

PRANNOY ROY OF NDTV TALKS TO RBI GOVERNOR- RAGHURAM RAJAN; & CHIEF ECONOMIC ADVISOR- ARVIND SUBRAMANIAN

[Video link](#)

NDTV: Hello and welcome. It's seldom that am actually really honoured to have two people on the panel to question and to pick their brains. These are two people that I and I think all of us here, we have students from all over the country St Stephens, Delhi School of Economics, LSR, all the top colleges admire. Also it's the RBI Governor Dr Raghuram Rajan, thank you very much for being here with us. And his friend, who does not always agree with him, Arvind Subramanian, the Chief Economic Advisor of India. Round of applause for these two. I must say I don't normally say this but it is honestly great to have two great professionals, respected around the world, running the economy of this country. The fact that it is in a mess is not your fault. It's not in a mess, but do you always agree with each other on everything? You are friends but it's like church and state

Raghuram Rajan: No, we do disagree.

NDTV: You do disagree?

Rahguram Rajan: Absolutely, absolutely on the economic policy

Arvind Subramanian: And sometimes even violently

Raghuram Rajan: But in a larger scheme of things not about current policy or, you know, broadly about, you know about way to growth in the long run and stuff like that

Arvind Subramanian: And if two quarters don't violently disagree on occasion I think the output is much the lesser for it

NDTV: We used to call it when we were young, dialectics and you make progress through dialectics, right? So in fact actually you have written quite a major paper together when you were in the IMF, which caused a lot of controversy and it was his fault, right?

Raghuram Rajan: Yes, he wrote the paper

NDTV: Are you disowning it now?

Raghuram Rajan: No, it is a very good paper

NDTV: You are co-authors though, right?

Raghuram Rajan: We are co-authors. We sort of wrote it together, but he did the bulk of the thinking and the work, but it was, well the story is it was on aid and how aid really doesn't work in terms of economic growth. It is useful in calamities and so on, but somehow for all the money that is poured in as aid you really don't see strong evidence that it helps economic growth

NDTV: That's pretty controversial when you are in the IMF and giving an interview

Raghuram Rajan: It's pretty controversial when you are in the IMF one week before the Gleneagle Summit, when all the rich countries in the world are getting together and being pushed to ramp up aid

Arvind Subramanian: The interesting story was that exactly the week before, I don't think Raghu remembers, firstly he is being very modest when he says it was a joint effort and so exactly 4 or 5 days before this major summit 2005 Gleneagles, the front page of the Financial Times which is what everyone reads in Washington, the front page said "IMF says aid does not work" and Raghu doesn't remember this, he had actually left

Raghuram Rajan: I remember that

Arvind Subramanian: He had gone off on a tour and so the Managing Director summoned the authors, but one of them was missing. He was lucky and then I had to go and face the music

Raghuram Rajan: I think some 15 Finance Ministers from African countries called him that day to say what you are saying? You know the truth is the article reflected our views carefully but this is something that the people should know that the headlines are not written by the person who interviews you, but by some assistant editor who wants to make it look good

Arvind Subramanian: Prannoy should know

NDTV: Yes, I have always said never trust journalists

Raghuram Rajan: I mean the headlines went quiet, you got the gist we would not have put it as startling

NDTV: You nearly got sacked, the two of you

Raghuram Rajan: Let's say we had some interesting conversations

Arvind Subramanian: Actually I had to go and do a press conference to almost intellectually disown the paper, which I didn't, but we had to distance the IMF, the Institution from the authors and it is always a tough act to do. Raghu was the Chief Economist of the IMF. It's a bit difficult to say that

Raghuram Rajan: But the truth is actually the IMF management supported it, they had seen the paper and they had actually said this was right, we had to figure out a way to, the issue was the timing

NDTV: Perfect timing, from a journalist's point of view

Arvind Subramanian: Actually thinking about it now its 10 years exactly since we wrote that paper and I don't know, hopefully, it is going to survive. I don't know but really the reassuring and comforting thing was that the World Bank commissioned a report by experts on an evaluation of research done by the World Bank, and Angus Deaton was on that committee, and he then, I think, said basically that the best paper done on aid was what Raghu and I did, and he still stands by it and he teaches it in his class, so that's the vindication for that paper, for whatever it is worth

NDTV: Not bad, not bad at all, but there you both agreed on one thing, its never normal when you have got two economists, you will have twenty views and if you are a Bengali economist there will be 50 views, by and large none of you are Bengalis

Arvind Subramanian: Actually we are both from the same part of the world

NDTV: Right, exactly one area which has been, I am not sure who believes in what, I have a query in my mind about do we have inflation or do we have disinflation or deflation and it depends on which data you look at. Let's have a look at how bizarre the indices, the wholesale price index and the consumer price index, there is a crazy diversion. Wholesale price index says we have a minus 5% inflation or deflation and the consumer price index says plus 5%. Now only India can have two indices that can say exactly the opposite thing and you believe in

the WPI and you believe in the CPI. One last thing the GDP deflators about zero half way it's like exactly if you average the two

Arvind Subramanian: That is almost by construction, the national income accounts office, which by the way they do a fantastic job in terms of procedure and institutions and credibility and so on, its really a top class operation and they are trying to upgrade it to world class standards. They actually only measure the wholesale and consumer prices, the GDP deflator is just constructed, I think, on this. It is not first of all, it is very striking, it is not completely unprecedented, but the magnitude to which it is unprecedented, it has happened on a couple of occasions before and I think it actually creates a very difficult problem for Raghu and the RBI because...

NDTV: They both suggest very different policies

Arvind Subramanian: Just for the record you know, it's not that I believe in WPI and Raghu believes in CPI. I think we both believe, Raghu correct me if I am wrong, that both are conveying information about the economy and the question is therefore, how do you from this takeout what is essential and then set interest rates and monetary policy, given this bewildering divergence in information that is coming through?

NDTV: Give me one example, if you take CPI as the authentic measure of inflation, you are worried about inflation, then, so you will not low interest rates and if you take WPI as authentic you will lower interest rates, you are not worried about inflation, a huge impact on policy?

Raghuram Rajan: We move to targeting CPI sometime back and I think that's the right thing what people see. So, what explains divergence? I think it is basically the difference in baskets. The WPI has a lot of traded goods, lot of commodities, which are declining in price and therefore it is negative. The CPI has services and food, food held down by the global prices, but services are unique. In India you can't get education services, abroad you have to get them. In India you can't get healthcare, abroad you have to get them. In India, so those have been inflating at a higher pace. So the difference I think is between the non-traded goods, which are a larger part of CPI and a smaller part of WPI

NDTV: In a nutshell what you are saying is CPI has about 45% almost 50% food items, food and beverages, while the Wholesale Pricing Index has 65% manufactured items. So one is for industry and one is almost for the consumer

Raghuram Rajan: Absolutely

NDTV: One last thing, why go for CPI when it is all about food and nothing the RBI can do much about food more than the monsoon?

Raghuram Rajan: Well, it's not just about food, it's also, I mean this is the thing that has us, had us worried and has us worried, which is services. But, what's important is think of the wage price inflation issue. If we believe that people, seeing the basket of goods that they have to buy, see the basket higher in price; they want to have higher wages to be able to afford that

NDTV: Yes

Raghuram Rajan: So the spiral is not about commodities, which some firm buys, but it's about what you go out into the market and buy

NDTV: Right

Raghuram Rajan: That's what we have to combat, as you know, inflation focus Central Bank, one. Two, it is an issue that manufacturers might face, a different level of inflation, but remember it's not the negative five that you pointed to, because even though the output prices are not going up that much or may even be falling, the input prices, which are commodities, are falling even faster. So, their profits are actually increasing

NDTV: Right

Raghuram Rajan: So, if you look at, what they try to discount when they look at whether I should invest, it's the profitability, and that's you know, a little better than where the WPI is, probably not as good as the CPI. So, that's one, don't feel that sorry, for the producer, he's, he's not that well off certainly...

