

## **K C Chakrabarty: Ideas and actions for re-igniting India's growth and shaping the recovery**

Keynote address by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at the PGPX CONNEXION Conclave 2013, organised by the Indian Institute of Management, Ahmedabad, 25 October 2013.

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1. His Excellency, Dr. Arye Kumar Jagessur, High Commissioner of Mauritius in India; Dr. Ajay Pandey, Dean, IIM Ahmedabad; PGPX Chair Professor Anurag Agarwal, other faculty members and students of IIM Ahmedabad. Let me begin by thanking you for inviting me to CONNEXION 2013. I understand that this is an annual event organized by the students of the One-year Post-Graduate Programme in Management for Executives (PGPX) which brings together industry and academia for brainstorming on current issues facing the nation. It is, indeed, a pleasure to be here this morning as I have an opportunity to share my thoughts with both the business leaders of today and tomorrow, and also with those who are shaping and grooming the business leaders of tomorrow. I have no doubt that the gathering I am addressing today will be playing a key role in determining the future of our economy through its ideas and actions. At all times, ideas shape growth in the economy, but perhaps the theme of this summit, viz. "India In Cubate: Idea to Action", is much more relevant today than ever before. You all know that our economy is at a critical juncture with growth having slowed down for the past two years to a seventeen-quarter low, at close to 4 per cent. At this juncture, the onus is upon each one of us to determine the future course of our economy, whether to shape a growth recovery or slide further down, and imperil the long-term sustainability of India's growth story. However, we need a combination of both ideas that shape the recovery and actions that translate those ideas into actual recovery and growth. This will be the theme of my talk today.

2. I will cover four very simple things. First, how or why ideas are important for economic growth. Second, how ideas are a necessary condition for growth but it is the execution of those ideas, which provides the sufficient condition to actually achieve growth. Third, what are the possible ideas and policies that can put India's growth back on a sustainable path. Fourth, what the business community and financial markets can do to recoup India's failing growth levels. Of course, these thoughts are not final words, but a mere conduit to stimulate more ideas and thinking. I am sure that IIM Ahmedabad, known globally as an institution par excellence in business education, would be able to add many more ideas to the debate I intend to initiate today.

3. How do ideas matter for growth? We all know that ideas lead to inventions like the steam engine, which in turn sparked the Industrial Revolution. However, ideas need not necessarily result in inventions or discoveries. Simple managerial innovations can deliver productivity enhancements, which could form the basis for growth. Let me elucidate.

### **Ideas matter for growth**

4. The fact that ideas have driven the largest economic expansions is ingrained in our economic history. Ideas originating from the need for meeting basic human wants such as food, clothes and shelter propelled mankind's first forays into organized economic behaviour at the time of the great river-valley civilisations that prospered around the Nile, the Tigris-Euphrates, the Huang-Ho and the Indus Valley, starting around 3300 B.C.

5. The Industrial Revolution of the 18th century was another example of clustering of ideas that set the stage for rapid economic advancement. Inventions and innovations such as the steam engine, iron and textile manufacturing that led to the origin of modern – day

factories and the corporate system transformed not just the British economy but expanded over time to cover the rest of the world as well. These ideas may have resulted in inventions that drove technological advancements but these were much more than mere inventions. These were actually a series of ideas that fed into one another in the form of an interface amongst ideas. For instance, the steam engine would not have been possible without advancements in smelting and refining techniques of new ores and fuels that led to economic use of coal. This in turn led to advances in the chemical industry, which threw up a range of consumer goods such as soap, glasses, etc. Also, these technological changes spurred political, social and cultural changes leading to changes in the way of thinking. The European society that once could not tolerate Copernicus and Galileo, began to cultivate a scientific temper and promoted thoughts like free trade with significant implications for growth and welfare.

6. Given the strength of ideas in fostering growth, it is a pity that we pay insufficient attention to it. Let us not forget Marie Curie's advice, "be less curious about people and more curious about ideas". In a similar vein, Eleanor Roosevelt, American First Lady, once quipped, 'great minds discuss ideas; average minds discuss events; small minds discuss people'

### **Converting ideas into action to deliver growth**

7. Yet, ideas by themselves are not enough. James Russel Lowell, the 19th century American Romantic poet said, "all the beautiful sentiments in the world weigh less than a single lovely action". Conversion of ideas into action is important as Mahatma Gandhi pointed out, that "action expresses our priorities". However, let me add that it is hard to convert thoughts into reality. The French novelist, Honour de Balzac once said "it is easy to sit up and take notice, what is difficult is getting up and taking action". There is not so often a knowledge gap as there is a courage gap, for it needs courage to execute in labour, ideas that are born at leisure in our minds.

