

**Convocation Address at Banaras Hindu
University delivered on 23 December 2019,
by Dr. Vijay Kelkar, Chairman, NIPFP**

No. 295
29-January-2020
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**National Institute of Public Finance and Policy
New Delhi**

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Monday, 23 December 2019

The Honourable Chancellor, the Distinguished Vice-Chancellor, honoured faculty, proud parents, graduating students, and dear friends,

I want to thank the Vice-Chancellor for inviting me to speak at this great University and for the gracious hospitality extended to me and my wife. Friends, I come here from Pune which, like Banaras, is also considered as the City of Learning. Of course, I am very mindful that in richness the heritage of Banaras is far greater than that of Pune. In our country, for centuries, Banaras has been a **"Punyabhoomi"** for its great achievements in both the secular and the sacred. In the fields of literature, arts, music and the profound philosophical explorations of the cosmos, the achievements here have been phenomenal. There is no place anywhere in the world that can possibly rival Banaras. It is in this land the venerable Gautam Buddha delivered his first sermon and uttered his noble Truths for the upliftment of the humanity. It is here the great Saint Kabir rendered his beautiful poetry imbued with love and deep human values, and who can ever forget the stunning philosophical reflections such as *Manisha Panchakam* by the great *Adi Shankaracharya* during his sojourn in this City.

So to make a pilgrimage to Banaras is indeed a dream come true for someone like me from Pune. Indeed, I am delighted to be at this unique temple of learning built by the legendary Mahamana Pandit Madan Mohan Malaviyaji with patriotic fervor and full of dreams for our great country. On this day of important Celebrations, I extend my warm congratulations to the all graduating students for their academic achievements and to their proud parents who have sacrificed so much for this grand success of their wards.

Today I want to share with you my reflections on our country's journey towards what our first Prime Minister Pandit Jawaharlal Nehru so eloquently expressed in his mid-night speech on 15th August 1947 as our **"Tryst with Destiny."** To my mind, this "Tryst with Destiny" meant wiping out the curse of poverty from our land and make our nation a prosperous and liberal Republic and thus contribute handsomely our due share to the wellbeing of every nation and to the advancement of global peace.

These days, one hears a great deal about the possible danger of India getting into "Middle Income Trap." **What is this Middle Income Trap?** Scholars of economic development have categorized countries as Poor Countries, Middle Income Countries and High Income Countries. Internationally accepted norms for these three categories are that the countries with less than 1000 USD per capita income are Poor Countries, while the countries between 1000 and 10,000 USD per capita income are considered as Middle Income countries and after you cross 20,000 USD per capita income, countries are considered as a Member of the Elite Group of High Income Countries. Now, the experience of the last 200 years or so is that it is easier for a country to make transition from a poor to the middle income category just like with our present level of 3000 USD per capita income India has done such a transition. However, the transition from the middle income category to a high income country has been elusive to many many countries. The most prominent examples of the countries who seemed to be trapped in Middle Income Level

* BHU Convocation Address 2019 by Dr. Vijay Kelkar, Chairman, National Institute of Public Finance and Policy delivered at BHU, Banaras, on 23rd December, 2019.

are from Latin America, Caribbean, and East Europe. Closer home, in Asia, Japan and Korea are the only two countries that have become High Income countries and other countries from our continent are still in the Middle Income Category. What about our country? How we should ensure that we achieve the transition to a high income prosperous nation and thus redeem our freedom fighters generation's pledge.

In the early years of our independence at a time when we were fresh from the excitement of the freedom movement, where the Indian National Congress challenged the world's most powerful empire and won. Our countrymen were all full of hope about what was going to happen and today I would like to narrate important contours of our journey of the post-independence years.

Our Mahayajna (on महायज्ञ)

And in this narration, we will step away from the day to day news flow, and think about the big ideas that matter. We have to look beyond small moves to the evolving Idea of India. In India today, we are all impatiently running from one tweet to the next. We don't have the time to cogitate about where we have been. **But we must tell each other stories about the journey that we have been on, so that we may understand our journey better, and bring greater wisdom to the next fork on the road.** We all need to understand that since our independence our fellow citizens have been involved with one of the unique and perhaps the greatest development enterprise of the humankind. It is unique because our millions of citizens embarked on achieving multiple transitions simultaneously where other advanced nations did it sequentially and this was spread over a long period of a few centuries. I cannot tell you how privileged we are that in our life time we are getting an opportunity to be part of this truly "महायज्ञ."

