that I got put off the idea of writing memoirs, because I read something in the New York Times, which said that memoirs are selfies in book for anyone to write something just focusing. On the other hand, I have been through what I think is a very interesting journey for anyone interested in India. And maybe also for anyone interested in the evolution of development, economics, a journey of how policies got made, and in India in the Indian case, particularly how much they changed. But they didn't change very much in the first year, they changed a little bit. But after 1991 reforms have changed quite dramatically. And I think it was worth telling that story. That's what made me write it.

### **Murtaza Jafferjee**

Thank you. So, if I can ask you, can you tell us a little bit about your early life and your education?

### **Montek Singh Ahluwalia**

Well, you know, my early life is the life of a typical middle class, middle middle class, not upper middle class or middle middle class person brought up in an environment in which the family firmly believes in upward mobility for their children, but also believes That the upward mobility is only going to come through academic achievement. I mean, the family was, was not prosperous, it wasn't our going to inherit anything. And all they could give me was values and give me a decent education, which they did. So I mean, typical middle class, bringing up emphasising the importance of doing well, in school, maybe too much emphasis on the importance of doing well in school, because competitive examinations, etc, are the way to get ahead. Very early in life. My parents worked out that, you know, I really didn't want to go into science, because the usual thing was become an engineer or something. And I really didn't want to go into the Indian civil service, either the Indian Administrative Service, I wanted to be an economist. And you know, they kind of found relocate and take economics, but then sensible to join the Indian Administrative Service. And I was lucky that I bought the Rhodes Scholarship, which took me to Oxford. And, you know, once I reached there, I think my parents realised that I had put myself to a level where I knew more about what the options were than they did. So they just wish me well and took pride in whatever success I have. And more or less, let me do whatever I wanted. And I had a great time in Oxford. I did an undergraduate degree with senior stages, and then followed it up with what is now called an infill, and then got a job in the World Bank, which was expanding rapidly at that time.

### **Murtaza Jafferjee**

Why is he why in Oxford, you also happen to be the president of the Oxford Union. And in 1966, incidentally, to illustrious Sri Lankans, Lolita de la moodily and Lakshman kadirgamar, also, presidents of the Oxford Union about a decade before that, sadly, they were both assassinated by the LTT. And the second Prime Minister of Sri Lanka. SWAT Bandar Nika was also a secretary of the Oxford Union in the 1920s. So, you write in the book, that the real problem with debating in Delhi was that he didn't

really hone the art of persuading people to change their minds, or even rethink their position. It certainly taught us the art of public speaking, later in life, when faced with the challenges of having to persuade senior people in government to change their way of thinking on economic policies, I realised the art of persuasion is very different from the art of debating and much more challenging. So, tell us how your debating skills helped you in your career and how you mastered the art of persuasion?

### **Montek Singh Ahluwalia**

That's a tough and philosophically difficult question. You know, I've been recently counselling my grandson on this. And you know, in reading about it, I came across the fact that in the ancient Indian tradition, the many different kinds of discourses that are talked about at length,

### **Montek Singh Ahluwalia**

it ranges from some other at one end, through vada, through julfa, through vitanza. Now, some other is really, kind of in a superior being imparts knowledge to an inferior being who readily absorbs it. I mean, the best example of that is in the Gita, where Lord Krishna is telling Arjuna about truth in the universe, it's a sort of is another exchange between equals, but it's a it's the gaining of knowledge. The next kind of discussion is Baba. And Baba is very interesting because vada is discussion amongst equals. But it's not just amongst equals, it's amongst equals, who understand each other's point of view, and constrain themselves to use only logical arguments in order to argue against the other side and you're not allowed to use the two perative arguments or make fun of the other side or something. And actually, if you go into it, one of the criteria for having a vada type discussion is that each person should be able to explain the other person's point of view with which you may not agree, but explain the other person's point of view and rationale, in a manner which the other person would accept saying, yes, that is my point. That's really a mutual search for knowledge with agreed rules. Then you have Java, where each person has his own view. And his main purpose is to push that view and refute the other. And you can use any number of ways of refuting the other. And the last one is vitanza, which is you don't really have a view, you just heaping abuse and the other person, and you can use any number of arguments again. Now, if you look at real life, far too much of public discussion has become withdrawn. That's what you get in SMS is, you know, people just being rude about each other, and so on. So really, the name of the game is somewhere between Baba and Java. Now, you know, debating is a little bit like julfa. Because you stand on one side, you stand for that side, you can't argue against the other, the only element of persuasion is that there's a vote at the end, and somebody wins. Now, as a general rule, if you if you, if you resort to pure wisdom, that you're not likely to win the argument the audience, unless they happen to be your own buddies, I will not actually be very impressed. But argument can be fair or argument can be clever. And that kind of both of them work in the jalpa framework. You know, what we have in India was really just making a speech, you didn't persuade anybody except the judges. And the judges are much older, and they judge you by the quality of your English, the accent and things like that a little bit whether you had some kind of academic inclination, and I didn't think that was very interesting. The Oxford Union was more interesting, because in the end, there was a vote. And so you know, there's no such thing as a brilliant speech, and then you lose the vote. Because if it's a brilliant speech, and you lose a book, you haven't really gained anything. And that was new. But I think even that kind of debating, because it allows you to use whatever arguments you want against the other side, is not very satisfying. And really, the most intellectually satisfying kind of exchange is what in the Indian tradition

would be called Vata equals, using logical argument. That's really what a discussion should be. If I were running a university, or running a university course, amongst my students, I would want to promote a lot more data and a lot less sociology, and certainly for teachers, a lot less somebody you don't want the teacher to pretend that the teachers in the position of Lord Krishna, lecturing or lecturing Arjuna. That's not used either. So, here's a kind of convoluted answer to your question. But I've always I've always felt that the nice thing about debating was that there was a search for truth going on. And that was not there, in the kind of debates we did in Delhi University.

### **Murtaza Jafferjee**

Okay, thank you. Then you talk about your life partner, and I quote from the book, there were many reasons why I stayed longer in Washington DC, than the three years or so I had originally intended. The most important was Isha, who I first met in 1970. She arrived in Washington DC from MIT for a summer assignment with the IMF. She was pursuing, pursuing her PhD in economics and I just completed her coursework. her classmate, Brendan Horton, an English student, who knew me from Oxford, telephoned me to say, there was a really nice Indian girl, spending the summer at the fund as it was popularly known, and that I should get in touch with her. I promptly followed up. I took her out a few times and was soon convinced that Isha and I had found a life partner. She also was a distinguished economist. How was it to have such a person as a life partner?

