The Global Economy – What Can India do to Seize The Lead?

Interactive Session with Dr. Kaushik Basu, Professor of Economics and C Marks Professor, Cornell University & Former Senior Vice President and Chief Economist, The World Bank, on the occasion of the 23rd Lalit Doshi Memorial Lecture held on 4th August 2017

Question:
Thank you Dr Kaushik Basu for an excellent lecture. I wonder if you would like to elaborate little bit on your suggestion of profit-sharing, how it could work, I am thinking of some kind of sovereign fund of profit-sharing within businesses or what about people who have no access to capital, how can they benefit from it?

Dr. Kaushik Basu:
Thank you. I have not worked out full details of the scheme I am suggesting. My idea was not just profit-sharing within the firm, but within the nation and across all firms. Every time some work shifts abroad or machines come in, your own workers get left out. Within a particular firm you may not be able to handle this, because the firm may close down and new firms get created. So the idea is not a sovereign fund but something like a claim on 10% of the profit that government collects as support to workers. This is now a challenge for America and other rich countries, but the problem will come to India eventually.

Consider the American problem. One firm discovers that it can send work to India and save a lot on cost. This causes job losses in the US. With the jobs, the wages are gone. Profits, however, do go up in the United States. If you have profit sharing, you will not get the kind of protectionism that is occurring in the United States today. This was unthinkable ten years ago, this kind of xenophobic protectionism that you are seeing in the United States. These ideas of profit-sharing, by the way, are not novel. There have been economists, like
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Prof. Martin Weitzman, at MIT, who had written about this a long time ago. But this is no longer an academic matter.

**Question:**

Thank you very much Dr. Basu for the energy and enthusiasm with which you talked about this subject. I have a question to put on the flip-side, what can the international community do to support India's rise, there are lots of countries out there want to bring capital and expertise and technology to India, sometimes there are barriers doing that. We want to work to support this, what is your message to the international community?

**Dr. Kaushik Basu:**

India is at a stage where old-fashioned foreign aid is ceasing to be important. Even at the World Bank, in my last months there, we were talking in terms of India graduating from subsidized aid the way China did a few years ago. But India's other kinds of engagements with the world are bound to increase. One of the most important is investment. You want to have foreign direct investment come into the country. But for that it is no good appealing to charity. India needs to be an attractive destination. One of the reasons why I used to like the “doing business” indicator, even before I went to the World Bank, is I was a user of this indicator. Without this kind of cross-country data it is impossible to persuade bureaucrats that Indian bureaucratic decision-making is too slow. The standard response is these things take time in all countries. The “doing business” indicator takes 189 countries, uses exactly the same criteria, collects data from all, and comes out with a ranking. This can play a useful role. Even within India there should be effort to collect our own data and create our own indices. If we do well on these professionally-created indices, that will be a signal to the international community to bring new technology and in general engage with India.

**Question:**

Mahatma Gandhi believed in Ruskin's philosophy 'Unto This Last', Khadi,
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Handloom & Village industries. What is your view on efforts to promote Village Industries and handloom sectors to take lead into the economy? President Trump's restrictions on H1B Visa, what impact it will have on Indian's returning back to India and the social impact?

Dr. Kaushik Basu:

On Khadi, I instinctively like Mahatma Gandhi's philosophy but on practical grounds disagree with him. Let me explain. I am a great admirer of Mahatma Gandhi, but I also take the view that admiration does not mean you agree with everything that person says. I would say that for Rabindranath Tagore, I would say that for Swami Vivekananda. In this particular case, my position is, when it comes to products and exports, you will have to use modern technology. Staying traditional for the sake of tradition, is not a good idea. I totally share Gandhi's ideals--When you think of what you should do, think of the poorest and the most miserable person you have known, and do what is good for that person. This is Gandhi, espousing Rawlsian philosophy, much before John Rawls (American moral and political philosopher). But when it comes to specific policy design, Gandhi should not be treated as final authority. When building a bridge, the engineer is more important than the moral philosopher. To make progress you have to take ideas from tradition but modernize them. I will give you one example of an Indian success story--weaving in Patan district in Gujarat. Years ago I spent some time with the Ahir weavers in Patan, who used to be very poor, doing their old fashioned traditional weaving. Success came when modern ideas of design was taken to them from Ahmedabad and modern marketing channels were opened up for them, much of this thanks to SEWA's activism.

Trump and H1B. If the H1B quota is curtailed and the movement of professionals to US goes down the biggest loser will be the United States. I have no doubt about this. One of the reasons why Japan, having done so well through the eighties, slowed down is because Japan was not making sufficient use of international expertise. It was trying to do things in a closed-door fashion. The US was, in contrast, very open, and openness allowed United
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States to out-compete others. Just imagine what will happen if United States stops this altogether. In no time, other countries will begin to pick up these professionals and out-competed the US on the product market. The initial effect of a H1B curtailment on India will also not be good. But India is well linked with the world today and alternative avenues will open up soon. But I do not think it will come to that, because other Americans will stop Trump before Trump stops the foreign professionals.

Question:

Education and Health, the two sectors you mentioned, as regards Agriculture sector you mentioned that we will have to incorporate technology into it, therefore if we promote “grow in India”, when they are talking of only “make in India”, if you make “grow in India” also it will definitely make a positive difference to the Nation.

Dr. Kaushik Basu:

Agriculture is extremely important. One mistake people at times make is they expect the agricultural sector as a share of GDP to grow. That, unfortunately, will not happen. That is not the way in which the countries grow. For India, at the time of Independence, about 40% of GDP was Agriculture, now it is down to about 14%. China's story is similar. The reason is, of course, that in people's consumption basket, as the country becomes richer, agricultural products become smaller. So one thing we have to face up with is that agriculture as a sector will become smaller. What needs to be understood is that it is a critical sector. It may be a smaller sector, but it is critical. It's failure can bring a country to a complete halt. I feel India needs to do much more for the sector than India is doing right now. So even if it becomes a smaller share, you need better fertilisers, you need better investments so that you are not susceptible to weather fluctuations. Yes, make in India should be joined with grow in India. Agriculture is a vital sector; it needs to be promoted much more vigorously than we have done so far.

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