NDTV: I mean he must be worried, that the prices are going down because the lack of demand?

Raghuram Rajan: Exactly

NDTV: Kind of recessionary conditions, but that is so important for the RBI

Raghuram Rajan: Exactly. So, so what we have to do is continuously focus on that CPI, but say how do we get to that target that we have in mind, maybe if conditions are weaker, we take a little longer. That's how we set our inflation

process. We took one year to get from; the initial years were easy. One year from double digit to eight, another year from 8 to 6, but now we are going to take one year to get to five, and then another year to get to four; so it's going to taper off, the pace at which we are trying to hit the target

Arvind Subramanian: So, so, so, the way that I would, I mean, I think about this....

NDTV: The way you disagree?

Arvind Subramanian: The way I, marginal, a little bit disagree, is that...

NDTV: I love to hear your conversations in your room actually, they are much more violent.

Arvind Subramanian: You know, I think that firstly they do convey very different things and so in some sense, you know the consumer is facing one set of prices and the producer, even; I think the adjustment that Raghu is saying is right. His profits are going up, but he is facing, you know, if you are selling like steel for example, you know, you're your real interest rate is really very, very high today, because the output of the steel is plummeting and even discounting for the fact that your inputs are cheaper, you know you are really hurting. So, how should one, you know, digest all this information from, you know, conduct monthly policy. And I think that, I think Raghu is right that, you know, you have committed to the CPI, it's something that you know, you should think. And, by the way, I think that, you know the way I would defend the CPI, even, and you make a good point Prannoy, by saying, you know, so much is goods, you know, what you control. But actually...

NDTV: So much is agriculture based?

Arvind Subramanian: Agriculture based, so you don't control it very much. But, actually what you do control is, you know, if consumers are looking at this price and they say should I keep my money in the financial sector, in banks, or should I put it in this, they will look at the CPI. So by adjusting interest rates, you do affect consumer decisions in terms of you know, which can affect inflation. You know if they put money in the bank then it's good because inflation will come down, they are saving more. So, but the way I would, you know, I have been, you know, we have had this discussion, it's that you know, you have this inflation target, but it's a flexible inflation target, it's not that, you know you have to reach this thing at this time, that therefore what's extra information that we get, its

conveying some more information about the economy. In this case, as you say, economy is very weak in some sense. Therefore, we should exploit the flexibility to design monetary policy, on account of this extra information

NDTV: So I mean that's the point. He must be putting to you a lot, that there is recession; that nobody is buying stuff from industry, cars are not, nobody is, the output is dropping, and you are looking at CPI and saying, prices are too high. So what about...

Raghuram Rajan: No, I am saying if we can't bring inflation down, under these circumstances, then we really will have an inflation problem when things get better. So the point is yes, we have given some leeway for the condition of the economy and clearly we are looking at the conditions of the economy when we determine interest rate policy. But, the point is with all these positives behind us, WPI negative 5 and so on...

NDTV: Yes, it's a shocker

Raghuram Rajan: We have to be able to bring inflation under control because over time things will just get tougher. If the world economy starts growing, there is inflation elsewhere. The other way of looking at this is, what WPI is saying, is the world has controlled inflation or in fact engendered deflation at negative 5, right? We can't sort of beat our chest and say, yay, we did it, negative five, it's all because of us, it's because of the world; what is because of us, that's six and seven, that's services. So, I would say...

NDTV: Wouldn't you say that the world has helped us to get to minus 5, and the monsoons made us go plus five in CPI; a bad monsoon will, I mean...

Raghuram Rajan: This, I think food prices, over the last have contributed some, but...

NDTV: They are about 45% weight

Raghuram Rajan: Weight. But they are very contained. They have been very contained

Arvind Subramanian: I think the combination of the world and the government has helped keep, have helped keep food prices down as well. I think, there's a...

Raghuram Rajan: Food management has been very good.

Arvind Subramanian: So, I think the government should give up

NDTV: Except, I have just been on a...

Arvind Subramanian: Pulses

NDTV: ... long trip, in Bihar. All, everybody is talking about is *dal* and that's affecting inflation expectations

Raghuram Rajan: Right

NDTV: Let's have a look at what inflationary expectations are right now. All this effort, but still we are not able to control inflation expectations. They are rising, is it that, is that the *dal* effect?

Raghuram Rajan: Salient goods, absolutely. When you ask the man on the street what do you think inflation is? He will pick a number, you know, which the, the average number is, number we haven't actually touched in terms of inflation in the last five years. The number that he or she picks is based on what they bought last, which typically are things like, as you said, *dal*, milk

Arvind Subramanian: Onions

Raghuram Rajan: Eggs, onions. So its salient stuff, that stays in their mind and they say, "oh my God this has gone up so much". Much of what they pick out, typically, has some fluctuation, they go up but they also come down, and they don't really seem to pick up the down phase, but when it's up, its, it really, really strikes them

NDTV: And, by the way, seasonality is huge in these. 20% change from the lean months to the harvest months

Arvind Subramaniam: I think on the *dal* effect, you know, link it to the onion effect, you know, I think it's kind of interesting and I think there is some kind of psychological salience behaviour going on. But, I think it also connects with, the point that you began with, divergence. Because the question is, why is there so much divergence? After all if wholesale prices are coming down, at some stage you should reflect that also, you know the ability of, you know that basically means that manufacturers don't have, producers don't have a lot of power, bargaining power. Which means, eventually even the consumer prices should come down. So, its saying something about the, you know, parts of the Indian

economy, which is kind of a little bit, and then I think, it's also saying that in agriculture, like you know, certainly in the case of vegetable and fruits, that we are not a single market, that there are these rigidities of movements across things, therefore shortages at some place get magnified and distorted in other places, which I think we need to address. And, I think that the *dal* effect is something that, it relates to long term agricultural policy, you know, how are we going to address the fact that...

NDTV: Actually that's an important issue. Every year something pops up, onions, *dal*, could be tomatoes, could be anything, and we don't seem to be able to control that. It gets out of control and then it takes us long time to import, so how do we, can't we plan ahead for this?

Raghuram Rajan: When I said food management is better, one of the things, which we have managed to control, is grain. I mean, rice, wheat, and that's partly because of...

NDTV: Buffer stocks?

Raghuram Rajan: ...of moderation in minimum support prices. Also, because world prices are relatively moderate, we can import, but it's important to control these, because these are things we procure most of. So when the farmer is thinking about what to plant, he says, well this is a sure-shot

NDTV: Yes

Raghuram Rajan: I can, I can plant it, and I can actually sell it to the government if need be. For the other stuff, we set prices, but we don't procure so much. And, as a result there is a greater focus on this and, the fact that we produce too much of this is reflected in our huge buffer stocks

Dr. Roy: Yes, so, I mean, unnecessarily big, we don't need that kind of buffer stock?

Raghuram Rajan: Moving more towards...