### **Montek Singh Ahluwalia**

Wonderful because of the person, you know, we didn't do too much discussion on economics. The fact that she was an economist, and that she understood the work I was doing. She was also a researcher. So she would occasionally ask me for my views, but she was very suspicious of people working in government, including me. She knew that deep down we're always trying to put across the government position because that's what we have paid income. Well, I think that we we use each other as a foil but most of our interactions were person to person. Not really, as economists, we never wrote a joint paper together. We never did any Joint Economic Research together, although she was also working on the reforms needed in economic policy, and in the 1980s. And I think, in that process, I did interact with her quite a bit. And maybe put across my point of view, I think she was herself inclined in the same direction. So it was a good exchange. But that was not the dominant factor in our partnership, actually, she stayed clear of bigger government wanted to work in the research world, because she felt that it was very important for the concerned people and stakeholders to be better informed about economic policy. And governments why they tried to do that they always have an angle. And she wanted that there should be an independent research body looking at this, and I fully agreed with that. I should mention, by the way, that she was a great believer in the need for interaction amongst developing countries, on economic policy, and particularly greater integration of research in South Asia. I mean, she was aware of the fact that all our research institutions, kind of look to America, Harvard, Oxford, or Cambridge, or what have you. And she was visiting Colombo, as it turned out on some World Bank sponsored conference on economic reforms. When Joe Stiglitz, the chief economist of the World Bank was there. And she said, to draw that look, very good research that you have sponsored. And you're paying various South Asian researchers to do research. But you're not if you really want to stimulate research in South Asia, you should find a body of South Asian research institutions, which can do research on their own problems, rather than have World Bank funded research. And I think they came

across, they came up with a very interesting idea that Joe Stiglitz accepted this, and they set out the, the South Asian conference for international visa, I forget the exact name that was used, I think it was, anyway, I get back to that if I can find the exact name. But the idea was that they were member institutions in Southeast Asia, South Asia, basically, India, Sri Lanka, Bangladesh, Pakistan, and Nepal. And what would happen is that they would do once a year a conference where they would bring in people from these institutions, working on problems in their own countries, and then sort of share the stuff and have it published as a conference volume. And they got tn Srinivasan as a sort of pandemic mentor of this group. Then they went one step further, and they said, look, we should fund research outfits, research projects, in which let's say an Indian researcher and a Bangladeshi researcher collaborate, to work on the same subject. In other words, whether it's trade policy reforms, or water reform or electricity in India and Bangladesh, or India and Sri Lanka. And that also worked quite well. So I think she was very concerned that you needed a research community, beyond the government, and indeed, ideally in all of South Asia, because frankly, we are very similar, in a way cultural as well as historical types of economic problems. And I feel that while she did succeed in setting up this institution, it later on, got taken up by

### **Montek Singh Ahluwalia**

multinational governmental sort of participation, and therefore the total independence of the research institutions was somewhat compromised, but I think we need a lot more of that. Sarah, do you have any interaction with this forum? No, I

### **Dr. Sarath Rajapatirana**

have not had because I have not lived here a long time. But I know that montek was a member I think you were one thing I met you at Come on something for that thing and with madam Kumaratunga

### **Montek Singh Ahluwalia**

ideas, but not you know, I was invited in my personal capacity and that was Great, but I think Odisha was talking about his institutional linkage between research institutions with a conference once a year. I mean, for example, you know, I know that in water, my wife was also on the board of me, which is based in Sri Lanka, a lot of the work being done in that context is very relevant to, to the Indian context. And equally, the work being done in the Indian context in Tamil Nadu actually would be quite relevant

### **Montek Singh Ahluwalia**

for this sort of the same ecology and the same kind of geographical situation, etc, etc, I just think we need a lot more of that. You're not aware of it. I mean, most people, most people, if you lost them, they are aware of what is happening, because of World Bank publications. But issues point. And my point also, is that, you know, while the World Bank plays a very important role in collecting information, and homogenising the result, so that you can read it in a simple way, it doesn't have the same impact when I was deputy chairman of the Planning Commission. One of the things that was everybody was concerned about is whether we should move away from the subsidised distribution of our distribution of subsidised for grain, to a conditional cash transfer. That's been a big subject in Latin America, the Mexicans judge very well, the Brazilians have done very well. But you know, in India, there's such a vested interest developed behind the subsidised distribution foodgrade, including amongst NGOs, who



actually like the government doing this kind of thing, because they can then monitor what's happening, you know, is the public distribution system shop functioning? Well, they're not at all happy with converting this into a cash transfer. And yet, you know, given the changes that have occurred in information technology, and our unique identity card and the universal banking and what have you, it has now become very easy to take everybody who has a pin a public distribution system card, and simply give them a give them a cash transfer. Now, you know, I argued this with many politicians, and I said, look, the assumption that they need to be given wheat? Well, the first thing is that you're only giving them half of the wheat they need, you're giving it at a huge subsidy, fair enough. But you only give them half. So, they have to go to the market anyway. So, you have to believe that there is a market where if you have money, you can buy the wheat, so why not give them the subsidy in cash. And you may well find that they may not want to buy more wheat. I mean, if given the same subsidy in cash, people may prefer to buy coarse grains, which are cheaper, and also healthier, by the way, and use the extra to buy vegetables which they need. But huge resistance. Now what I did was I asked the World Bank instead of they'd written hundreds of papers on subject, but asked the World Bank to finance the guy who made the change in Mexico to come and give us a lecture. And this person came, and we arranged a meeting. And you know, it was very interesting. The number of people turned up to hear this guy was vastly greater than would have turned up to hear the look of the World Bank expert on the subject telling us about what's going on in Mexico and what's going on in Brazil. Because, you know, people wanted to ask an actual practitioner, how did you get people to change their mind? They want to know what his interaction was, with his own public with his newspapers with his own minister. Did some minister agree and others not? And how did he handle it and so forth? So, I think that there is no, the World Bank can play a very useful role, I think in making people familiar with the broad themes of research, but it's absolutely no substitute for direct contact. Now, what is happening is globally, of course, a pandemic has changed all that. But what is happening globally, innumerable conferences, they're all set in Europe or in nice places, good climates, and so forth. And they invite people from different countries. But you know, when an Indian goes to whatever it is Cambridge, in Massachusetts, you attend the conference, and then also a Sri Lankan there. Both of them have the instinct that they must go and talk to the famous professors from Cambridge or Stanford. They don't have the instinct of talking to each other and finding out what the hell's going on in your head. Whereas if we were to do this kind of interaction amongst ourselves, we would learn much, much more from each other. And I just think that he shows effort did did have some success, it hasn't actually gained adequate momentum. The pandemic, of course, has made it virtually impossible. But I mean, that will change. And I just hope that we do have more interaction, I don't believe by the way that a research institution can be really respected. If it doesn't seem to be influential beyond its own country. I mean, just imagine yourself that if there is a research institution in India, which could say that, look, we've been doing this work. And you know, the government of Sri Lanka has responded very positively. And here's what they've done. I mean, that would raise their stature in India hugely, a much more than if they were to say, you know, I wrote this paper, and it's been published in the Journal of Economics. I mean, that's okay, if you wanted, you want a job in the university, but it's not really going to make much difference in the policy world.

