Divergent Visions of Economic and Financial Advisers

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The North block in Delhi was deserted when the incumbent Minister Pranab Da left to occupy the Presidential palace a few yards from there. Along with him, Kaushik Basu, Chief Economic Adviser has checked out to rejoin his academic position as Chairman of the Department of Economics and Director Centre for Analytic Economics, Cornell University, USA. Interestingly, the two positions are now occupied by two south Indians who are known to the North block and the PMO earlier. This may seem to be a normal event in the executive. But, there is lot of significance in terms of the aura they brought in to the financial sector of the economy and particularly in the dominant media that was making some noise in the previous dispensation.

Kaushik Basu , a very competent Economist, moved out under the alleged hullabaloo involving his views on the political economy of development of the government. It seems he has remained as an uncompromising academic. He is an expert to fit in to the description of a Chief Economic Adviser as he taught and published on different areas of Economics proper before coming to North block. He knew the social and political foundations of Indian economy better than many scholars particularly some of the bureaucrats who occupy important positions of policy making. Perhaps, by now Basu must have gained enough experience as to how to work in the government and with the executive who are mostly trained in the West.

The office of the Chief Economic Adviser is in the Department of Economic Affairs of the ministry of Finance. It is noted that CEA has to work independently with the support of his officers who are generally from Indian Economic Service. They have important functions to perform such as formulating policies relating to prices, production, public finance, trade, public distribution, preparation of Economic Survey etc. Yet, most of them seemed to have grumbled that they were given tepid treatment by the babus who managed to get in to the lucrative ministry instead of the IES personnel. There are half a dozen civil servants in the rank of secretary including the Governor, RBI in the ministry. Some of them got in to the division jockeying through the World Bank/IMF assignments. Few of them have Engineering or science background as graduates and not Economics. Therefore, professional economists were pleased when Basu became CEA and expected some positive changes as he has a comprehensive view of the economy unlike others.

Raghuram Rajan, an alma mater of IIT, Delhi is now occupying the seat of CEA. He came from the IMF and taught Finance at the Chicago Booth school of Business. The Chicago school of Economics is also known for its contributions to the neo-classical fundamentalism and the Washington consensus. Interestingly, most of the Indian economists who are in the USA and pursuing research studies in Finance are attached to Business schools rather than Economics proper. The two Finance experts who are now occupying the Ministry of Finance, apart from other officers, have the Management background. The present CEA is a known expert in the corridors of power in Delhi as he was flaunted as one of the few who predicted the 2008 economic downturn. Rajan was familiar with the Lucas' "paradox of capital" of 1990 and analyzed that net capital flow to high growth LDCs is smaller than to medium growth LDCs. He came out with a paper that discovered the obvious, high growth countries attract less foreign capital (as they have enough internal savings). It is expected that the new CEA would follow what he found in his studies, LDCs that have relied less on foreign direct investment (FDI) have grown faster than others. He has a challenge now when the government has almost decided to implement Wal-Mart entry as a part of FDI.

Economists have grudge against Management schools. It is alleged; the Management has appropriated Economics and converted it as Finance. Many of the talented guys including the IITians like Rajan, joined business schools and became popular due to their skills in computation and model building (of course some of them doomed USA). We may recall here that scholars who worked on neo-colonialism have substantiated the argument that advanced capitalist countries have drained the economies of the third world, though experts trained by Bank-Fund institutes have been consistently denying it with their empirical studies with questionable assumptions. The world has experienced the consequences of some of their recommendations. Now Rajan has an important task to convince the policy makers that we have enough reserves to fund our development projects and FDIs can be selective. There is no doubt that the presence of Chidambaram and Rajan in the North block sent enough signals to the business community not to get panicky.

The job of a CEA is not confined to finance alone as there are economic or financial advisers in several departments of the government to take care of that function. The CEA is supposed to work under the paradigm of the Constitution that aims at the welfare of the people and not necessarily business houses. Even Economists like Milton Friedman, the high priest of monetary economics, has remained as an economist. Experts generally quote one of his paragraphs to indicate his vision for the USA. “Imagine that the US Fderal Reserve sends out a helicopter for a cash rainfall upon US consumers. It is easy to picture US consumer showing no reluctance in picking up the bank notes and spending them, and to an important extent, on imported goods too. The Feds’ helicopter payloads thus find their way in to otherwise half-empty container returning to Asia, finally ending up as official reserves in the coffers of Asian central banks, which are forever content with holding barren pieces of paper in exchange for the products shipped to the United states.” India, like many LDCs, is fond of the barren paper supremacy (dollars), should learn from the above and formulate policies that “decouple” the sputtering US financial locomotive.

It is proved by data sets that the there is direct correlation between our reserves and the share market. The share market swelled seven times higher than the reserves in 1991 and now stands at staggering capitalization of Rs 6634387 crores when the reserves are only Rs 1361013 crores in 2010-11. It is strange to find how the financial scams and Gali frauds have taken place (under FEMA regime) despite regulators like SEBI, RBI? The financial advisers in the North block seem to have a formidable task now to convert the resources as durable assets that educe wellbeing for all.