NDTV: Affecting me, affect cropping pattern by making it less uncertain to produce, grow wheat or rice

Raghuram Rajan: Yes, right. And, by keeping those moderate, but increasing say the price of pulses, you give farmers more of an incentive to shift, which in

the longer run we really need, in fact we need market forces to work, what does the public want, they should produce more of that

NDTV: Yes

Raghuram Rajan: The way to do that is to keep minimum support prices that are below the market price. They are really a support price rather than the market price, which is what they have become for some

NDTV: To make it across other commodities as well, which you want to encourage

Arvind Subramanian: Yes, I think that, you know, the way I think about agriculture and the you know, I think there are two distinct policy issues here, I think there is the cropping pattern, grains versus proteins, and remember Angus Deaton has this excellent research, which shows that in India, you know, incomes have risen, therefore the demands for protein has risen, and we actually consume much less cereals than we would have, had some historical pattern we follow. So, protein is going to become, and as vegetarians, pulses are going to become a weak point and so we need to plan for that

NDTV: Yes

Arvind Subramanian: So the pulses problem has to relate to prices, to technology and so on. But, then we have this fruit and vegetable problem, which is a slightly different problem. There it's not this, you know, long run, how do we boost supply kind of thing. It's about how we make India a common market, because you know, there are states that produce, but because of restriction across states, I think it can't, the stuff can't get to the markets on time. You know, I like to say, in the Economic Survey I said that, you know in agriculture we are not one, but we are like 5000 countries, 5000 agricultural markets

NDTV: Can I just ask both of you, one thing, one excuse which is, any individual prices of a commodity going up, which is ridiculous, is that it's the hoarders. I mean they are blamed you know, it's not our fault, but shall we just say that's rubbish once and for all

Raghuram Rajan: I'll let the government be answerable

NDTV: That answers the question

Arvind Subramanian: No, I think that you know...

NDTV: As an economist

Arvind Subramanian: As an economist and I think the thing to understand is you know, we have to understand what leads to...

NDTV: How to pass the blame to somebody else?

Arvind Subramanian: No, well, that's one way of looking at it. I think that, you know, we have to think about, what information of prices convey

NDTV: Sure

Arvind Subramanian: And therefore you know, if they convey that there are shortages, then it means something. There are different ways of approaching the problem. I think that we have to look at the long run impacts of these things as well

NDTV: That's very well put. Okay, any questions on inflation? Anybody who is from Delhi School of Economics and is a Bengali, gets priority. Anybody? No question on inflation? You know they don't suffer from price rise, there are just...

Raghuram Rajan: It's history now, history. Why would there be an inflation problem?

NDTV: There is a question? Yes please go ahead

Arvind Subramanian: Just speak loudly for the moment

Student 1: It's a well-known fact that inflation now is well under control, but is it still sustainable enough to survive another rate cut, if it happens anytime soon?

Raghuram Rajan: So this is an indirect way of telling, asking me whether we are going to cut rates?

NDTV: Not as dumb as I look

Raghuram Rajan: What, what we said in our monetary policy statement, it is essentially we have looked at all the room we had, and you know, taken full

advantage. So, until more room builds up, and we said that we are dependent, I think we are comfortable with where we are

Arvind Subramanian: Actually, I have to remind Raghu, that he has forgotten his own monetary policy statement. And, let me remind him, that he also said that, the stance of policies accommodative going forward. Which kind of, which speaks to the question that you asked, that what he is saying that you know, that he is open, I mean, RBI is open to more, and so it's not shut out, you know, for good or even for the near term. More interest rate cuts, but he is open as the data come along on prices and you know, how the economy is doing, he will consider it, but he is basically, accommodating. If I may remind you, Raghu...

NDTV: Accommodative...

Raghuram Rajan: I agree with the word accommodative

NDTV: I have one suggestion, this just occurred to me that you know, we do a lot of sampling and we add samples from different places and we do some econometrics, you can add both the indices together and their weights will automatically get adjusted, in a bigger sample of, so you get food plus manufactured goods. So, if you do CPI and WPI together, you may get a better overall picture of inflation

Raghuram Rajan: Maybe, but remember the CPI is based on what the consumer buys, right? So, if you are really interested in protecting the consumer, and thereby worrying about either his investment decisions or his consumption decisions, I think the CPI is probably what you should be looking at, rather than intermediate prices

NDTV: Another area which is worrying, industry of course, in terrible shape. They are crying out for something, they are not responding and it is really awful to hear politicians say, "come on, do something. Get off your backsides industrialists!" It doesn't work like that, they need signals, they need incentives, and they are dying to do something. Part of the problem of course is the weakest ever that the global economy is since the crisis. The global economy is growing at 2.5%, which is very, very weak, so our exports are plummeting. Let's have a look at our exports at the moment. Month after month exports are going more and more negative. In September they were -24% and I think both of you again have slightly different views on this, what is this being about the exchange rate? Is the rupee too high? Let us have a look how the rupee has fallen against the dollar, but what is more important has it fallen against the other emerging markets? Just

have a look at that. Versus South Africa the rupee has gone up by 30%; versus Brazil up by 36%; versus Russia up by 49%. How do you compete versus Indonesia, it is up by 7%; versus Turkey 19%; versus Mexico 13%. Should the rupee be lower? I hate to use devalue that's like a hangover from the past, a bad word make us more competitive

Arvind Subramanian: Can we go back to the previous chart?

NDTV: Yes, with the plummeting exports we can just have a look at that

Arvind Subramanian: I think this is important for this audience to know what headlines sensationalism that Prannoy indulges in and what the reality is

NDTV: What is the one they gave for you, aid does not work; exports are plummeting

Arvind Subramanian: Exactly, if you look at this thing and it really looks horrendous, disastrous, but they actually have to correct for two things. First of all this is all exports and you know we export a lot of oil related products as well. So the fact that oil prices have come down we benefit a lot

NDTV: We used to say we can't devalue because we import so much oil, now we are exporting oil

Arvind Subramanian: No, the point I am making is non-oil exports because we are benefiting from, the oil has come down by much less than what this is suggesting

NDTV: Okay

Arvind Subramanian: This is a huge correction; the second thing you have to remember is that in a sense, just as Raghu said earlier, the world prices are coming down enormously. So if you were to say, actually not value of non-oil imports, but actually in terms of actual volume how many cars, how many tons of steels, how much aluminum are going out, are very different. So the true measure of exports is much less forbidding than what you are. So that is just lesser than economics for whatever it is worth, but it is being said it is still true that world economy is still negative and that of course is hurting Indian industry. And therefore the question is to the extent it is a problem and we have to understand how much is beyond our control or within our control, and then we have to see what instruments do we have and I think we have a number of

instruments. One is where I think this *Make in India* campaign of the Prime Minister is very important because I read that above all is how do we make economy competitive in the medium to long run, because that's fundamentally what's going to get our exports up. That's the medium term and the other thing I am coming on is the knee jerk, short term reaction, oh lets give favours to specific exporters, steel guys are hurting so give them subsidies or give them some protection and I think there we have to be a bit careful. We have to balance the benefits possible of giving protection against the cost

Raghuram Rajan: The cost would be, you could have industries that use that commodity as the input, put tariffs high and then your cars export fall off because now steel is very costly for car exporters so there is a balancing act

NDTV: Targeting individuals is little bit interfering with the market

Arvind Subramaniam: It also becomes discretionary and creates all the problem we know happens with these things. But then the third instrument we have is the exchange rate and I think to the extent possible we have to maintain a competitive exchange rate, that's the experience from what China and all the East Asian countries did

NDTV: Competitive exchange rate, we say our exchange rate is becoming less and less competitive with many other emerging markets. If you look at the overall emerging market index our exchange rate is becoming more and more noncompetitive. I know its politically very difficult to say that yes, the rupee should go down to 70-75-80, it sounds like its terrible, but if that keeps us in parity with the emerging markets shouldn't we do what's best?

Arvind Subramaniam: But there I think Prannoy, Raghu will respond to this but I think on the one hand we have to maintain a competitive exchange rate, but I think how do you get it in the face of global economy we are a part of and in the face of these inflows that are coming in? If we can, by magic, over time maintain a gradual improvement in competitive, gradual appreciation it would be great, if suddenly markets say, oh my God this an economy where exchange is coming down, there are all these problems, lets exit panic and then you get these disruptive movements of the exchange rate which are very damaging so you have to balance it

NDTV: Bottom line should we try and be competitive with the, our competitors?