### **Murtaza Jafferjee**

Definitely. One, you touched on a very important subject on cash transfers, which is something that I wanted to explore further. So, microeconomics theory, 101, teaches you that consumers have preferences, and they have a budget constraint, and depending on that they decide what they want to consume. Now, the economics is very clear that it is better to do cash transfers, instead of doing subsidies through prices, because it messes up the allocative efficiency in the economy. What is the current status on subsidies in India? Has it been completely transformed into a cash transfer system? Or you talk about the fair price shops and a smart card that is being used? Yeah,

### **Montek Singh Ahluwalia**

I think our hope was that, when I say our hope, my hope was that we would join the global and switch from direct subsidies to cash rounds, how there are two or three areas where this would be relevant. Area number one, is actually food subsidy, where at present, you can buy hugely subsidised wheat and rice. And what you get is half of what you would normally at your income level consume, but you get it at 10% of what might be the market price or even lower, okay, I have long held the view that we should just convert this into a cash subsidy, and just give it to the person through a bank, electronic transfer, and rely on the person concerned to buy whatever they want. I mean, if they simply want to replicate the present situation, they would be able to do so. On the other hand, if they I mean, take a small farmer who actually can grow his own wheat, or grow his own rice small farm, he may actually prefer rather than in order to benefit from free weed, he has to reduce the amount of wheat or rice he grows, because he knows that he can get very cheap white rice through the PDS public distribution system. On the other hand, if you got a cash transfer, and if we found growing rice of the easiest for self-consumption, he would use all his efforts at growing rice, and use the money to buy milk and vegetables and trees and so forth. Now, NGOs are totally opposed to this, because they think that the money will be taken by the men and used on British Victorian prejudice, that it will give money to the poor, they just drink themselves silly, ample evidence to suggest that while men do want to drink, they won't actually take away food subsidy transfers, to spend it on drink. And in any case, wherever there's a senior woman in the household, the transfer can be directly to her account doesn't have to be to the man at all. But unfortunately, it's one of those things that you know, there's always going to be some little problem with a change, which you don't know about. And the opposition is usually raised that this is a plot to switch you to cash transfers, and then they'll freeze the transfer or the prices will rise. You know, lack of trust whether the government is really going to do what it says is going to do. And we've not succeeded what we have succeeded. You know, things like pensions, which was In any case, cash transfers. But you have to go and get a check from a person and so on. And you know, that can always be made an occasion for bribing. Otherwise, they don't give you the check, those things are not transferred directly. Similarly, scholarships are transferred directly. They're not, they're not mediated through some office where you collect track. But food subsidy, fertiliser subsidy, and also electricity subsidy that is not yet transferred directly to the individual. And I personally think we're, as you said, micro economics 101, would suggest that we should do it. And there have been some very interesting studies by an NGO called Siva, which is actually a very progressive sort of NGO, in India, based in Gujarat, and they have, at their own expense, they've collected money for this purpose. They've gone to small villages, and they've rolled up people to volunteer, that look, you surrender your ration card to us. So you won't be able to get the subsidy through the PDS and we give you an equivalent cash



### **Montek Singh Ahluwalia**

And it's interesting that before the before the experiment, women were very opposed to but after the experiment, the attitude changed, and they all felt Yeah, this is better than having to go to the public distribution system. You know, the biggest reason why it's better is that at present, when you go to the public distribution system, you have to go to a designated shop. So basically, that guy is a monopoly supplier of subsidised for you. And if he's shutting the shop at five o'clock, and you just came at five past five, I mean, you just say go away and come back tomorrow. But apart from the fact that he'll cheat and give you adulterated wheat, and this, that, and the other. If you have money in your pocket, the guy will be running after using come I've got a nice new wheat stock, etc, and so on. So, I mean, it's an it's a no brainer, in my view, that we should do it. And it's it's one of the great puzzles, why we haven't done it.

### **Dr. Sarath Rajapatirana**

We haven't that. Can I yeah, see montek we tried to imitate what you were doing with Nithya Yoga, we sent one of our brighter parliamentarians to go look at it. And the whole idea was to go to a caste system having that system in place. But as you said, our people all objected to that, which is reasons. Yeah. We're the same people.

### **Murtaza Jafferjee**

Dr. Alan Ahluwalia, while you buy in the World Bank, you were one of the major contributors to a document which became the orthodoxy of the bank called redistribution with growth. That's what was a sense of the message from that document?

### **Montek Singh Ahluwalia**

Well, it's good, always good to look back 30 years, don't worry. We just wrote just 50 years ago. Yeah, I think the central message of that document was that the poor are very poor. And no development strategy makes sense. If you aren't going to be able to say to people that look, your condition or living is going to improve, it's not enough to say, we're going to have 6% growth. But I don't know whether your income is going to go or not, maybe the growth will be somewhere else. That's not good enough. So, you need that. But be that higher growth is essential, when you have a very large number of poor, because redistribution alone cannot achieve the object. I mean, if you're rich enough that you only have 10% of the population is poor. You don't have to restructure your overall economic strategy in order to look after the 10% you just provide a special support mechanism for them, either some income support and health support, education support, etc, etc. When you have 40% of the population and more poor, there's no way that you can solve that problem through the redistribution. So, you have to have growth, but the growth should be of a kind that filters down and doesn't sort of stick to the top. You know, I used to work for a while for Prime Minister VP Singh. In India, this was in 1990. And he was actually a poet in his own right. And he once said to me, he leaves fond of this phrase, he says one cake, we need the kind of growth that falls like rain on the market and trickles down then so not kind of growth that falls like snow and stays on the beach. I mean, I think the term trickle down became a negative term. Whereas in my view, it should be actually a positive term because trickle down just means gentle rain trickling down. The question is, does it trickle down? If your real picture is that there's huge rainfall and only a trickle coming down, that's bad. But otherwise, the the idea that income flows, because of the

