

DR K S KRISHNASWAMY

“WINDOWS OF OPPORTUNITY-Memoirs of an Economic Advisor”

Remarks by S L Rao on Releasing the Book on April 1 2010

In talking about this book I shall refer only to such portions that might be of general interest and not delve into the complex but lucid discussions on economic policies in which the book is very rich, and which make the book a valuable reference for any economist. For a student of economic policy in India, this book enables a “fly on the wall” participation in some of the decisions of great moment in India’s economic development. Dr Krishnaswami was a close friend and associate of my teacher of monetary economics, KN Raj. Dr KSK’s writings on monetary policy were for me as a student, models of clarity. His present book written at the young age of 90 retains this ability to present complex issues with the utmost clarity. For a person of his immense accomplishments, the book is like him, modest and self-effacing. The book is a model for policy makers writing about their experiences. Very rarely do Indian policy makers at the end of their careers, write about the important decisions in which they participated, and describe the cut and thrust of arguments that led to a policy; nor do they reflect later on how the policy actually performed. Dr Krishnaswami does both. This is not a book of memoirs. He comes across as a very private person, loath to write about personal matters, personalities, feelings, or even opinions, though he does make a slight exception for one Governor of the RBI! There is hardly anything of a personal nature in the book; he refers to his marriage before going to the LSE, and then living apart while he did his Phd. He came back and worked in the Planning department of the GOI

which later became the Planning Commission. He refers to the housing problems in Delhi and later in Bombay when he came to the RBI. He describes Sachin Chaudhuri, the founder of the EPW (then the EW), with who he and his wife stayed before he found a flat in Bombay. He makes brief references to friends they made in Washington and elsewhere. His daughter Bansi's name is mentioned but in the context of the celebration of her birth with colleagues BN Datar and KN Raj. His son's birth is mentioned elsewhere in connection with his EDI stint in Washington, as is a bad auto accident he suffered in the USA. He does not mention names of places and schools he studied in nor of the small towns he lived in as a boy. It is not an autobiography or even a personal memoir. It is rather, a lucid description of the process of planning in India in the early years and the making of monetary policy. He does this by telling us of the discussions on deficit financing, inflation and development, "inclusive" growth and monetary policy, and so on. .

. He honestly describes two major embarrassments in his life. One was caused by his being secretary at LSE of the Federation of Indian Students' Associations, dominated by Leftists. This caused difficulties since GOI made him persona non grata as a result. I am reminded of how PH Vaishnav had participated in Leftist movements in Ahmedabad and almost did not make it into the IAS until the Home minister of India interviewed him, an inconceivable happening today. Similarly, Krishna Menon, the High Commissioner, intervened for KSK and smoothed things over. The other embarrassment was in 1966 when India required large foreign exchange through aid and there was some indication that devaluing the rupee might get

it. Many economists and Planning Commission members as well as Dr KSK were against it. Devaluation would not benefit India, and it did not, since India was importing only essentials and had little flexibility to increase exports. Since Dr KSK had gone with the group to Washington that negotiated the devaluation, though he was against it, and was not involved in the discussions with the Bank about devaluation, there was suspicion that he was party to it from many including PN Haksar, then High Commissioner in London. Since at the same time, he was invited to head the Economic Development Institute of the World Bank, some among those who disagreed with devaluation, suspected that he was party to it. He did go to EDI, did a great job, made many friends and then came back to the RBI. There is no trace of any bitterness or rancour when he writes about what must have been very hurtful experiences, because they were based on untruths.

His description of the writing of the First 5 Year Plan makes nostalgic reading. There was no monolithic Yojana Bahwan and the officers were scattered in different buildings . Dr Anjaria was the Chief of the Economics Division, KN Raj his deputy, Deputy Chairman was GL Nanda, VTK was in charge of general administration, CD Deshmukh of finance and foreign exchange, GL Mehta of industries, and the deputy secretary Tarlok Singh managed the affairs. They all went on to play large roles in India's economic development. His description of the work of Mr Tarlok Singh shows how a good administrator takes all views into account and then brings out a coherent policy. As KSK says: He "effectively brought home to us that we had to make sure of all the details in executing the

projects and programmes in the plan...It helped me to appreciate the need of quantification and executability of logically valid propositions” . .

Data shortages, inconsistencies, and lack of compatibility, plagued the young economists working on the First Plan. There was little data about the princely states, and what there was about India, included Pakistan. So they depended heavily on the work of the ISI under Mahalanobis where there was more data and complex input output workings. With little data on the economy as a whole, the planning was mostly for the ‘public sector’.

Nehru set the overall policy. KSK says: “He had no doubt that in many areas it was the duty of the state to occupy the ‘commanding heights’, so that the benefits of development could be more evenly distributed”.