Raghuram Rajan: But first I think those numbers are a little misleading. I will take your nominal differences for granted but remember now Russia has a pretty serious inflation problem because the currency has depreciated so much. Similarly Brazil is combating a higher level of inflation, though they started at a very low inflation than we did. So what is that doing, offsetting any competitive advantage and that's the point to note that the industrial countries, because their Central Banks have credibility, because they don't have as many frictions in the economy, seem to be able to depreciate their currency and get a competitive advantage that, which is significant. So the Euro area is one example where they seem to be doing better as a result of fall in the Euro, but for the emerging markets there is always the risk that whatever short term advantage you get is offset by seriously higher inflation over the medium term, which negates everything that you have done. This was an Italian issue, Italy used to have this history when it had the leaders doing a sharp depreciation, get an advantage for six months and see inflation coming back and negate that, so they had to continuously depreciate. So then the question is which do you prefer, inflation over the medium and the long run or do you try to do that through all the other means and get compelled through the means that Arvind talked about, which is improve your *Make in India* capabilities, improve your business regulations?

NDTV: But you know somebody says we are dead in the long run, but what you say I totally agree with you, but it has taken an extreme position and a sharp depreciation. You, a professional, everybody knows can handle it slowly over time. Should we slowly control just keeping up our competitiveness?

Raghuram Rajan: But I think first there is another element to competitiveness, which is missing here, is productivity growth, so to the extent we have strong productivity growth we can stay with the nominal exchange rate, which would otherwise be overvalued, but put everything together. This goes back to Arvind's other point that when you look at the volume of exports, volume of exports hasn't fallen off tremendously and in fact compares to appear everybody is suffering on exports. Compares to appear it does not look like we are **an outlive**, so in a broader sense we are maintaining competitiveness

NDTV: So you say our exchange rate is fine as is at the right spot?

Raghuram Rajan: That's what I always say where ever it is, its in a fine place

Arvind Subramanian: Or the other way of saying is if you ask a industrialist what is the best level of the exchange rate, he will always say 20% below the

current level, because he will always want to compare. But I think one thing we all miss out on all this is, I think, is the micro economic point that I find very difficult to get across in India at all levels, hopefully not at your levels, is that when you talk about managing this and how you get it down wherever you want to, what complicates that considerably is that we are relatively open to capital. If capital starts flooding in what is it for Raghuram to do? Because when capital comes in the pressure for the thing is to go up and up, and remember our systems seems to think more foreign capital always, at all times, in all forms, is an unambiguous good. But I think at some deep level there is a tension between saying let's get all the capital we want, because the more it comes in the more its going to...

Raghuram Rajan: It was another paper we wrote together

Arvind Subramanian: It's not easy and therefore you know, we should never forget that

NDTV: The kind of vibes I am getting that on interest rates you would like him to be accommodative, on exchange rates, he would like you to be a little accommodative

Arvind Subramanian: But, of course as all of you should say that interest rates and exchange rates are related you know

NDTV: I do. I have reported on China, since they used to wear tunics, and the factories were like Russian factories, I used to film them. Then I saw the first golf course; the first McDonalds, they had a big McDonalds, and across the road they had a big Deng Xiaoping blessing it, the piece to camera. And, I used to watch the amount of foreign capital that used to come in. In those days, 80 Billion dollars, 100 Billion dollars a year. We are nowhere near that, and many people say that it added 2-3% of the gross rate

Arvind Subramanian: I'll let you...

Raghuram Rajan: We may not say the same thing, but the way they dealt with that was sending back out, they built 4 trillion dollars worth of reserves, low yielding reserves, so this is the Chinese, poor Chinese family, in effect building assets against industrial countries. Now, how much is that, say extra saving? It has sort of hurt their longer run consumption prospects. Now China is interestingly moving in a significant way, and enhancing domestic consumption

NDTV: Right, right

Raghuram Rajan: Because it used that as a more stable way of...

Arvind Subramanian: Undoubtedly, but he didn't say, what I was hoping he'd say. I want to, when you...

NDTV: He seems pleased that he didn't say what you wanted him to

Arvind Subramanian: The 80 Billion that came in you know, all that Raghu was talking about, the pushing out of things, it has happened in the last ten years. But you go back to '79, the kind of capital that China got, was not funny money and speculative capital, it was hardcore investment, in factories...

NDTV: Coca cola factories and all these kind of things

Arvind Subramanian: Yes, FDI you know. And, FDI is a good thing. What we are talking about is the other stuff, the borrowing that we do in foreign currency, you know, the speculative capital that comes in, you know, we have to be much more careful and China, even today, it does not allow these things. I think, allowing these things in, we are much more open than China is

Raghuram Rajan: But this is one place where he and I, I think, we differ a little. I am more open to the idea that foreign capital is beneficial. It's, especially in India, where risk capital is hard to find, and so there is a lot more money that has gone into the stock market over the years. Of course they expect a return, and they should. But, they are also providing that equity buffer, which we so desperately need in our companies; often you find that going to Indian sources, for that risk capital is very hard. Most Indian sources want debt, and so I think there is a valuable role that they play, private equities playing a valuable role, it's not just a TI but other forms of...

Arvind Subramanian: But, I think, just to finish the exchange, but Raghu also remember, you know in the go-go years of infrastructure, boom happened; lots of these infrastructure companies borrowed in foreign currency, they took dollar loans, which is I think, I think there we both agree, amongst the forms of capital, that's the most pernicious. They got this, so they had borrowings in dollars, they were selling power and everything, When the exchange rate went down, their borrowing cost ballooned, inflated

NDTV: And a lot of companies are suffering from that

Arvind Subramanian: Yes, exactly. Even today we have faced the hangover of that; we have to be very careful about what kinds of foreign capital...

NDTV: But both of you agree that foreign direct investment into factories, into creating assets, is unambiguously good and we are about 30, 40 Billion, and China used to be 20 years ago, 80 Billion. So, we should try and raise it from 30, 40 Billion to 100 Billion today?

Arvind Subramanian: Yes, absolutely

NDTV: In FDI?

Arvind Subramanian: In FDI, exactly

NDTV: On the exchange rate there is a question, from Nicholas James, from St. Stephens

Arvind Subramanian: *Lal sitara jeetey ga*

NDTV: *Achha*

Student 2: So, my question to you is that, today the US Treasury has a lot of debt in the international market, in the order of trillions of Dollars, and China holds 20% of this. However, it's public knowledge that they cannot back up what they have printed, and they still continue to print this. Right? So, today if everybody who holds a dollar note, goes to them and asks for it back, and I say everybody, I don't even mean a 100%, they cannot back up half of that, so, my question to you is, with so many emerging markets coming up, and so many more players on the international level, will we see a paradigm shift from the dollar, as an international standard, to maybe other currencies, which are net exporters, which actually back up their debt?

Raghuram Rajan: You are asking a somewhat philosophical question, what it means to back debt. I mean technically, they can print dollars, and the Federal Reserve has a printing press, and they can print as many dollars as they want, to pay down the debt, and that would be legal. Because they are paying, what it says is, I will pay you back a dollar. Because they don't issue in Euros, they don't issue rupees. So that's a value of having a reserve country, that's also the value we have, because we can issue debt in rupees, and when somebody for that, their money, we print in rupees and give it to them. The key question you are asking is, should people be confident that they won't, in some way, inflate away

their debt, because they don't have the resources, the underline resources and they are printing more than that they can actually produce in a sense? And, the answer is that, yes the US does enjoy that confidence today. So, it may not be running a current account surplus, but there is certainly no belief in world markets, that the US will default on its debt through a higher inflation, that's what, why it's a reserve currency. Of course if the US fiscal situation went way out of whack, or there is a sense they would never get their entitlement under control, the bigger source of problem for the US, long term, is that they have obligations on healthcare and social security, not so much the public debt. The pensions and so, I think they have to bring that under control. There are many people in the United States who are worrying about that issue. But, so long as the world has confidence that someday they would bring that under control, there is no worry about the US defaulting on the debt. As far as other countries go, yes, over time as the markets become more liquid, as going in and out of the currency becomes easier, it will become more of a reserve currency. We are taking small steps along the way, of course, keeping in mind Arvind's point; we don't need a whole lot of foreign capital coming in today. But, rupee bonds, the so called *masala* bonds, now we issue abroad, we are fairly open to foreign investors coming into our equity markets, we have been a little more cautious about them coming into debt markets, so over time as we become more confident, as our own domestic markets deepen, we will almost surely become a reserve currency

Arvind Subramanian: Also, I think it's a great question, by the way

NDTV: Probably because he is from St. Stephens?