gravitational pull is a good idea. And you don't have to go and raise income on everybody by intervening and micro points. I mean, this was a critical thing. And in redistribution and growth, we travel, we worried over the question of what do you do about small farms that we came to the conclusion that look, small farmers, you cannot rely only on trickle down, you have to increase the productivity of the land they work on. So, you need a direct attack on rural poverty. But I don't think the same thing is true in urban areas. I mean, if a lot of people are engaged in low productivity, urban jobs, you don't want a similar effort to improve the productivity of people engaged in jobs, which actually shouldn't exist at all. And what you should be doing is stimulating growth, which generates employment, so they get out of these jobs and move into higher grade jobs. So I think redistribution with growth really meant to say that Look, don't think that redistribution is going to solve the problem, worry about growth, but make sure that the growth is of the kind that benefits some of the critical sectors where the poor also live, mainly in rural areas that was, and plus, I think it also have the sense that the the way to benefit from growth is to have better education. If you don't have good education, you're not going to benefit from. And I think these are all ideas that got picked up at different times

### **Montek Singh Ahluwalia**

in the World Bank, and then push. Now my new, I think, in redistribution with growth policies, January, who was the vice president, senior vice president who masterminded this actually acknowledged that these ideas were borrowed from a paper produced in the Indian Planning Commission in 1962, saying perspectives for living up to 1960, which actually said that love the name, the name of the game, and climbing must be to bring everybody above some poverty line. Now, what I think that document and they also have a concept of 40% are poor, below the poverty line, and cetera. And Hollis always said that look that that's the first document in a developing country that explicitly builds in poverty into the plan. The problem with that document was that it totally failed to acknowledge that the solution did and by the way, that document said is not good enough to aim at 5% growth and not achieve it. India should be aiming at 7%. But the solution how to achieve the 7% growth, it never said we need to rethink economic policy, it remain public sector driven raising public sector investment, etc, etc, etc. redistribution good try to move away from that. preoccupation. And I mean, that is really what later on came to be done in the economic reforms. Now, I should mention, by the way, the origin of this was McNamara McNamara is the one who brought the whole small farmer and driving home the extent of poverty in the public debate in the West. Now, his motivation dominantly was that, you know, this was done in the early 70s. Also, his motivation dominantly was that in the West, there was a kind of disillusionment with aid that was taking place. And he felt that the way to get people in the west to focus on the importance of assisting developing countries is to change the focus from just helping developing countries, which many of these Western observers would say are dominated by leaders who are appropriating all the gains, etc, etc. And there's corruption and so on. And to say, look, the World Bank will make sure that this money gets to the bottom. So his, his motivation will not just to help the poor It will also a perception that this is the only way he could rationalise the continuation of world back, because at that time, there were many people saying that foreign aid is useless and doesn't have any whatsoever.

### **Murtaza Jafferjee**

So, Dr. Ahluwalia, I would like to get into the India reform story, but can you let us know what the prevailing ideology was at the time? And you mentioned in the book about the Fabian socialist ideology that had influenced the Indian National Congress? What exactly did the Fabian stand for? And you came back to India in 1978. And there was this lacklustre growth for many years the Hindu rate of growth, etc. So, what was the prevailing ideology? What influenced it?

### **Montek Singh Ahluwalia**

Yeah, you know, I mean, critics used to attribute the government of India's excessive emphasis or control to a Fabian ideology. So, in my view, that's a little unfair to the famous Fabian Philippines, we're actually Social Democrats, I don't think any Fabian ever said that you should have the ridiculous types of controls that we had in India. I mean, the continuation of that those controls is partly due to the fact that during the war, the British had introduced all kinds of controls on the grounds that blocked the war effort is most important. So it doesn't matter what else happens, let's make sure the war effort is suitably supported. And they did the same thing in their own country. And the US did it also, that everything was directed to the war effort, and the government intervened. Now, of course, these countries after the war, dismantled all this and went back to the market. So unfortunately, we didn't dismantle it, partly because we tended to view development, sort of as a war on poverty. So the development effort was equated, in a way with the war effort. A lot of the controls were actually not due to Fabians, but due to the influence of Russian Russian thinking, you know, the so called mahalanobis model, which guided a lot of Indian government policy, to give a lot of emphasis to capital goods production, is simply a, another variant of the Fellman salmaan model. Soviet policy at the time started, that everything needs to go into capital goods, in a way you extract surplus or poor peasant, and make sure that the workers are adequately fed, and you produce an industrial machine. Now, you know, the Russians were incredibly successful in in managing a war effort. And in fact, the defeat of Germany is not due to, contrary to what our war movies tell us is not due to the Americans or the British, it's really due to the fact that Hitler made the absurd mistake of attacking the Soviet and the Soviets drove them back. And they drove them back having mobilised a huge amount of industrial strength to produce more planes, and even better planes, and certainly more tanks. And some of the tanks were also better. Now, you know, this became totally unworkable by the time peace broke up, because then, you know, you have to cater to a multiplicity of monks. But I think for the for the Indian policymakers, the Soviet Union was a phenomenal example of a country that converted itself from a feudal type of country when nobody took Russia seriously in the West, to one of the big three sitting with Churchill and Roosevelt. Yeah, siolta, your people said, Well, look, that's really the way to industrialise? Well, the short answer is it was. And I mean, one real obvious, the Russians realise that the East Europeans realise that. So basically, Indian policy, in my view was excessively influenced by Soviet communist type of intervention without state control of the means of production. So the typical Indian sort of effort that we're not going to nationalise industries, but we're going to watch these private sector guys carefully and controlling. I mean, that's the worst of all worlds. And not surprisingly, we didn't do very well in the growth stakes. And that's what caused the train beginning in the 1980s.

### **Murtaza Jafferjee**

So for the benefit of some of our listeners, can you give us some kind of an illustration of what the licence Raj looked like?