The audacity of our founding fathers

It is hard to even comprehend the India of 100 years ago, where our leaders like Gandhiji, and Nehru got going on building the freedom movement. It was an India of incredible backwardness. To give you one illustration of how things were, here is an astonishing fact: literacy in India in 1920 was 8%. Today we're at about 75%. We know how bad it is, that 25% of India is illiterate. But can you even imagine an India where 92% is illiterate? That was the starting point, where our founding fathers had the nerve to challenge the British, and also ambitions to envisioning what a free India would look like. They wanted India to aspire to be a great and prosperous Democratic Republic. **The founding fathers of our republic drew their inspiration from our syncretic civilizational heritage as well as from the French Revolution, American Revolution and the Revolutionary Magna Carta and most importantly from the robust good sense of the people of India.**

For 30 years leading up to independence, some of the best minds in India, and from outside the country, thought hard about the nature of government in free India and the needed economic, political and social transformations, all to be achieved simultaneously and not sequentially as done by the West.

The economic transformation involved harnessing the energy of free people to innovate, to compete, and thus create firms inside which high productivity would be obtained. At the time there was a shortage of capital, so they had to also plan out the 'primitive accumulation', the early creation of the capital stock.

The political transformation involved going from power in the hands of a few colonial masters and ICS officers to a liberal democracy, with the dispersion of power across millions of people. Democracy is the institutionalized system of checks and balances, and

the rule of law. A liberal democracy involves voting and elections, of course, but it is much more than that. The essence of a liberal democracy is a system of dispersion of power, of pitting interest against interest, of the rule of law. As Fareed Zakaria says, the courts are probably more important to democracy than the elections. One cannot overemphasize the uniqueness of an independent India adopting a system of liberal democracy at its inception even when it was beset with the mass poverty and mass illiteracy. No other country had attempted such a miracle.

The social transformation involved the frontal attack on the mistreatment of our women, the dehumanizing caste system and the profound neglect of *adivasis*. All over India, we needed to set off revolutions of aspirations and individual agency, so that women, the *bahujan* as Dr. Ambedkar described, and *adivasis* would think for themselves and live life on their own terms, without being gripped by traditional or oppressive social mores.

So 100 years ago, our founding fathers started from 8% literacy, and dreamed up a work plan of fighting the mightiest empire in the world, and setting off the economic modernization, the political modernization and the social modernization of India, all at once. Nobody can accuse them of setting their sights too low! The best minds of India set about dreaming about how the Indian state would work, with these perfectly audacious goals.

And the optimism of that moment was overwhelming. Most people in the Congress, at the eve of independence, were certain that in about two generations, or about 50 years, India would catch up with the advanced countries of Europe. We were completely committed to the goal of achieving levels of freedom and liberal values, prosperity comparable to the then advanced countries within about two generations. Towards this, they adopted what I call the “First Development Paradigm.”

The First Development Paradigm

We have to also remember that this was a very difficult time in the world. From 1914 to 1950, there was great economic and political turbulence in the world. Here in India, we faced the violence of Partition, a war in 1948 and the distortions of a colonial economy engaged in a freedom struggle.

This first development paradigm was led by Nehru, Mahalanobis, Pitambar Pant, Prof. Sukhamoy Chakravarty and others. It involved a leadership role for the government in many aspects of society. Gandhiji thought this was a bad idea, and the future proved his hesitations regarding the role of the State rather prescient. But I am going ahead of the story.

This Nehruvian strategy gave the government the “commanding heights” of the economy, with a large public sector, and myriad state initiatives. It was the golden age of our belief in government as being good, of government as being benevolent, of government playing a leadership role in the evolution of the country. The early decade after independence worked rather well, compared with the previous decade. Many good things in India today have come from the wisdom of that period.