Arvind Subramanian: No, no, because there are many kinds of interesting issues that that raises; so, one of my, I had done some work on China, and one of my predictions is that, you know, that by 2030, the Chinese currency will overtake the dollar as the primary reserve currency. Maybe I'll be wrong on that

NDTV: So it's not safe to make long-term predictions?

Arvind Subramanian: But, I think the interesting question here is that, you know...

NDTV: But that's interesting

Arvind Subramanian: Yes, China actually really resents the fact the dollar is the reserve currency of the world, and they are doing everything to try and make

their currency also attain that status. But, the irony is that, in the last 7-10 years, the country that's been most responsible in keeping the dollar as a reserve currency is the Chinese. They have been buying up all these dollars and topping it up. But the second irony is of course that in the world today, by acquiring all these reserves, Dollar, Dollar, in fact, I would say to that China has more dollars to throw around than even the US Federal, which, for all kinds of political reasons, you know, it can't print as much it would like to due to political reasons. But China has been using these four trillion dollars to gain a whole lot of geo political advantage. And, there are lots of ironies in this regard. And, hopefully at some stage we will also become a reserve currency, but by then, but you know, let's see

NDTV: You are not saying 2030

Arvind Subramanian: No, I am not saying 2030. I don't even want it to be a federal currency by 2030. Because I think that it means that we will have to open in way that, you know, may not be always desirable for *Make in India*, for example

NDTV: Just one more thing on the exchange rates and in the old days nobody used to say, that you can't let the rupee slide, I hate the word slide, devalue, you know, become more competitive

Raghuram Rajan: Plummet

NDTV: Or plummet, because of oil, we import so much oil, we will die. Now, oil prices are ridiculously low and the criticism of the establishment is that, you are not making use of the oil dividend or the oil bonanza. That from 120 dollars, it is 50 dollars, and we are an oil importing country, this is the time to just boost industry, make the economy grow faster, we haven't seen any, no impact? Overall the biggest area facing a problem is the industry today. I know, you will look at consumers but industrialists are kind of like the, they are the signal; they are the early signs of a reviving economy. Let's have a look at the problems that industry is facing today. It is really serious, first of all, there are signs of a crisis, there's a headline. Latest quarter, two out of three companies miss their sales targets, that is two out of three, almost unprecedented. Growth rate of industry is 5%, I am talking about China, those days 18%, 19% industrial growth rate. Extremely poor job creation, in the organized sector only 64000 jobs in quarter one of 2015. Shockingly low it is, so there is no way out. Falling exports, we have talked about, maybe 24% and is a little too high, given that inflation differences.

Competitiveness, we are now 130 out of 186, we have improved by 10. Wow, man we have gone from 142. You know what we are in football? I think we are about a 120, we are the 120th best footballing country. We are the 130th most competitive country, and the 56 below us are not very important countries. And, then of course the high debt that all the industry needs, the infrastructure. So, industry today is crying, and are we doing enough about it? Just look quickly at, and one thing you could do is, your interest rates of course. The other thing you could do is quantitative easing, more government expenditure. But, the data shows the government expenditure has been dropping, just look at the percentage of GDP, the government expenditure, which in a way contributes to slow growth and, by the way that graph could have been much more, they should learn to draw graphs, whether it looks as though its falling faster from about 17% to 13.5% of the GDP. We have done, no disinvestments targets this year? I think, the only area, which is doing reasonably well, is in construction. Government spending to boost the economy, which is your area, not only your area, many ministries, is not boosting the economy, so its not just interest rates

Arvind Subramanian: So, I think, you have asked two questions, one is on manufacturing and the other on government?

NDTV: Yes, yes

Arvind Subramanian: So, I don't know how you like to take it, which; let me talk about private manufacturing. I think, well identified problems, but I would see it slightly differently. I think one of the challenges of the Indian economy today is that why is the investment somewhat weak? And, I think there are many reasons for this. But, part of the problem is that balance sheets of the private sector are strained

NDTV: You mean a lot of debt?

Arvind Subramanian: Yes, a lot of debt. It also means, lot of debt, low profitability, yes? And it seems to be concentrated in a few sectors and in a few groups of companies. And I think that's important to note, So, what's happening is that because there is so much debt, because they are weak, they cannot invest. Part of the problem is, this is partly a legacy from the go-go years of the 2000s, when there was a lot of, you know, expectations of high growth, they over leveraged themselves. Now in some sense part of the chickens are coming home to roost. I think that the challenge is how do we clean up the balance sheets of the firms? And associate it? How we also clean up the balance sheet of

the banks. I think unless we solve those twin problems, private investment going forward will remain weak. And, so you know, we can talk about that. But, then that leads to therefore, private investments going to be weak, how much would the government do to offset that?

NDTV: What should he do? Wake up and do something

Raghuram Rajan: I think the government is...

NDTV: I think he is telling you to lower interest rates and boost industry, what should you do?

Raghuram Rajan: Well, I think the government said it was going to do most of the spending, and certainly the road sector has been picked up; railways, there is some hope that it will, pick up very soon, so, these are the right things to be done. The pace at which it comes in is important, but it's underway. The point that Arvind made, is important, that there are certain sectors that really over levered, stopped investing, too much debt, and because they have enormous debt problems, they can't attract any new financing, and they can't invest, one. But, also remember we have had two bad monsoons, and so demand from the agricultural rural areas is also relatively weak. So, foreign demand weak, that's what you pointed to earlier. Rural demand weak, investment, at least private investments still to take off. So, overall when companies, even the regular companies not in infrastructure, not in the stuff that benefited from the go-go years looking at the demand, they say not enough, which is part of the reason we actually cut the interest rates as much as we did recently, when people expected a lower rate cut. But given that I think there are some signs of things starting to pick up, look at the auto sector, 22 % of growth year on year, so there are some signs that at least urban demand is starting to get more confident, perhaps on the basis of higher incomes lower out goes, because of fuel and so on

NDTV: Is it not a bit optimistic? Most of the industrialist say, man whatever you are doing you are not doing it right

Raghuram Rajan: Tell me this is off the record. I have been in the Finance Ministry myself

NDTV: When have they ever said you are doing great?

Raghuram Rajan: Not so much. I think they have been always fairly complimentary

NDTV: That's true they will be complimentary to you, but what do they say when you are not in the room?

Raghuram Rajan: No, they always talk about the difficulty of their situation of course and I think both of us are very sympathetic to the view that it is a very difficult situation and coming of a period when they were going gangbusters and suddenly hit with a, you know, a sudden stop in terms of what they, so it is a very difficult situation. I think government, RBI, all of us recognize it, but we have to operate within the tools that we have

NDTV: Couldn't the Finance Ministry or the government do something more?

Arvind Subramanian: I think...

NDTV: You, Sir, can't answer that question

Arvind Subramanian: No, I want to

Raghuram Rajan: The real question is, in terms of space, monetary and fiscal stimulus, I think, we are both doing as much as we can, given the need to maintain macro stability. So, what is left is, can we crank up the pace of structural reforms, in the financial sector, we are looking at that. All these new banks coming up, the *Bandhan* Bank for example is hiring a lot of people, IDFC is hiring a lot of people, to do what they are going to do. And similarly all these new payment banks, small finance banks, they will start hiring that will help economic growth. The...

NDTV: What should they do?

Raghuram Rajan: Well, as I said, the public investment that they are trying to crank up, is getting...