### **Montek Singh Ahluwalia**

Well, it's an absolute horror. And so let me give you that's a good you know, I in many of the things I'm writing right now is the 30th anniversary of the 1991 reforms. So I've been speaking a lot and writing a lot and one of the things I mentioned Truth is that it was the American philosopher, George Santayana who said that those who forget history are doomed to repeat. Now, you know, considering that 1991 was 30 years ago, and nobody who was under the age of 15 would remember what the economic situation and economic policy was like. I think it would be fair to say that today, almost 60%, if not more, of the population in this country has no idea what the ridiculous policies work. So let me just list one, they will be based on the assumption that the public sector must occupy the commanding heights of the economy. This is again, typical Soviet influenced notion in some sectors are very important for development, they must be run by the public sector. Even if there are private sector guys able to produce in this very important sector, they won't be allowed to do. I mean, the ones that existed before were allowed to continue, but they were not really allowed to expand, and new new fellows weren't allowed to come in. And one of the sector's Reserve was steel, you know, I mean, the Tata has produced steel in 1920s. And steel, stuff exported from India was used to build the Sydney Harbour Bridge. But for some reason, independent India decided that we can't allow the Tata to expand, I mean, ridiculous decision, right. So you will reserve lots of areas for the public sector. that's point number one, where the private sector is allowed to expand, you only allow expansion subject to an investment licence. So industrial licencing was brought. And industrial licencing was much tighter if you're a large company. So if you are a large company in India, there's not a hope of you're becoming overly large. Because people would say, No, no, you're becoming you're becoming a threat, a monopolistic threat. Again, a ridiculous idea, because you combine that with openness to competition, you're not a threat. I mean, just keep imports of steel free with models duty, and then let whoever it is run the steel industry compete with import, but we didn't do that. We prefer to keep domestic new fresh competition out and put lots of controls on imports. And those controls on imports were bought in the form of high duty, and also in the form of import customs. For example, consumer goods imports are completely bad. In my view, it's one of the most ridiculous decisions we made, which actually prevented integration with our neighbours in South Asia, we now have broad the Indian market. I mean, we're not we're still a poor country. And all the many Indians will tell you we're a large market, very larger market than our neighbours. But we're not a large market globally. However, the Indian market for consumer goods by which I mean garments and other things, were open to south south asian neighbours, they would have benefited enormously, and the integration with India would have been much greater than there has been. But we didn't allow any imports of consumer goods at all. Other imports, were all subject to licences and a producer had to justify whether he needed to get an import or not. I have a nice story in the book about how Maruti which is one of our leading automotive producers, a Japanese company, originally joint venture now totally Japanese, oh, they wanted to start producing a small car 800 cc car. And they wanted to import machines, machine tools, in order to shape the engines forge the engines of the new car. And of course, the local guy said no, we can't give you an import licence for that. Because

the Hindustan machine tools can do the same thing for you. And the proof that they said was inside machine tools claims that they are producing the sort of whatever the engine block is for a scooter for the judge long term, and they can do the same thing for a car a little bit. And you know, the chap who ran Maruti tried very hard to explain to them that look.

### **Montek Singh Ahluwalia**

It's much easier to produce an engine block for a two-wheeler than it is a four-wheeler, much more complex piece of engineering. And because Henson machine tools as a public sector company that strong sort of lobbying capacity within the licencing system. Because maratti was at that time also a public sector. So they also have the argument went all the way up to the industry minister. And the managing director of Maruti told me that, you know, he had to actually bring into the minister's room an engine block for the Maruti and an engine block for the scooter and put them next to each other on his table. Or on a special table they erected so that the minister could see that just because you could produce this thing doesn't mean you can produce this other way. And finally, the cause Maruti was public sector and because Prime Minister Indira Gandhi was strongly behind the Maruti effort, they got the licence to import machine tools from Japan, if they had been a public private sector company, they would not. And what the managers told me was, look, the quality of the engine blocks needed to achieve high quality, performance is crucial. And if they had not been able to get these machine tools from Japan, they would not have produced a good product. So I think the bureaucrats presiding over decisions to input bound to compromise the quality of production, because the decisions were taken by people who are largely ignorant. I mean, even if they were engineers, they just sat in the desks in the ministry, they're not actually on any practice working out in a factory. So I think it was clearly an absurd system, foreign direct investment will not be allowed, completely banned in consumer goods, and not allowed elsewhere, except up to a maximum of 40% equity. Now, you know, foreigners interested in India are interested in the consumer goods market, the Indian market for non-consumer goods is actually quite small. So to say you're not allowed in consumer goods, reduces the interest of foreign investors completely. And it prevents the development of an industry which could have become export competitive and you cause the only reason Maruti was brought in as a Japanese investment, is because for some reason, cars were not classed as consumer goods, they were classed as passenger vehicles. And that became a capital, otherwise, they wouldn't have been allowed in Nepal. So frankly, of course, I mean, foreign exchange if you went abroad, it was strictly controlled, which also meant that even for a public sector guy happened to be in New York, if he met a colleague who said, Listen, this is a very interesting idea. Why don't you come to my office in New York, before going back to India, let's discuss this further, he wouldn't have been able to change his shedule without getting permission from the Reserve Bank. Because the places you visited had to be identified and upon. I mean, frankly, it was an absurd system. And I'm really glad that we managed to get rid of it. I think we took too long what we achieved in 30 years we should have done in 15. I mean, I'm not a believer in Big Bang reformed, who knows how to do everything in two years or three years or so. But definitely what took 30 years in India should have been done. And she



### **Murtaza Jafferjee**

you also say the story about Maruti and the Japanese expatriates, that since you banned consumer goods, they couldn't buy their foodstuffs. So they had to be periodically given leave to go to Bangkok to buy them and come back.

### **Montek Singh Ahluwalia**

Absolutely. I mean, frankly, if you went to visited India before the 1991 reforms, I mean, the queues in customs were huge Indian going abroad will bring somebody consumer goods back, and you know, television set or a lover notice that and the other. And I think, I mean, it was, it was another world. And today, I mean, Indians today, happily buy through Amazon, whatever they want, they pay a duty on it because Amazon cannot import it without a duty. But the thing is there and therefore Indian producers constantly aware of the product quality that they have to compete, and that was missing in the early days. We also made the ridiculous mistake of reserving a very large number of items for production in the small-scale sector, in the belief that that would create more employment, and in the process, resolve the number of items at a high export potential including garments, electronic stock, toys, etc. These are things that should have been produced just like China did. Get into it. And if you succeed, expand rapidly, industrial licencing gentle lava The other thing In India was labour laws, nobody wanted to expand their labour force just because a market had been created and because handling labour had become very difficult, because you couldn't retrench labour the strength of the unions etc etc. So people prefer to go into capital intensive industries rather than labour intensive industries.