But the excessive control and domination by the government worked out poorly. Within less than two decades. This approach led to a license-permit-raid *raj*, and all the problems that go with this. Our relative neglect of agriculture and primary education aggravated these problems. And this set the stage for the dark days of economic and political instability. In succession, we had a series of disasters: the 1962 war with China, Nehru's death in 1964, two consecutive droughts and our living off food sent by the Americans as aid, and bank nationalization in 1969. Despite these dire conditions, Indira Gandhi still

won well in the elections of March 1971. Her power was exacerbated by winning the war in December 1971. This concentration of power rapidly gave an economic collapse, and then we had the collapse of personal freedom with the 1975 emergency. By this time, it was very clear, that the First Paradigm had gone dysfunctional and we need a different approach and this led to the adoption of what I call the “Second Paradigm.”

It is important to see the long lags in the development and the impact of ideas. The elements of the First Paradigm were built from 1920 to 1947. They worked well for about a decade, and then the cumulative impact of many decisions generated stagnation.

The Second Paradigm

The Second Paradigm was developed by thinkers from the mid 1960s onwards. Critical elements of this were built by the Ph.D. Thesis of Manmohan Singh and many other thinkers such as Arun Shourie, Abid Hussain, Jagdish Bhagwati and T. N. Srinivasan. These thinkers were acutely aware of India rapidly falling behind other dynamic economies of East Asia. These countries achieved great success in exploring export opportunities. For accelerating growth and removal of poverty, our reformers argued in favour of trade liberalization, scaling back the license-permit-raj, a flexible exchange rate, and a greater role for the private sector and linking actively with the global economy.

These ideas were put into practice, slowly, from 1977 onwards, with Morarji Desai as PM and changed course in Indian economic policy, gradually and carefully. Trend growth rose from 1979 onwards.

Through the 1980s, the baton was passed to Indira Gandhi and Rajiv Gandhi, who carried forward these ideas. This gave strong growth for some time, but we landed up with a Balance of Payment crisis in the late 1980s. That set the stage for the remarkable policy initiatives and reforms led by P. V. Narasimha Rao, Dr. Manmohan Singh and many others. With his sagacious policies, Prime Minister, Atal Bihari Vajpayee, gave further momentum from 1999 to 2004, kicking off perhaps the greatest growth run in India’s history.

From 1991-2011, we got growth of a kind that we have never seen before. The Second Paradigm thus involved thinking from the 1960s onwards, and delivered the growth episode of 1991-2011.

And, then, the Second Paradigm slipped. For some years leading up to 2011, a series of actions came about, which changed the confidence of the private sector. Three kinds of things went wrong.

First, extensive meddling in the economy by the government continued. The Government increased the use of protectionist measures dampening the growth impulses. We also remain beset with micro management of the economy.

Second, these powers of intruding into the economy by the government are wielded with low rule of law. This creates business model risk. A person can build a business, with great effort, but the very business model can be destroyed overnight because the government comes up with some new intervention into the economy, often without warning such as retrospective tax of 2012, which is a classic example of adversely affecting the business confidence.

Third, the investigative agencies have become a serious problem. There is now an alphabet soup of agencies who can come make life difficult for a private person. Big companies have the resources to hire lawyers and accountants and deal with these

threats. But for a medium sized company, an income tax raid that leads to Rs.5 to Rs.10 Crore in legal fees can lead to shutting the company down.

These three problems have come together, and changed the risk/reward tradeoff as seen by private persons. As a consequence, dynamism of private investment as well as exports declined. We now see this clearly in many data series. Trend growth went down since 2011.

It is important to see that trend growth did not decline in 2011 owing to actions taken in 2011. Many developments in policy and the economy came together, to a point where the private sector lost heart, and we see a decline in private investment from 2011 onwards.

Reversing of this decline in trend growth is one of the most important challenges facing India. High economic growth is essential for our society. We will fare best on meeting our challenges of the social and political modernization if these are done in the context of high economic growth and this requires a new Third Paradigm for Development.