NDTV: It's not getting cranked up?

Arvind Subramanian: No, I think, remember that public investment, not just roads, but also, railways is picking up and both are contributing to, you know, in the six months actually growth has been like 18%, roads, railways everything. And, we have spent about 53% of our year budget and remember this, public investment is good for the private sector because it is creating the capacity, the infrastructure that will crowd in private investment. But Prannoy, I want to make

a larger point. It is a corrective to your unremitting, little bit of gloom that you are trying to perpetrate

NDTV: I am just reflecting what the idea, and honestly I have heard industrialists, all, for many years, I have really not heard them and they don't say this to you, really, because they are scared. It is like, desperate...

Arvind Subramanian: I think we need a sense of perspective here. I mean, think about it right, despite the world is, you know, the demand is collapsing, despite the fact that private investment is like this, we are growing robustly. Think of it, when we grew at 10, 9.5% in the go-go years, our exports were growing at 30%, despite export growth being zero percent we, we are doing 7, 7.5, 8 whatever it is, it's going to be in 7.5, 8 rate, and we are doing the...

NDTV: The series, we are talking? Okay we will talk about that later

Arvind Subramanian: But we will come to that later. But we have to see this with an international perspective, the world is slowing down, everyone is slowing down and in that we are rightly seen as a haven of macro stability and a real haven of investment opportunity, because we represent you know...

NDTV: Because that's all very true, we are a haven of macro stability. Thanks to both of you, I think that the best thing any government's ever done is to appoint the two of you and I am not, I say that even if you are not in the room. But the issue is, they are also talking about, and they say this openly and one or two have said it openly on camera, even though they are a little scared. What people loved about India; while they liked investing, is the stability and the democracy, the tolerance, the acceptance of all different religions, castes, you know everybody is living together. It's very different from the rest of the world. Now, they are worried, I have heard foreign investors, they come see us all the time, they are worried about it, what's happening in India, in a sense that, change in the tolerance that India is known for is like, will it affect our economy?

Raghuram Rajan: I think sentiment is swayed by iconic acts and actions and may not reflect the larger reality. So, there is a sense in which we have to be careful about what we say, because it does get magnified and reflected all over the world

Arvind Subramanian: Including now

Raghuram Rajan: Including now, I think that's important to keep in mind. I think the Finance Minister has repeatedly said that this is something we should be careful about and I think that is reasonable advice

NDTV: But it's carrying on, I mean what India is known for. Now, suddenly become a country where there is, there is lack of tolerance, It's a terrible change, isn't it? And how does it, it's not stopping

Raghuram Rajan: Well, again, I think the issue is what, what you do about it. And, I think the advice from the senior member of the government, I am going to speak for him, because he won't, has been calm down and certainly I think, that is appropriate advice. That across the spectrum we should calm down and because I think it reflects, as you said, our history and legacy and our tolerance, our openness

NDTV: I mean it's a great positive with India, which would be terrible to lose

Raghuram Rajan: I think it continues to be a positive of the price of internal; is the price of civilization; is the price of freedom and I think we just have to be careful that the extremes don't hijack the much more moderate and existing center

NDTV: Now you can speak as though you are not in the room

Arvind Subramaniam: Exactly. I just want to say two things, one is actually the kind of research both Raghu and I have done you know across the world, I think one of the regularities is how countries manage social cleavage; social discontent is a key determinant of long run development, I think that's the regularity

NDTV: Key determinant of long run development

Arvind Subramaniam: I think this is very well understood in government and outside, everyone understands it is an essential prerequisite. As Raghu said the Finance Minister keep saying that we have a development agenda, we have to focus on that, let's not get distracted. And second thing I would say, again what both of you said, that these things we have, the good things we have, no doubt we can take them for granted, we have to nurture them as carefully as possible. But I also think one has faith in the essential resilience of what we have, that this

is our strength, we will continue to have it, yes we have to work at it, but we will continue have it and that bodes well for the medium term

NDTV: But you condemn what's happening, do you?

Arvind Subramanian: Raghu, I mean anything that is extreme or intolerant no one has struck with, including people, this government or all governments

NDTV: Any questions on the intolerance?

Audience 3: My question is to Dr Subramanian. Sir we recently had a Moody's Report which also spoke about this issue and if you look at totally utilitarian perspective, regardless of the merits of the case, whether what is happening is correct or not, it will be very difficult for you to be able to pass the reforms like land acquisition, GST without being able to negotiate the Rajya Sabha and this is only going to give the Opposition a lot of fodder to disrupt the house. So what's the government strategy to navigate this prospective because this is far more important than looking as to whether whatever happened is true or not? Those investigations can go on. For the economy as a whole it is very important that what the government is planning as to how to negotiate the Rajya Sabha in the first place

NDTV: That's very practical. I just want to clarify one thing about Moody's. They have two parts of Moody, Moody Analytics and Moody Investment Reform. One does the rating, that is not that criticized, it's the Moody' Analytics, but I am sure Moody Investment listens to Moody Analytics in the long run or maybe they don't bother

Arvind Subramanian: But first I think what Moody's has said is the regularity from all the empirical research, so I think they are just echoing that. Your question is about political strategy and I don't do political strategy for anyone, but I think the broader point is...

NDTV: If you think the political strategy was good would you say it's okay to do all this?

Audience 3: No Sir, because ultimately there is going to be problems from the other side also, the industries are not going to come to your country

Arvind Subramanian: But the broader point is well taken and this is something that the Finance Minister has said as well, that we need to pass

the legislative agenda and we need the support of everyone possible to pass that, so anything that needs to be done for that will be tried, attempted and done

NDTV: Finance Minister saying it, but is this being said with a loud enough voice? I know you are saying a lot of people do believe that it is a wrong thing that's happening, but us in the public, you are not hearing it enough. Do you think it should be louder?

Raghuram Rajan: Look I think we live in a world of 24 x7 Press and so the Press picks up some things and the Press does not pick other things. I think there has been a fair number of voices recently from government, which have been articulating this, but also the Environment Minister talked about having said this way back but it wasn't picked up

NDTV: Blaming the media?

Raghuram Rajan: Well I don't want to blame the media; I am just saying that it's not, clear when you say have they said enough

NDTV: Has the signal gone out? Like we are talking about the signals for industry on various types, their signal to stop this intolerance and go back to India's most wonderful characteristic

Raghuram Rajan: It's important for all of us to keep saying this, we can't say it enough and if we keep saying it and keep the fringes out on every front, I think we will preserve what is vital to preserve in this country. And I have said it, others have said it, we just have to keep saying it drown out the other voices

NDTV: Talk about our growth rate and its 7 to 8%, is that a credible, there is problem, the world is looking at, are you really growing at 7-8%? The whole world is growing at 2.5 %; China is coming down and frankly I don't see 7 to 8% when I look around your towns and countryside. Just have a look at the some of the facts behind the credibility of the new GDP. First we have got the industry at a very slow growth, under 5 %. We know also you talked about two bad monsoons, exports are falling, global growth is the weakest and are we totally out of line since the crisis? And we have talked about the bad monsoons. So how, in the midst of all this gloom, can we claim 7%-8% growth and change? And I have got to give you a real headline, slightly tabloid. We go to the change that basically shook the world and shook a little confidence, our central statistical organization is a great organization, but when we had, by the earlier series, a 5% growth rate in 2013-14, then they revised it and when you revise, you revise is to

6.9%? I mean you can revise from 5 to 5.2% or 4.8% or 5.3% to 6.9%, that's like a 40% change, that's like saying our statistical methods are terrible and there is no real justification. So beyond the marketing advantages of going at 6.9 to 7.8% there is a credibility problem with the data. When are we going to crack that credibility problem? Because we are not doing it, everybody is talking these figures are all; China does all that, but India?

Raghuram Rajan: We take the figures, what the government gives us...

NDTV: And then you don't believe them?