### **Murtaza Jafferjee**

So, before we get into the crisis in 1991, you also worked with Rajiv Gandhi, and your quote from the book. There was, however, one important difference between the two. vp Singh was much more naturally suspicious of businessman. I wondered whether this reflected the feudal landed elites traditional disdain of those engaged in trade and commerce, or that is simply shared Adam sweets much coated view that businessmen seldom meet together even for merriment, but the conversation ends in a conspiracy against the public or in some contrivance to raise prices. Rajiv Gandhi was more trusting he believed government needed to work with industry to take country forward in 1985, he broke the past practice and took a group of industrialists with him. When he went to Moscow on his first official visit, the initiative was widely hailed by business groups as heralding a new style in government industry interaction. It is it is a sad note that Rajiv Gandhi could not come back for a second term that he was assassinated by an entity suicide bomber. What was Rajiv Gandhi's vision for India?

### **Montek Singh Ahluwalia**

Well, you know, I worked in his office for five years. And I think he laid out his vision at the beginning very clearly. I mean, look, he was not a professional politician. He came in from the professional classes, he was actually a trained commercial pilot flying for Indian Airlines. And he was actually training to move from propeller driven aircraft to jet aircraft, he was very aware of the fact that you needed to upgrade technology, etc. And when he first stepped into his mother's shoes, after she was assassinated, and he made a speech, where he said, We must prepare India for the 21st century. He then went off and won a huge election in December of 1989. And sorry, in December of 1984, and in early 1985, took off in January 1 couple of days, took office as a new prime minister. And you know, a

month later speaking in Parliament, he said that, India cannot hope to be competitive, if we are working with systems that are 20 years out of date. So he clearly knew that the system needed to change. One of the things that he wanted to change was this attitude towards business. I mean, he firmly believes that government should work with business, and not view that with suspicion from a distance. And as a matter of fact, he initially was the first prime minister to take along with him a business delegations

when he went abroad. And you know, this was a nightmare for our Indian embassies. Because the business delegations were meant to be integrated into not the official docs, but the social functions. But the embassy didn't really know what was the protocol mean, how high were they to be racked. As a result, they would always list the business guys at the bottom, the official protocol bank, I mean, this had the ridiculous effect, that when the other side organised a big dinner, some of our leading industrialists, were seated so far down, compared to some of our middle level bureaucrats, whereas I would have thought that, let's say the industry minister of the country that we are visiting, would much rather talk to Ratan Tata or nine mu T, or something like that, rather than to some middle level bureaucrat who in any case isn't going to say anything more than what is declared government policy. So, you know, there were problems, the MCs didn't know how to handle it, but rather, you did want to bring business in, in a much more substantive way. And I think many times he told us that, you know, he got much more in interacting with businessman than he did interacting with the government bureaucracy because the bureaucracy was essentially projecting the future as a continuation of the past. As the businessmen were very aware that the world is changing and we need to be able to meet the need to require Went through those changes, and what is the policy that will enable them to do that? So I think he wanted to do this, but I don't know. But he wasn't able to. I mean, look, he had many. He ran into problems in the very first two years for scandal and managing politics. He didn't have that much experience in politics. And you know, to run a complex political system, you need a lot of knowledge of politics. I make the comparison with Deng Xiao Peng. I mean, he was a questioner, he made the biggest difference to economic development of any person in the world. But we have to remember that dung dung had been in the Communist Party for 30 years, he'd been thrown out and then brought back. And then when he came back, he worked hard over 10 years in order to change the thinking of the Communist Party from within, by weeding out people who didn't agree with them, putting others in place. And he did all this without once publicly

### **Montek Singh Ahluwalia**

denigrating mostly true, although he was actually the man who essentially dismantled the monster Tron Legacy. Now, you know, Rajiv Gandhi in two years had become had been had been greatly hampered by the Bofors scandal and all the other political things that needed to be done. And I'm no doubt that if he had got reelected in 1989, he would have had much more experience. And he said, in the year immediately after stepping down, one of our very distinguished journalists, two of them actually, v sanghvi. And Sarkar. Spoke spoke to him. And last, why were Why were you not able to make all the changes you wanted to make? And he said that well, lack of experience is one reason that I think that was a former former former prime minister to admit that was quite a major, major recognition, but I think it was important. And how did he come back in 1989? I think he would have he would have been able to be more effective. But as it turned out in 1991, in different circumstances, many of the changes that I

think he should have made, did get made. And that's what the 1991 reforms are all about. That Ahluwalia.

### **Murtaza Jafferjee**

I mean, you touched on the reforms in 1991. And that was the catalyst on that was a balance of payment crisis. And then you came up with the same document, which kind of outline the way forward how to reform the system. Can you give us some appreciation of how the balance of payment crisis came about? And what your aim document talked about?

### **Montek Singh Ahluwalia**

Well, yeah, I mean, that. I, I will preface my remarks by saying that, since you're talking about something I did, not necessarily the most unbiased observer. Having got that, let me just say what I happen to see, I think, during Rajiv Gandhi's time, we had a buildup of government expenditure and the fiscal deficit was getting larger. And this was reflected in the balance of payments are typically excess demands equal into the balance of payments. And, you know, this was brought to Rajiv Gandhi's notice. But this was a lecture he was coming. And it was very clear that look, we got to do something. But it was decided that look, let the elections of 1989 be over. And then we'll, we'll fix both the fiscal side and the balance of payments. One of the problems was that whereas the Reserve Bank was very clear, that the fiscal deficit is leading to a balance of payments deficit. I think intellectually, the finance ministry also realised it. But the finance ministry was easily persuaded that we can manage the fiscal deficit, high fiscal deficit and bring the balance of payments under control by imposing tighter import controls. I mean, this has been the bane of Indian thinking. And my view is that they felt they they were complacent on that front. Not that you can't do it, but you do it. If you do, and you put more that you inflict a lot more damage to the economy, because it's much better to devalue the currency than to start doing this kind of import protection and silence. This is the crux of the argument. And I think what happened was that by the time When the election happened, I mean, Rajiv Gandhi didn't win the election. I mean, he had a huge love of single party but being a decent person he didn't do. He didn't manipulate with other parties to get the majority. So he said, Look, people want to change so we're going to sit in opposition. And VP Singh came in that government was a mixed bag of different parties. We have many tensions within the system. He introduced reservations for the backward cause. Attention in August of 1990. The Kuwait war broke out when Saddam Hussein into Kuwait, and obviously prices shot now India was vulnerable, fiscally weak at that point and experiencing a widening balance of payments deficit. With the shooting up oil prices, the bounce payments really looked quite unmanageable. And with domestic instability, and VP Singh government didn't really look as if it will go to surprise or survive. You had a capital outflow. A lot of the we've been relying on NRI is bringing in money. The smart guys, so when this what things were getting into difficulty to start taking it out, and banks stop giving new loans, so their balance of payments began to be crumbled? You know, the correct if VP Singh had a huge majority, or a solid majority, he wouldn't realise that look. I better take corrective steps. But he was he was in a weak position. And he just resigned in November of 1980. In 1989, he resigned, sorry, in the middle of 1990, he resigned. And his place was taken by Mr. Chandra shaker, who had a small group of supporters and was supported by the Congress Party from the outside, again, not a strong government as certainly not an environment in which you can take strong decisions. But during the Congress Party, people felt that look, if this government, is it going to take