Small and medium industries got priority since they were expected to generate more employment. But there remained fundamental differences between Commission members, cabinet ministers, bureaucrats, academics advising the commission and others. It was however, Jawaharlal Nehru who dominated. He “literally drove everybody-the government, his party, the Planning commission”. However, he kept the Commission as an advisory body so that its recommendations could get democratic screening. He describes the meeting of the Planning Commission in 1962 when the border with China was heating up: The meeting was considering the Third Plan and how resources for the massive heavy industry programme were to be found. The Finance Minister Morarji Desai said he was not sure where he would find the resources for the needed defence expenditures and the Third Plan. Nehru came in later and very tired after hectic

electioneering. He concluded by saying: “We are honour bound to provide our jawans everything they need. However, we have promised our people much more than freedom from foreign aggressions: we have promised them many other freedoms...Can we provide them all these without economic development? ..Let us go for defence with development.. We have no choice in the matter and we just cannot afford to let our people down”. Then VKRV Rao joined the Commission and made a strong pitch for emphasis on agricultural productivity and primary education. Nehru agreed with this objective as well. His successor Shastri died too soon to give direction. The wars with China and soon with Pakistan and then his premature death did not enable him to make his impact. But all these priorities involving massive government expenditures, would lead to cutbacks in non-development expenditures, additional taxes and more domestic borrowing while looking for foreign loans. Indira Gandhi followed Shastri and in the middle of an economic crisis, came under pressure to “alter the investment pattern of the Fourth Plan to ensure higher production of food grains and other consumer articles”. At about the same time, the MIT centre in Delhi with distinguished American economists supporting it and with whom the Planning Commission worked very closely, turned out to be supported by the CIA and connections with it were snapped. Indira Gandhi’s massive devaluation of the Rupee, under American pressure, was infructuous. Exports did not rise, nor did imports fall. Imports only became more expensive.

The dilemma of choosing between growth with deficits financing it, and the handling of the resultant inflation has bedevilled Indian policy makers almost since the

time of the First Plan. Growing foreign financial institutional inflows stimulated by the government policy of letting inflows from countries like Mauritius send money in and out of India without paying capital gains tax has made Mauritius the largest foreign investor in India. It has led to volatile fund flows, a volatile Rupee exchange values and volatile stock prices. The inflows also added to domestic liquidity. RBI uses monetary policy to stem inflation but foreign inflows have the opposite effect. Foreign exchange management is now a major task. KSK's discussion of budgetary deficits as a means of financing government expenditures is as relevant today when he says: "provided adequate steps were taken to avoid an undue pressure on domestic prices or an adverse impact on balance of payments". He was part of the decision making that linked the Rupee value to a chosen basket of currencies than to the sterling alone, which is the present system.

KSK returned from the EDI to the RBI as Principal Economic Advisor on Economic affairs. By then Bangladesh had come about but the cost to India of war and refugees was very high, coinciding with a dip in rice production while wheat had benefited at the outset of the Green Revolution. Inflation was high and hence labour unrest. As Economic Advisor to the RBI he had to many times second guess the government's reaction before advising on any change in RBI policy. By this time, government played a growing role in RBI decisions. With 'social control' of commercial banks in 1967, to be soon followed by bank nationalization, the RBI's famed autonomy was under attack. With the declaration of the Emergency, this intensified and soon,

a RBI Governor K R Puri, with J C Luther as Executive Director, both with no background of economic policy or banking, were appointed. They were rumoured to be close to Sanjay Gandhi and the banking industry was “set to become yet another hand maiden of the political bosses”. Chiefs of nationalized banks looked to government than RBI for direction. The Finance Ministry had a nominee on all the bank boards whose approval was necessary for almost any transaction. With Puri as Governor the financial institutions had become extensions of the PMO. As Deputy Governor KSK denied a loan to Maruti. The PMO instructed Puri to approve it which he did without informing KSK.. He wanted to be relieved of the responsibility for such loans and Puri assured him it would not happen again. It did not. However Sanjay Gandhi and his cronies then started borrowing freely from virtually every bank in Delhi.” With the coming of the Janata government, Narasimham was appointed as interim Governor before IG Patel took charge. Telephones were being tapped and KSK decided wisely to accept only written instructions from government. The Janata government however associated him with Mrs G and denied him opportunities he would have got otherwise. However, after 1977 the Finance Ministry again recognized the RBI’s primacy on matters of credit policy. It is not widely known that KSK has been associated with the EW and EPW from its founding. He was a regular contributor from the outset. After he retired and moved to Bangalore his relationship with the EPW and its Editor changed from confidante to trustee. He was Chairman of the Sameeksha Trust when its long time Editor Krishna Raj died in 2004 and KSK brought

in Dr Rammanohar Reddy who has carried the EPW's great traditions forward.

It is impossible to do justice to the wealth of material in the book bearing on various aspects of economic policies. I have only touched briefly on some. What comes out is the personality of a deeply thoughtful, honest, objective and insightful mind. As he says: 'I kept returning to the divergence between macro concepts and the micro realities. It is the latter of which the political operators or the social scientists were better aware than the economic theorist. As questions such as poverty, unemployment, class distinctions and professional diversities became clearer in my own reckoning, macro economic categorization of 'income, saving, consumption, investment' etc, became less useful than social diversities or sectional interests.' He refers to "administrative inefficiency and corruption" and its effects on preventing policy benefits from reaching the public and especially the poor.

This is a book for all students of Indian economy to understand how our policies have developed.