Arvind Subramanian: So having it put on the spot very nicely by my friend, I think the comparison with China, my view is that the establishment and the institution we have for measuring GDP, the whole statistical thing, is of impeccable, unimpeachable integrity. Processes are top notch and in fact the irony is all this revision happened in order to get our standards up to the world class, and exploit blitz of new information that s become available, and that was the revision. And I say sometimes that processes can be great but the outcomes may not always be sure about. My favorite example is the United States, did manage to re-elect Mr Bush, but when we assess the stature, I think this is the first level of revision, in order to get a handle on whether this makes sense or not, they're going to work at the data, I think they have to produce a historical series to validate it against...

NDTV: It's like so many years have gone by, so the central statistical organization is a great organization, but always has been great, so 5% was like okay, not bad, but now it was all wrong

Raghuram Rajan: Prannoy, as Arvind says we will know over time what we are missing out or whether we are over estimating. I mean this is the best we have to work with right now. That said, are we at 2 or 1? No, I think most analysts would say there is discrepancy this way, that way, of about 1% in terms of growth at this point and some of it has to do with what we think 7% looks like, given the old numbers and what industry feels 7% looks like now. And so it may be that the old numbers were wrong, right? And we were perhaps going maybe a little better, but let's put all this aside

NDTV: But you know all those disaggregated, the industry growth slow, bad monsoons two in a row, low exports and then 7% to 8% that doesn't add up

Raghuram Rajan: The truth is the equation between the new numbers and the old numbers. I think Mr Pranav Sen has said this also is not one to one. We are probably, if we were to say what does this mean in terms of the old growth numbers, we will go down a little bit from where we are, so that I think most statisticians would say now which one is right? As Arvind has said the newer numbers involve better techniques, but in GDP calculations there is always heroic assumptions made and when you students go into details, the entrails and this is something that sensible economists should do and go and find out how exactly the stuff is calculated. And you will see there are places where you really don't have any data and you have to make assumptions, estimates, so in that sense there is room for improvement and over time we will do it

Arvind Subramanian: I just have couple of things to add to that

NDTV: Raise your hands if you got any questions, I will come to you after this

Arvind Subramanian: In addition to what Raghu has said about, broadly are we in book or they may be plus minus years, which comes with all estimate by the way, because of all the assumption that you have to make...

NDTV: I have to correct you, plus minus is normal, there is no plus here, you are not above 8%. It's still minus here

Arvind Subramanian: Okay, so maybe its asymmetric confidence band as you would say, but what we need to look at also is that how are things changing over time and is 2014-15 better than 2013-14? The data shows that 2015-16 better than 2014-15; data shows that when we look at numbers, don't just look at levels, which are sub judice but also look at the change and there the data are pointing at the right direction

Raghuram Rajan: Bare as you say, the industrialists say the conditions are, we are a recovering economy

Arvind Subramanian: And the last thing is that one number I look at, I pay lot of attention to, because it is actually a dollar in a sense or rupees in. But for the government that indirect tax revenue growth in the first six months is actually the hard money that the government collects, which it can only collect if underlying activities doing well. And that number, even if you take away all the new things, new taxes have been added, that number is growing at a robust about 11.5 -12% and if that number is right, that means that the underlined economy is recovering

NDTV: But that's nominal right?

Arvind Subramanian: But remember the nominal GDP, we are trying to infer nominal GDP there, because inflation is down. That means a lot of that is real GDP

NDTV: Inflation down or up, I am still not 100% sure. The other thing is that a lot of people are talking about, but before I ask that I interrupted you, I think it's a little bit open, you can ask any question now. You were going to ask a question I interrupted you go ahead

Audience 4: Sir, it was about the investor's sentiments, so you talked about openness to investments, you talked about *Make in India*, but there is a lot of pessimism around the world about investing and doing business in India. So I want to know what the take of our Governor on this is?

Raghuram Rajan: Key concept in economics and finance is risk and return and people will complain about some difficulties of doing business in India. We all know there is more bureaucracy than probably we need. Government is trying to bring it down but it is there. But at the same time if you do evict your factory, you do make a lot of money, a lot of our foreign investors who have put factories into the ground here are very happy with their experience in terms of profitability over time, right? Look at success like Maruti Suzuki, Hindustan Lever and so on. So what is key, yes it is difficult, it's not Scandinavia, the way can you get 7, 8, 6, whatever, some high number

Arvind Subramanian: Don't go too much below 7

Raghuram Rajan: Where can you get that kind of a growth in the world today; so they are really attracted by those things and once they learn how to do, how to put the factory into the ground, this, that many of them are very happy to expand. So I think the answer is a little more difficult, but the opportunities are also greater. There is some risk, but there is also a lot of return and one of the things we have to sell about India is, people have, in fact, made money even when our growth rates were moderate

NDTV: Probably more than China, a lot of people have lost money in China, but they make money here

Arvind Subramanian: I would say a couple of things. I think that at this stage, on balance, my sense is and I maybe wrong, foreign investors are more kind of

optimistic, can go about India at least in a relative sense across the world, than most other places. The second thing I think in all this, Prannoy, I accuse you of this, is that we forget that there is this whole new part of India, this technology, dynamism, startup, that energy and maybe we are too much enthralled to the old economy of manufacturing

NDTV: Fantastic, but again will we get an *Alibaba* over here? Was it a 300 billion dollar company?

Raghuram Rajan: This is so appropriate to India right, I mean look at the cost of setting up a huge shop in one of the metros, enormous today because of land prices etc. But having a warehouse, servicing many towns, E-commerce, it's the ideal solution. So in a small town somebody looking at the net, at the all these goods and they get the access to them today, which they never had before

NDTV: I will give you an example of a lady in Surat, middle-aged lady who designs sarees. She used to work for years, going to one wholesaler after the other, to retailers saying, please put my saree, put it here. They treated her badly. She was really finding it tough. You know nobody can see my saree. She has put it on one these E commerce sites, she makes 20 crores a year now without asking anybody for favours, so it does affect an ordinary person, the entrepreneur

Arvind Subramanian: So let's not lose sight of this really dynamic part of India. I mean I am not saying that this is the answer to all of India's challenges. I think manufacturing and *Make in India* have an important role to play. But I think there is also this huge wealth of dynamism, talent, technology, exploitation; Raghu and I wrote something long ago, *The Churn of India*; this exemplifies *The Churn of India*

NDTV: But I hate to say even here there is little bit of structural problems, rules, regulations; people, you can't only have a market place, a warehouse; that needs to be sorted out. We have to learn from other countries, just copy or we inspire

Raghuram Rajan: I think both the regulators, the Central Bank and the Government, have the years open and are working on this. For example we have spent time with entrepreneurs trying to figure out, what do you say, that makes you go to Singapore and incorporate there as supposed to incorporating here? What are the things we can fix? And some of them we can fix them directly and some of them will take a little bit of time, because they are tied to everything else. But my sense is we are well and truly convinced that we need to make the

business environment easier and have better regulators, not no regulations, better, what is appropriate, lighter but well enforced. Whatever we have on the books we have to enforce and one of our so called tiffs was with a the company that was violating FEMA rules, and in order to give an easier sort of service to the customer, we said stop violating the rules. We figure out a way either to change a rule or find new ways of meeting the rules

NDTV: That's a wonderful refreshing way to look at something

Arvind Subramaniam: Just to add to that I would say that regulation, lighter better, but in all these new Swedes of the Indian economy maybe there is a huge role for Government inaction, as much as there is for action

NDTV: That's generally true by the way. Every day the Parliament, we lose a day of work in the Parliament, many people say it's a game for the country

NDTV: There is one other issue, which a lot of other people are raising, there is a saying even if broke don't fix it. The RBI has beautifully for years, we have a great RBI Governor right now, the world admires him, why do you want to create this MPC, the Monetary Policy Committee, starts interfering in his work? It isn't broke

Raghuram Rajan: Actually let me interrupt there

NDTV: No, no

Raghuram Rajan: I will interrupt because I actually want the MPCs

Arvind Subramaniam: That's what he is going to say

NDTV: Now you are being so politically correct. Even he is laughing

Raghuram Rajan: I have been saying this for a long time. It is actually something, which I actually think is important to establish, the independence of the RBI beyond personalities, into a sort of the future. And the reason is only three, four. One, when you have a Committee, first you get multiple views, so it is not me, it is a bunch of people who have thought and you get a collective view. Hopefully the collective view over the time will be better than individual views possibly could be. Second, of course if you get the right individual this is always the problem

NDTV: That is the problem, the government appointing 4 out of 7

Raghuram Rajan: The government has always appointed the RBI Governor

Arvind Subramanian: Good choices, you must say always

NDTV: Not always, but certainly now

Raghuram Rajan: It has been a reasonably good set of...