strong decision, we're going to blame for it, although we're not in government. So what six months were wasted and the chance to shake a government fell in March also of 19 1999 sorry, 1991. And by then, capital outflows are taking place foreign exchange reserves run down.

### **Montek Singh Ahluwalia**

Rajiv Gandhi tragically got assassinated. So he didn't he wasn't there when the Congress was in a position to come back. The Congress did come back with Mr. Narsimha Rao, we brought in Dr. Manmohan Singh as finance minister. They faced an impossible situation when they faced a situation where foreign exchange reserves it really rundown. I think at that time, we had about one month's imports worth of our exchange reserves. Foreign confidence had collapsed, capital was flowing out. We needed to do something. Well, they went to the IMF. They did a whole slew of measures. But I think in addition to managing the crisis, they also introduced a whole lot of economic reforms. Now, you mentioned the document that I had done in 1990. And I was asked by a VP, I was working on it for Rajiv Gandhi, hoping that we would give it to him when he came back. And as it happened, I was visiting as part of VP Singh's team, I was visiting Malaysia. And VP Singh said, you know, Malaysia has done incredibly well. And I used to come here as Deputy Minister in 1973. And it's become unrecognisable in the next 17 years. And I said, Yeah, I used to visit also from the World Bank, and it has come on, right, because when he asked me, Why is it so? And I said, That's because they've done a lot of reformed rehab. So he asked me to write to dust and I said, Well, I'll do that. And so I dug up this paper that I was going to give to Rajiv Gandhi sent it to me, BC. And what that people said, really was that listen, we got to wake up and smell the coffee. I mean, the world is changing. During the 1980s. The East European countries, towards the end of that period given up communism, Berlin Wall collapse, reforms were taking place, they were going whole hog to the market economy. Most of the developing countries during the 1980s moved away from the public sector led development process to something which gave much more freedom to the private sector. China on the day, had begun to make tremendous changes and also opened up and integrated with the world economy and India should do the same. That was point number one. Point number two was that if you want to do that, you need to make a coordinated change in policy. See this discussion with VP VP Singh? Who asked me that look, do we have to go to the arm. And at that time, I said, Look, you don't necessarily have to go to the IMF, if you're willing to take even tougher action. And what the IMF would want, what the IMF will let you do is it will give you a little more money, so that you can stave off adjustment for two months, two years. Now, if you want to say I don't want to go to the IMF, then you don't have those two years. So you have to collapse all your adjustment upfront. And if you're willing to take tougher action, you can avoid going to the army. Now, because the danger in going to the IMF is that those poor fellows, they need rarely advise. All that needs to be done, they can satisfy with a little bit of reforms, because they've been badly hurt by what happened in East Asia, where they tried deep reforms, they didn't actually get it, right. So in effect, the reason you should have your own m document is, whatever you do, you should be able to say, we're not doing it because of the IMF. We're doing it because we ourselves felt or one of our research institutions. Well, this is the way to go.

### **Murtaza Jafferjee**

You know, Sri Lanka has had quite a lot of interaction with the Chinese, they are playing a significant development and investment role in Sri Lanka. In your book, also, you talk about some of your

interactions with the Chinese, starting with the meeting in Bangkok. Can you tell us a little bit more about that and your subsequent interactions with the Chinese?

### **Montek Singh Ahluwalia**

Well, yes, I can do that. You know, I was always interested in what the Chinese were doing. Because I was aware that, you know, they were adopting this policy of remaining a communist country. But unlike the East Europeans and the Soviet Union of yesteryear with just actually demolish communism, and then liberalise the economy. The Chinese said, Look, we're not we're not in any case, demolishing demolishing the communist system, we want to remain a one party state, but we're going to become economically efficient robotlab to the world, etc, etc. and dung shopping actually achieved tremendous transformation in China. And I think today, everybody recognises that the Chinese growth rate has been truly remarkable. In the 1980s, I didn't realise how much the Chinese were consulting people outside. And the World Bank organised a meeting in Bangkok, of five or six countries, including South Korea. And the Chinese were going to discuss whatever they're doing with these countries. And it's interesting because, you know, we all will, Prime Minister Rajiv Gandhi, deputed Manmohan Singh, who was then the deputy chairman of the Planning Commission, to attend the meeting. And I was meant to be the other Indian representative sort of assisting Dr. Singh. And the Chinese gave their account of what they wanted to do. And we commented, and you know, Dr. Singh made the comment that, aren't you worried that this is going to lead to a lot of inequality in China? And the Chinese representative? I remember, I think I've mentioned this in the book. He said, yes, it will lead to inequality. But we have too much equality in China. It was a really Frank acknowledgement that, you know, we're changing track. And yes, it will have some consequences. But we think we can manage that. And I mean, they were right, they were able to manage it. At that time. The more interesting point is that I was later told by the World Bank, people who organised it, that actually the Chinese were primarily interested in interacting with the Koreans. They didn't actually want to lower back to organise a bilateral discussion with the Koreans. But I wanted them to invite the Koreans to this meeting of five or six countries, so we will really add ons if you like. And the Chinese use that occasion to have more in depth talks with the Koreans on what they could learn from how Korea had managed the reforms in Korea was clearly a demonstrable success story in penetrating world markets, and I think I also mentioned In backstage, and this is taken from Fogle's book dung shopping. Did you know that the Chinese were very aware that they're making these changes now, unlike India, they don't have an open democratic system. So they had a great possibility that they could discuss things in closed doors, knowing that it wouldn't get out to the public and become a political issue. They organised the river cruise the elite sounding thing on some cruise vessel called the bathroom or something up the wrong seat, in which they had a lot of Western economists and Yano scorned I and Tobin and others. I forget the exact names, but quite a lot of them. And the whole idea was to discuss how should China liberalise and one of the big issues was there were many people in China, who thought that we should learn from the Hungarians, because they have gone to some kind of a cyst.