As an example, a central feature of social modernization is women leaving the home, going to study and work in a new city. Similarly, the essential feature of social modernization is women leaving the home and going out to work every day. This labor force participation of women comes about the best when there is high GDP growth. When growth falters, the women are the first to exit the labor force. In most of North India, women's labor force participation is now comparable to the levels seen in Saudi Arabia. In my view, this is one of the greatest failures of ours in the post-independence period.

Long years ago, we made a tryst with destiny, and we must find our way out of these dark woods.

The Third Paradigm

What will this take? My colleague Ajay Shah and I have recently written a book on this question. This book is called *In Service of the Republic: The Art and Science of Economic Policy*. You must of course go and read the book! But I will preview some of our key ideas here. These ideas are drawn upon the work of many outstanding social scientists, economists and political theorists mainly from India who have been carefully studying developments in India as well as the recent advances in economic science. Our book is an exploration towards identifying the Third Paradigm. Third Paradigm involves a complete transformation of the formulation and implementation of economic policies and also fundamentally to strengthen our Liberal Republic. The foundation of liberal democracy, and prosperity, is individual freedom. We must strengthen the foundations of personal freedom and economic freedom. This requires a substantial reduction of government intervention in the economy.

The technical achievements of the field of public economics have created important knowledge about knowing when there is a need for government intervention. There is a nice and clear concept called "market failure" which guides us on when government intervention can help. In all other situations, no government intervention is required. We in India will do well to remove all these other government interventions.

Suppose market failure is indeed present, and we want government intervention. As an example, consider the air quality crisis in North India. Here, we run into the barrier of state capacity. We may ask a state agency to do something, but most of the time, the Indian state has low capabilities and the required work does not get done well. The central challenge in Indian politics and economics is to grapple with this problem of low state capacity.

The path to state capacity lies in reining in executive discretion. There is too much arbitrary power in the hands of officials. We need to design laws and government organizations with much greater care, so that coercive power is used sparingly and wisely. Government agencies should have to first prove themselves with high levels of capability and high levels of checks-and-balances, before being given the power to spend or the power to coerce. The income tax department should get British-style powers to raid a person only when we achieve British-style state capacity and rule of law, with strong protections of private persons.

In India today, we are veering towards “the administrative state”, which essentially means the rule by officials who possess arbitrary power, and who creep into legislative and judicial functions. We need to push back against this. Laws must be drafted through negotiation in the legislature, and not by the joint secretary. We need a much better functioning judiciary. And the arbitrary power of officials needs to be replaced by a rule of law system with elaborate checks and balances, which give protections to private persons.

These are the key ideas that need to go into the Third Paradigm that our thinkers need now to construct. These are the requirements of India at our present state of development, where a middle income economy has emerged, where weaknesses of the state have created fear in the minds of private persons who have retreated into low investment and consequently to deceleration of productivity growth and national income. Addressing these problems will put us on the path of growth over next few decades and thus will become an advanced and high income economy.

The essential features of the First and the Second Paradigms are principles, and a conceptual framework. Once the framework is understood, there is the practical process of looking at the short term situation and taking practical actions.

In similar fashion, the third wave or policy paradigm is about ideas and principles. The First Paradigm was developed through a process of debate from 1920 to 1947. The Second Paradigm was developed through a process of debate from 1964 to 1977 and then all the way to 1991. In similar fashion, we must embark on a long journey of ideas, to debate the elements of the Third Paradigm, and flesh it out from high ideas into a practical program of action. This is our task in India today.

This Third Paradigm in the Idea of India is not the task of any one discipline. It requires inter-disciplinary work between public economics, law, public administration, political economy and political science. All of us, across these multiple disciplines, have to break heads, and teach each other, in order to understand the problems that we face and solve them.

Dear Friends, I cannot emphasize strongly enough great importance of the concept of liberal India of our founding fathers. This pledge of our founding fathers has to be renewed by every generation because without that multi-cultural, multi-ethnic, multi-lingual land of ours will be unable to fulfill its truly great potential. On this, I hope BHU will not falter but once again become a beacon of hope and enlightenment and thus fulfill the dreams of Mahayana. In present turbulent times, BHU must remember and fulfill its *Dharma*.

I thank you for your attention

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