Arvind Subramanian: He is being modest

NDTV: I don't think that bureaucrats should not be given such an important technical post. They will take five years to figure it out

Raghuram Rajan: Dr YB Reddy was a great Governor

NDTV: There are of course many

Raghuram Rajan: The point is to get multiple views. Second what you have is six people, one goes off, six, twelve, whatever the number is...

NDTV: Is it six? I thought it is seven

Raghuram Rajan: Whatever the number is the government has to announce the number

Arvind Subramanian: The number is being discussed

Raghuram Rajan: It is being discussed

NDTV: I am getting a scoop

Raghuram Rajan: No, you are not

NDTV: One little scoop

Raghuram Rajan: Let us take whatever the number is, those people are going to be, one guy gets off, there are still $n-1$ left who are going to be the source of continuity in monetary policy. It is very important you understand what the Central Bank is up to

NDTV: The independence of the Governor is crucial

Raghuram Rajan: No, no, I am coming to the third point. Putting pressure on 6 people is much harder than putting pressure on one person. So you just told me the plight of the industrialists, so I will just go home and think about it and how to I address this etc. So different people may have different views. So the point I am trying to make here is that this will actually secure the independence. Now the point, who appoints etc. is for continuity and I think we need to work out and we have broadly a consensus with the government that how this should go. This has to go through the Cabinet and then through legislation and there could be modifications, but I think there is broad agreement and the government is very supportive of this process.

Arvind Subramanian: I just want to say that from the Government's point of view think there is no question the RBI is one of our really great and incredible institutions, We intend to keep it that way and anything we do will be done jointly together and this is how we are proceeding

NDTV: But you will be able to overrule the government, right?

Arvind Subramanian: There is no opposition. There will be a Monetary Policy Committee

NDTV: This is church and state. It is a worry overall because it was functioning so well and you know, I just feel independence of the Governor is so crucial

Raghuram Rajan: I think the Governor will still be independent. But I believe that if it is structured as broadly discussed, that it will be an independent entity and remember again and again you see people appointed by the Government, but appointed to an institution, if they are people with integrity, typically they are, they adopt the interest of the institution because they have been appointed to run that institution according to its own objective. So it's not that there will be a string tying the person who is appointed, Deputy Governor in charge of the monetary is appointed by the Government, the Governor is appointed by the Government, but there have been differences between the Government and the RBI

NDTV: It is not just that you were irritated that you were lowering rates and said now let us put a whole lot of people there?

Arvind Subramanian: I think the way to think about this is the following you know, Francis Fukuyama, the guy who wrote *End of History*, he has a very nice phrase, the China good Emperor, the bad Emperor problem, so when you have

individuals you do not know good or bad right? I think what we are trying to do is...

NDTV: When you have the Government involved you know the truth

Arvind Subramanian: What we are trying to do with the RBI is preserve the good Emperor thing, but also try and build the institution so we get the best of an institutional view and an independent Governor

NDTV: Does it remind you bit of a judiciary versus the governments, where they tried to just kind of change the appointment of judges and there was interference and they were struck down? Are you trying to interfere in the law? Maybe a good government now, good people work for another 10 years and then the rogue government comes in and then the Governor is hampered?

Raghuram Rajan: That is precisely I think this new structure will be more independent of whatever Government is

NDTV: The Government does

Raghuram Rajan: Because you can't overnight change the entire structure. People will have terms and so on, so there will be continuity in policy, both when people leave and both when new Governments come in. So having a target is of semi sort of which is stable, having a Committee, which is stable, all this are institutionalizing; it is the change which I think is very important for us

NDTV: Last question

Audience 5: Broadly speaking it is unprecedented that the Government and the RBI are seen to be so friendly with each other. Now take this step a little further, it is not just about monetary policy, there have been previous Government committee recommendations such as the Rangarajan Committee, which has actually recommended the RBI should consult the Government re the budget, re matters also. Why aren't we seeing more of this synthesis later? Why aren't we seeing a dilution of financial policy or fiscal policy and monetary policy in general?

NDTV: Basically you should write the budget with him

Raghuram Rajan: First I think the differences between the RBI and the Government, I hate to say this again, but sometimes our two good Press sort of

paper over, and so small differences or general differences in opinion or personality clash turn into a deeper sort of juicy problem

NDTV: Not on NDTV

Raghuram Rajan: We have regular discussions not just ones before the monetary policy. We have regular discussions with the Government at all levels and I think there is a very cordial understanding, you know, for the most part and sometimes there are differences; they have to be there, have to be differences, because we are appointed to be different, because it could be run from government block

Arvind Subramaniam: This is exactly, I would say of course you should be very worried if we disagree on substandard terms, you should perhaps be equally worried if we agree about everything and don't disagree about things. The second thing I would say is that even what you want, just as we have views on them, as they have views on what they do, you know we have a process, we have processes. In fact these get a chance to get, in fact aired, reviewed, discussed and so on. So I think that process in that case, in any case I have Raghu's number and he has mine

NDTV: And they never pick up

Raghuram Rajan: I think the important thing is Government, of course, has the right to replace whoever it wants in institutions that are with it, but it also continuously says, here is what I think but the decision is yours. So the Government can make its views heard but it is important to let the entity, to whom it is speaking, make the decision. And I think that culture, that decision has built up in our country, it is an important tradition

Arvind Subramaniam: The Government has no intention of changing it at all

NDTV: I think we have completely, we have done our 20 minutes; we are running out of time. There is one question which everybody asked me to ask you, what in the Budget he should do and one thing in the monetary policy you would like to see that he should do and then we will end, then the 20 minutes will be over

Raghuram Rajan: Oh God, look I have to think about it

NDTV: Let him think, you fire first

Arvind Subramaniam: Maybe things are too harmonious, now I can't think of it, but I think this is an institution that the government values

NDTV: One thing he may advise you, he may not tell you to go and jump in the...

Arvind Subramaniam: This is something Raghu is not doing, that is being watchful over the Indian competitive of the Indian economy and the exchange rate, which you raised as a concern

Raghuram Rajan: This is something the Government is trying very hard and I am not saying this, just it is already doing it, but I think passing GST would be such a strong signal, not just to the domestic economy but to the global economy, that we are willing to overcome difficulties, you know, whatever differences there are

NDTV: This is way beyond politics

Raghuram Rajan: This is beyond politics. This is about stabilizing and ensuring growth going forward, so I think GST is trying that...

NDTV: Something they are not trying which they should try?

Raghuram Rajan: Well I think this is plenty. To this if they can do GST I think it would send a huge signal and also buy us enormous protection against any volatility that comes from the external. As you said we are passing through difficult times, we are a recovering economy, but times are great to send a signal like this would be fantastic

Arvind Subramaniam: Just to add to that, just say that's the message, that is not true for Government, but for all sections and all parties in the spirit of true inclusiveness, and putting the national interest above narrow things, so I would endorse what he said

NDTV: Wonderful to hear the two of you, thank you very much