### **Montek Singh Ahluwalia**

Whether that could be the Americans persuaded them that this mixed system is neither here nor there. If you're going to liberalise just liberalise and use macro economics, to control the economy, and they were impressed by that. And they finally did that. The only difference between the Chinese and the



Americans, the Americans firmly believed that if you created a private sector, market oriented, macro economic management economy, it would automatically create pressures to become democratic. And therefore we don't have a lecture that means that we don't like one party, because the economic choices they're making will automatically push them in the direction of greater democracy. And that did not happen. I mean, throughout whether you look at down or you look at his successes, or you look at the president, Chinese leadership, they've all asserted the primacy of the Communist Party. And so the notion that if you liberalise and allow the Chinese economy to integrate with the world, they'll become more like us, which is what the West always assumed, has caused a lot of the rethinking in the West. The lack of comfort in dealing with the system, which they think is benefiting from openness and globalisation, and so on, but is remaining politically closed,

### **Dr. Sarath Rajapatirana**

I went to Beijing in 1988, to discuss the world Development Report that I headed. And the man who chaired it was first representative in the bank board from China. He said, Don't hold anything back, Sarah, tell them messages, we can take it. So I found the most attend to a audience six hours, with the translations and everything. Six hours of talk with them, and they are very, they want to know how to do it, what have others done? What is the report value to them? You know, it was a very interesting interchange with them.

### **Montek Singh Ahluwalia**

Absolutely. I think this has been the common assessment of many people. That, you know, the notion that China is a kind of an autocratic state that doesn't allow differences to serve this is not actually true. They do. They do a lot of internal thinking. And a lot of internal evaluation options just not done in the public. So the vast Chinese population is not aware of it. But within the Communist Party, in select groups, this is discussed. In a way This makes it possible for them to discuss all kinds of options without worrying whether the opposition will embarrass them in the political arena. You know, my wife used to was very fond of this ephors. She said that China can discuss these things freely. In India, we feel afraid to discuss them because it will have political repercussions. And so she said this has made China a closed society with an open mind, but India is an open society. And I think that's actually true. Very true. I think our leaders have to recognise that while they can, they can say this is what we're doing and then defended, they should also recognise that we have to look at all the options. And the fact that we are discussing these options is not an indication that something is wrong, or that somebody is putting too much influence on us, etc. The how to do that is an issue, I mean, the West, they have many institutional ways of doing it. And one of the institutional ways is the multiplicity of think tanks. I mean, there's always in the United States, the right wing think tanks, the left wing think tanks, we don't have that kind of institutional basis. So as a result, the World Bank and the IMF played two larger role, then, let's put it this way, at any given time. They are in a position to feel the best qualified people to focus on any country, there is India, Australia. But the point is, the country never says that as a result, we're getting the opinions of the best possible people for two reasons. One is that the World Bank and the IMF, they filter these opinions and give you those are the best people with whom they agree. Whereas if you have think tanks, you'll be able to come in some people say this, and some people say this, and this is what I'm saying. Whereas IMF, World Bank, give you a pre digested meal, or pre cooked meal, and say, Look back in enjoy yourself. And that's not I think, that's not the way discussions

should go. And we need to find ways of overcoming that. And one of the ways is having a much more active community of research institutions, which is familiar with what other countries are doing,

### **Murtaza Jafferjee**

Dr. Ahluwalia, you finished the book on a very optimistic tone for India that it does have an issue with the current slowdown, but you're optimistic of the future. India is perhaps 60 times larger in population than Sri Lanka and significantly large in terms of economic size. What is your advice to Sri Lanka of how we can better integrate into the Indian growth story?

### **Montek Singh Ahluwalia**

Clearly, as you say, there's a large market next to you. I think we have a free trade agreement with Sri Lanka. It was negotiated with lots and lots of difficulties on both sides. But to my mind, I would do the following. Number one, over smaller country, macro economic stability is a precondition, I mean, you have to live within the resources you've got. So if you're, if your tax ratios are too low, you got to raise if your investment rate is too low, you've got to raise the investment, you should encourage as much as possible domestic investment, but you shouldn't be open to foreign investment. And foreign investment in this case includes Indian investment. Obviously, you would be greatly helped by an open market next view. And one of the big differences, thanks to the economic reforms in India is that the consumer market in India is now open. So you can hope to tap the consumer market in India. Because we don't restrict consumer goods import, we do have duties with maybe a little too high. You're competing with other Indian producers, a small country cannot possibly follow. I don't know if I'm saying this, which is contrary to current policy in India, a small country cannot follow a closed economy model. In fact, the Chinese experience tells you that even a large country shouldn't follow a closed economy more.

### **Murtaza Jafferjee**

Thank you, Dr. Ahluwalia, for this engaging conversation. And I thoroughly enjoyed reading your book backstage. We hope that this will kind of motivate and incentivize some of our listeners to go ahead and read your book. I got a copy from Amazon, India. But I'm sure that we can incentivize some of the book shops in Sri Lanka to carry a few copies of your book. And of course, it's available on Kindle. And I'm sure a lot of our readers also read on Kindle. So it's just a click away. We wish you all the best for the future. And before we started, you were mentioning about a second version of the book where the epilogue will be further elaborated and you want to write another book. Looking forward. We look forward to reading it whenever it is ready and we will take up your offer that in whatever way Can you would like to engage in helping us in Sri Lanka?

### **Montek Singh Ahluwalia**

Well, thank you very much for many thanks for for inviting me. Thank you for putting a copy of the book so prominently in front of us. Although I know that nowadays people read in Kindle. It's always nice to see a book physically there. And yes, I will update the book and let you know as soon as that's done, and we're very happy to engage in zoom on other interactions, give you comments whenever you want. That'd be great. All right. Thank you. Thank



**Murtaza Jafferjee**

you once again, and please stay safe. Thank you. Thank you very much.

