

Breaking the Mould

Reimagining India's Economic Future

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We write this book to persuade, not shut down critics.

Where is India going today? Is it surging, or is it flailing, having settled at a growth rate that's grossly insufficient to provide jobs for the millions joining the labour force?

“Whatever you can rightly say about India, the opposite is also true” Cambridge Economist
Joan Robinson

There is certainly a restlessness in India today, most noticeable among our youth who are unwilling to settle for old bromides.

Too many of our youth don't have jobs and don't have a hope of getting one.

The fraction of working age women employed is an abysmal one in five, the lowest in the G 20 countries.

The government's strength has been implementation, especially when the required actions such as building roads, tunnels, toilets or even statues are clear, or when frameworks such as the digital stack had been initiated by previous governments.

The PLI to increase manufacturing, the reforms to agricultural markets, the demonetization have all ranged from the ineffectual to the truly damaging.

Private sector investment has stayed tepid over the last decade.

Every segment of the manufacturing portion of the global supply chain has become extremely competitive. A country's presence in low skilled assembly does not assure profits or entry into higher skilled manufacturing segments.

India should compete for the future rather than the past.

India must pivot from brawn to brain.

India is typically known for exporting IT services, but in the last four years, professional and management consulting has grown at a CAGR of 31 %.

India has 1600 global capability centres, accounting for 40 % of global GCCs. GCCs hired 2,80,000 employees in 2023 vs 3,80,000 added in the last five years.

While low skilled manufacturing jobs are welcome in India, putting all our hopes, resources and efforts into attracting such jobs betrays both a lack of ambition and imagination.

In the last full year before the pandemic, agricultural employment increased by 34 million while industry and services only grew by 9.3 million, a rarity for a fast developing country. By such metrics, India is going backwards.

The Micron semiconductor plant in Gujarat is a \$ 2.75 billion investment of which 70 % is direct subsidy from the state and central government. This is expected to create 5000 jobs. So, we are spending \$ 2 billion for 5000 jobs, which is \$400,000 per job or Rs 3.2 crores per job.

A 2023 report by Wheebox says that around 50 % of college graduates in India are unemployable.

Study after study shows that authoritarianism suppresses innovative thinking. If India chooses creativity and innovation, it will have to foster arguments and debates.

We need an irreverent, diverse and argumentative society, at harmony with its energetic chaos, one from which creative ideas emerge that will change the world.

What does it mean for a country to be rich? Broadly speaking, richer countries produce more economic output per person, more food such as grains and milk, more goods such as cars, clothes electronics and more services like haircuts, doctor consultations, restaurant meals, hotel stays, films and software code.

When workers left agriculture for factories in the past, they did not have much education, and they didn't need much. As machines became more sophisticated, workers needed more training.

As factories became bigger, they needed new positions like manager, engineer and accountant.

	1961 per capita income \$	2023 per capita income \$
India	\$86	\$2300
South Korea	\$94	\$35,000
China	\$76	\$12,500

India is at the bottom of the pack, it is at the bottom by a long way

If we filter countries that have grown by 4.5 % for 38 years between 1980 and 2018, only nine countries make the cut and only Botswana and India come close to being a persistent democracy.

We will argue later on that the developmental path India should take requires more democratization, not less.

Average tariffs in India came down from 125 % in 1991 to 13 % in 2014. The lowering of tariffs increased domestic competition.

Punjab was the richest state in India in 2000 in terms of per capita income. Today, it does not feature in the top 15 states by per capita income.

The Economic survey of India estimated that for every Rs 1 lakh invested , apparel created 24 jobs, leather and footwear is 7, auto industry is 0.3 and steel is 0.1

Money control reported that 12 of the 23 categories of manufacturing products that make up the index of Industrial production, the index was lower in June 2023 vs June 2016.

Many high skilled services are now liberated from the tyranny of space and time. For example, a consultant needs to make only one final physical presentation to a client, the rest can be done online.

Services companies can also scale up through branching or franchising as in the case of McDonald's

Scale is less central to the productivity of services than for manufacturing. If fixed costs and capital investments are low in services, then scale is not necessary.

Because scale matters less in services, the difference between the smallest and the largest firms are smaller than in manufacturing.

Hence they don't need to be export oriented, they can cater to domestic service demand.

A study finds that the opening of an IT enabled centre servicing global markets in a town or city results in enrolment in nearby English medium schools going up by 7 %

For a fortune 500 firm providing BPO software, the number of problems an agent could successfully resolve in an hour went up by 14 % when the agent was aided by AI. The AI tool was most useful for new agents, in an industry with high attrition AI helps in training and improving their quality.

Even if our per capita income grows at 4 %, we will reach \$ 10,000 per capita income by 2060, which is lower than China's level today.

Supply chains have exploited labour arbitrage so that little is produced by expensive workers in industrial countries, unless they are aided by significant automation.

India has to be part of regional trade agreements, unfortunately India has been resistant to signing these.

Without tariffs in the picture, the Swiss bank UBS found that there were little differences in costs between China, India and Vietnam in the low skill act of assembling and shipping a fan.

The current inward trend in the west, a retreat from globalization is driven partly by Chinese dominance in manufacturing, and the associated loss of middle income manufacturing jobs.

Roughly speaking there are three big regional trading blocs, around 70 % of European trade is within Europe, 50 % of east Asian trade within east Asia and 40 % of North American trade within North America. This is what economists call the gravity model of trade. Since 2014, India's average import tariffs have been raised steadily from 13.5 % to nearly 18.1 % in 2022. One sector that has benefited the most is Steel.

There is an assumption in India that assembly at scale in manufacturing will lead to production at scale.

