

Understanding Reforms*

Y.V. REDDY

I have great pleasure in welcoming you on behalf of Finance Minister, Mr. Jaswant Singh, on behalf of Reserve Bank of India and, on my own behalf. India has been playing active role in researching and debating issues relating to development, particularly in the context of developing nations. We believe that holding of the Global Development Network (GDN) Annual Conference in India is a tribute to our approach to reform, and is also a recognition of the need to continue with debating on policies with open mind. It is most appropriate that the complex issue of "Understanding Reform" is being addressed by a global gathering of researchers, policy makers and institutions. With your permission, I will mention a few issues in understanding of reform in India.

The first issue relates to political economy considerations. India has the unique distinction of practicing, with some amount of doggedness, freedom of speech and political freedom in an extremely diverse society and polity. In India, compared to most other countries, the electoral cycles have not significantly impacted economic policy cycles, though political debates try to highlight differences among political parties, especially on burden sharing during reform period. We have moved, from a strong consensus for

weak economic reform ten years ago, to a strong consensus for a stronger than before reform; and this happened smoothly over several electoral events, both at State and Central levels. The financial markets did not turn unduly volatile during these electoral events. This shows, I believe, the strength, the resilience, and the stability of the political system. Perhaps one should make a distinction between contextual political stability and stability of political system, the system stability being more conducive to reform.

The second issue relates to financial markets. Indian experience shows that domestic financial markets are varied in different developing countries, and actual responses of international financial markets to a developing country seldom fit the assumptions behind the mainstream economic thinking. So, while we do understand theory and use it as a good tool, care is taken in policy to avoid ideological or dogmatic approach to reform. The accountability of policy-maker in reforms in India is essentially to domestic constituency *i.e.*, to domestic political economy, intellectual atmosphere within the country; the state of markets in the country; and perceptions of the media in the country, while at the same time being sensitive to global responses to

* Introductory remarks by Dr. Y.V. Reddy, Governor, Reserve Bank of India, welcoming Dr. Amartya Sen at Global Development Network (GDN) at New Delhi on January 1, 2004.

Indian reforms. A deep understanding of this aspect, generally described in literature as “country context” perhaps requires not only intellect but also sensitivity and empathy.

The third issue relates to role of economists in public policy. All economic ideas need not be economists’ ideas. The role of economists in government is very complex, and we had the good fortune of having several distinguished economists associated with reform – Professor Manmohan Singh, Dr. Rangarajan and Dr. Bimal Jalan, to name a few of my predecessors in the Reserve Bank. What are the unique qualities that helped them lead the reforms in India? First, personal and professional integrity; second, capacity to make appropriate value judgements consistent with national ethos; third, and above all, willingness to appreciate the non-economists’ views on matters relating to reform. All of them have a broader perspective of what governance of a country in a democracy is about and economic reform is one, very important, but certainly not the sole end of good governance. Perhaps, the word “development” as we understand encompasses both, the means and the ends.

The fourth issue relates to the diverse dimensions of reform. We had meetings of World Economic Forum alongwith Confederation

of Indian Industry (CII) in Hyderabad a few weeks ago. That gave us one view of reform. We had meetings of World Social Forum a few days ago in Mumbai, and they gave us several other views of development and reform. The Global Development Network will have its deliberations here which will also give several views of reforms. The unique feature of India’s reforms is that we play host to all views and chart a course that appears most suitable to the country, recognising that reforms, in the ultimate analysis do not flow from the top but have to be understood, and absorbed in the minds and hearts of the people – through their freewill.

And I will conclude with a few words about the distinguished speaker. Dr. Amartya Sen is not merely a great son of India, not just a nobel laureate in economics, not just an outstanding intellectual but and above all a scholar with a heart. I believe that reform process in India happens to capture some of the ideas that Professor Sen articulated in his book “Development as Freedom”. We are honoured today, Sir, to be able to hear your words of wisdom that blends high intellect and compassionate heart.

May I express deep debt of gratitude to you, Sir, and also welcome heartily all the distinguished participants who are here today.