

### 'Any serious govt must watch out for bubble formation'

Sarika Malhotra

Posted online: 2010-10-24 23:27:34+05:30

*Economics came to him almost inadvertently. But today, Dr Kaushik Basu, the C Marks professor of international studies and professor of economics at the department of economics, Cornell University, currently on leave to act as chief economic adviser to the finance ministry, Government of India, is simply loving his career and economics. "Research and writing is second nature to me," he says. And that is evident. From academic papers, newspaper columns, books on economic theory and policy documents, to a play, Kaushik Basu has dabbled in all with equal ease and perfection. His latest offering, *Collected Papers in Theoretical Economics, Volume IV*, by OUP offers insights on contemporary issues to readers of development economics, sociology, philosophy, and policymakers and development agencies alike. Enamoured by philosophers such as Bertrand Russell, David Hume, and Jean-Jacques Rousseau (though, he quickly adds, "Rousseau is too non-analytical for my taste; it is really his life that fascinates me"), Kaushik Basu admires the writings of Tagore and Nehru. He loves the theatre. "I read more plays than I watch. I enjoy philosophy, so read and even write a bit of philosophy. In economics my original interest is in abstract, theoretical matters, though I am currently totally engrossed in policy." In his full-length play, *Crossings at Benaras Junction*, Jenny travels from New York to Benaras to discover herself and to 'find her soul'. Biased Oriental perceptions? "Perhaps. The pursuit of the soul has a nice metaphysical ring to it, even though I am not quite sure what that means. This ambiguity comes out sharply in my play when Jenny bumps into Mr Trehan, who is also in search of a 'sole'—the sole that has fallen off his right shoe—and they converse at cross purposes. I like the confluence of cultures and that is what my play is about." In his new assignment, the chief economic adviser surely is missing writing, but he hopes to someday chronicle his years in the North Block and is maintaining a diary. As he braces up to bring out his second Economic Survey, Dr Basu affirms he hopes to go back to academics after his two-year stint is over. First love? "Academics is something that I have done with great pleasure. It is not easy to get away from it." In a one-on-one with the CEA at the North Block on an array of subjects, Sarika Malhotra tries to capture glimpses of Dr Basu's varied interests and writings. Excerpts:*

#### **In the introduction you write how your inter-disciplinary interests are a natural outcome of the fact that you took a long time before closing in on economics as the subject of choice. What were those years like?**

My father was pushing me to do physics and mathematics. Those were rebellious times and I wanted to do nothing. Economics was the compromise between physics and nothing.

I graduated in economics from St Stephen's, but not with an idea of pursuing economics. I was headed to be a lawyer. The plan that I had grown up with since I was a child was that I would go abroad to do law and take up my father's legal practice after graduation. That seemed fine because I did not enjoy economics during my three years at Delhi University. It was too much of cramming plans and policy. I went to LSE to top up this degree before switching to law. At LSE, I fell under the spell of the subject. Suddenly, economics seemed very exciting, with deep questions being asked, demanding a chess player's mental control to unlock some of the deepest conundrums. I wrote to my father about my decision to become a professor of economics instead of being a lawyer. He was taken aback, but agreed. Looking back, thank goodness I did that. It was just one of those strokes of luck that does not come everybody's way.

#### **Amartya Sen was one your professors at LSE, and you turned to him for advice before taking the current job as CEA. How has been the association with him?**

I did very well in the Masters at LSE. Amartya Sen, who was one of the celebrity professors at LSE, went out of his way to ask me if I would want to do a Ph.D. With the Guru himself suggesting this, I was quite bowled over. I used to be in awe of him; he was the economists' economist. But once you have done your Ph.D under someone and have a smooth run, it becomes a life-long connection. There were times when I would lose contact with him because he would be so busy—like around the time he got the Nobel. But now, I have to say with due respect that he is not just a mentor, but a friend as well. So when this offer for CEA came, I consulted him. And he was encouraging, which he typically is not for government jobs. He said that by the standard of governments, this one may be as good as it can get and so worth giving a shot.