Net foreign direct investment FDI has fallen from \$ 44 billion in FY 21 to \$ 28 billion in FY 2023.

Almost 60 % of global websites are in English, the ability to converse in English is an advantage for India.

No country has jumped from agriculture to high end services which India did, it needs to reinvent itself once again.

To move from incremental innovation to path breaking innovation, we need to raise many of our universities to global standards, and encourage and fund innovative research as well as business academia collaborations.

Citizens benefit intrinsically from democracy, the dignity that comes from being able to vote, the right to express your opinion, having freedom of thought, being treated fairly.

There is a dinner table argument made by relatives that all will go well in India if we have an iron fisted leader. Today, such a leader can only build more roads and monuments, but cannot allow the environment of free thinking and speech that's needed for innovative ideas and products.

The aim of government should be to govern well and in the best interests of people over the long term. Staying in power should be an outcome of good governance and not the primary aim.

Economists Ajay Chhibber and Salman Anees ask whether ‘India is an electocracy rather than a democracy’”

India has regular elections that are free but once elected , a government with a majority has few checks on its leadership.

Private business in India rarely stands up to government. It is not because the leaders of private sector have weak personalities, it is because since independence the government has acquired significant power to appoint, reward and punish.

The rarity of critical business comments on government budgets or policies is a good barometer of how submissive business is to the government of the day.

India has not collected consumption data in the last six years, since the last report in 2017 was suppressed because leaked versions of the report showed an increase in poverty.

We need far more governance in the future
and hence cannot afford to suppress criticism.

Rich countries tend to have bigger governments since they perform more services, including administering a strong safety net.

In US and China, 66 % of public employment is in Government, in India it is 12 %

The institute of strategic studies pointed out that 53 % of India's defence budget went to salaries and pensions. This is 22 % for the US in 2022.

In 2021/22, 3 million people appeared for the civil services exam of which 3599 were selected. In 1950/51, 24,680 applied and 2780 candidates were selected.

We need a shift from subsidies and transfers to providing for better education and health services.

The India digital stack is a big boon and many businesses have been started based on the India stack.

Under Indian law, even illegally collected evidence can be used against an accused. As legal scholar Gautam Bhatia points out - India must move from a culture of authority to a culture of justification, where state actions need to be justified.

The lifeblood of a modern dynamic economy is competition, the key to competition is a level playing field and the government should support everyone and never favor anyone.

India's average import tariffs in 2022 at 18.1 % were fifth highest in the World trade organizations records, only behind Sudan, Tunisia, Algeria and Uganda.

Human capital is essential whether our businesses choose to focus on manufacturing or services.

One estimate suggest that India has close to 1.5 million schools and around 8 million teachers.

25% of the time teachers are absent.

The number of middle school students taking tuition was 30.5 % in 2022.

The key in schools has to be to improve the quality of learning experience in the future.

Delhi state' schools have gone through a seismic shift since 2019, the public school pass rate is 98 % compared to the private school pass rate of 92 %.

The 2010 right to education act stipulated that there must be a school within 1 km radius of a habitation. Many government schools have mushroomed.

Post independence, India's greatest failing has been its inability to give all its children a head start.

A survey of higher education conducted in 2020/21 showed 78 % of all colleges in India are private, and they account for more than 50 % of total enrolment,

Elitism is sometimes a bad word. Yet, in research elitism is essential.

Indian students are increasingly going abroad, 7,70,000 went abroad in 2022 alone and that cost India \$ 5.2 billion in foreign exchange

Every citizen must have accessible health care of decent quality. India graduates 80,000 MBBS doctors every year from 560 degree granting colleges.

India spends little on healthcare, the government spends 1.13 % of GDP on health care and if we add household and corporate spending then we get to 3.5 to 4 %. The world average is 10 %

The Mohalla clinics in Delhi are a good idea. India needs a version of the health stack like the India digital stack.

Of 100 women in India, only 9 are looking for work outside domestic work. This is very low and needs to be addressed.

In 1950/51, 14 women enrolled for every 100 men in colleges, in 2000/2001 it went up to 67 and in 2020/21 it is 107. So more and more women are getting educated.

In 2016, the government set an ambitious target of doubling farmer incomes by 2023. We say ambitious because the last time farmer incomes doubled was between 1993 and 2015, it took 22 years to double!!

The total fertilizer subsidy is 2.25 lac crores,
the entire education budget is 1.05 lac crores.

India should take a lead in addressing the enormous challenges the world faces – deglobalization, climate change, migration and ageing.

China played the Wolf warrior approach and India could be playing the Tiger warrior approach in its engagement with the world.

India has to be a superpower that self confidently emphasizes cooperation, peace, goodwill and creativity over coercion and dominance.

The foundational power of India's power is the power of its example. This is on four pillars- economic growth, social inclusion, political democracy and a liberal constitutional order.

India is a much smaller economy than USA or China and will be so for decades. India needs alliances if it ever goes up against any superpower.

Over time, our greatest security will come from building our economy and devoting a reasonable share to defence spending.

The WTO has been slow in coming up with its general agreement on trade in services. India should take the lead and start a debate on this. It helps India, our lawyers can advise US clients, our doctors can consult with UK patients etc.

Eisuke Sakakibara, also known as Mr. yen, told Raghuram Rajan once “ the greatest problem in international meetings is to get the Japanese officials to speak up and the Indian officials to shut up”

We must speak but prepare more so that others want to listen to us.

If we want to be a start up nation, we must strengthen democracy, enhance free speech and encourage a culture of debate.

We should understand our history but not be prisoners of our past.