#### **So was it as good as it can get?**

It's been very exciting; I have enjoyed my time here. That is not to deny that the government has its pluses and minuses. You are seeing a huge machine from within—from the belly of the beast. Not all sights are seemly. But the range of experience and the scope for doing things are breathtaking. Fortunately, I have been very lucky thus far in my interactions and in getting things done. The finance ministry has provided me a very supportive atmosphere.

**Economic Survey 2010-11 was your baby. And soon it will be time for the 2011-12 survey. Tell us about the experience?**

The last Economic Survey was a case of hitting the ground running. I joined the finance ministry on December 8, 2009, and we brought out the full-printed version of the Survey in February. I believe I am the first person to become chief economic adviser in India with no prior experience in government. So there was a lot of learning and some fumbling. I put a lot of effort into the entire Survey and especially into Chapter Two. For the '11-'12 Survey, I plan on more structural changes. I have a good set of advisers and also some excellent outside consultants and have begun talking with them about the next survey.

**Chapter Two of the Survey in particular generated considerable interest and The Economist magazine devoted a full page to it. How did it evolve?**

The central idea was if we can put some important micro-structural policies in place, there is no reason why India cannot achieve double-digit GDP growth and a rapid diminution of poverty. The finance ministry and the government as a whole is engaged mainly in the macroeconomic policy, but I personally believe that you have to work on the micro foundations to get the macroeconomic policies right. And that fits in very well with the inclusive growth agenda of this government. I believe the fundamental responsibility of the government is towards the bottom segment of the population. The better-off segment can look after itself. That does not mean you make the foolish mistake some governments make of ignoring or suppressing industry. You need industry and entrepreneurship to flourish for the bottom segment to do well.

Government has direct responsibility for providing basic nutrition, health care and education. But the delivery system for these needs to be designed properly. You can't afford to have a food security system that reaches the bottom 30 or 40% of the population if you keep missing the target. You will have to shower so much food and money at the target to hit the target that the fiscal system will go broke.

**You have pointed out that a system that gives equity to workers will need plenty of effort and a lot of creative thinking. Do you see India getting to the equitable stage?**

To reach the bottom segment, it's important to have passion. But that is not sufficient. Just as you cannot build a bridge by passion alone, you need to treat social projects like scientific and engineering ventures. Just throwing money at them will not solve the problem. You have to understand how the science of society works and what economics is all about. It is not precision science, true, but it is science all the same. It has to be understood how pressing one button can have an effect on something far away. We need the right mix of passion, intellect, skill and that most precious input—common sense.

**So what would the top priority be?**

The immediate priority is inflation. But this is a short-run problem. A lot has been done about it and it will peter out. In the long run, hard target is inclusive growth. We want India to flourish, to get to a 10% growth, and we want the bottom segment of the population to be pulled up—that, in fact, is the crux. My hunch is India is headed that way.

**And we are sure?**

You can never be sure. Certainty about the future is a prerogative of the foolish. I am a believer in the philosophy of Pyrrho and Sextus Empiricus, the gurus of scepticism, who, in turn, took some of their ideas from ancient Indian philosophers. I am glad to tell you I am never sure about the future. I merely think this is likely.

**FII flow**

The Indian position on the foreign exchange rate and capital flows has been to not interfere with the trend. If the long-run trend is that the rupee is going to appreciate, we will have to live with it. If the long-run trend is that the rupee is going to depreciate, we will have to live with it. But if there are fluctuations and waves coming our way, then the RBI tries to make market-based interventions to smoothen out the fluctuations. This seems like fine policy to me. I am happy with the large FII foreign exchange flows coming our way, but if this causes a huge fluctuation in the exchange rate, then we will have to worry about that and consider market interventions.

**And about an asset bubble knocking?**

There seems to be no bubble in sight right now, but we have learnt from the last financial crisis that any serious government must watch out for them, so that when a bubble forms, we can quickly puncture it. On the other hand, there is the risk of over-zealousness that leads to puncturing things that are not bubbles. In brief, bubble management is a difficult job and there are no easy rules of thumb to follow.