8. Productive ideas are often born out of social necessity, and these have a way of spawning their own transition into action. Singer got the idea of inventing the sewing machine when he saw his wife toil so hard with her sewing and his mind craved to do something about it, leading to the execution of his idea of a vibrating shuttle sewing machine. This brought a sea-change to the hitherto transverse shuttle designs, and revolutionised the production of textiles into a high-speed, mass-production industry that never looked back.

9. Action can take several forms and yield different results from the same idea depending on how action occurs. Henry Fayol provided us with principles of administration that laid the foundations of the theory and practice of organizational management. Some of these principles, which were enunciated in his book, General and Industrial Management (published in French in 1916 and later in English in 1949), have helped several generations of business managers in effectively carrying out their functions by minimising misunderstandings, better coordinating actions, thereby resulting in increased efficiency in organizations.

10. Qwerty keys was a great idea devised way back in the 1870s, making it easy to typewrite using only the keys on the top, thereby preventing the ribbons from clashing with one another. This single idea has withstood the test of time and is the basis of the keyboard on our laptops and many mobiles even today. This experience tells us that ideas need to be translated into action, which can, then, have long-term effects on growth, as acceptability of the ideas and their user-familiarity provide lasting gains. Victor Hugo famously said that "an invasion of armies can be resisted, but not an idea whose time has come".

11. However, the ideas have to be put into action for growth to take place and it is in this context that the premier academic institutions like IIMs, have a crucial role. Over the years, your institution has done a remarkable job in bridging the knowledge gap. Believe me, there is absolutely no dearth of good ideas in the system. What is lacking, however, is the courage

to execute and bring these ideas to fruition. Going forward, IIMs have to work towards narrowing this courage gap that exists in the society.

### **Ideas and policies to put India's growth back on sustainable path**

12. Now what relevance do these micro-stories on ideas and actions have for shaping a sustainable recovery in India? The link may not seem obvious, but there is plenty that can be gleaned from the above analogies. I will discuss four simple ideas and actions which need to be taken to get India on the path of growth. This, of course, is not, an exhaustive list of ideas, but only an illustration of how easily we can and we shall get our growth back. Let me also emphasise here that our problems are much simpler than elsewhere in the globe and the added advantage is that we are well aware of our problems.

13. Are the ideas that will restore India's growth momentum more related to micro or macroeconomics? My belief is that for putting India back on to the growth track, we need to focus much more closely on the micro level than on the macro. However, the ideas for bringing about this change have to emanate from thought leaders at all levels. For example, we cannot expect the R-SETIs to be the harbinger of ideas for entrepreneurial grooming and adaptation to changing technologies. These ideas have to primarily come from the storehouses of wisdom like IIMs and the IITs, which can then, in turn, be executed at the R-SETIs. The bottom line therefore is that we need more IIM and IIT graduates to develop entrepreneurship ideas for the R-SETIs.

14. The second idea is to promote new thinking through R & D and managerial innovations. You will be surprised to know that, based on the World Bank database; India spends only 0.75 per cent of its GDP on R & D. This compares poorly with the OECD countries' 2.5 per cent, China's 1.7 per cent, Russia's 1.3 per cent and Brazil's 1.2 per cent of their GDPs. We have just not been paying enough attention to our scientific advancement of late. After achieving technological and organizational breakthroughs that delivered the Green Revolution, the White Revolution and then pushing textile, machine tool and software exports, we seem to have lost momentum. Take the case of agriculture. Are we doing enough to push agriculture in our semi-arid areas and harness greater yields? There is much more potential for application of biotechnology and genetic engineering to raise more crops in a wholesome manner. These should become our focus areas. We should bring appropriate productivity inputs, maybe from Punjab and Andhra Pradesh, to the backward regions of Bihar and Bengal etc. We should, actually, be spending more on R & D than the advanced economies.

15. The third idea relates to how to get small and medium enterprises (SMEs) to realise their true potential as also to ensure that the sector receives its fair share of institutional finance. SME entrepreneurs, though proficient in the core production process, require support in other functions to nurture their businesses. There is a need for starting SME Service Centres, may be by some of the IIM graduates, on a cluster basis, to conduct research and provide ideas on management of productivity, marketing and distribution. Their research should also be seized of the need for adequate institutional financing of small firms which face more constraints compared with large firms.

16. The fourth idea, of course, stems from my long-cherished goal of seeing meaningful financial inclusion in the country. Improving access to finance for individual households, who are financially excluded, is an important public policy goal without which sustainable growth and development is not possible. We should ensure availability of finance to needy entrepreneurs by making credit dispensation extendable to them. Of course, this is without losing sight of the fact that aspiring entrepreneurs should also be credit-worthy. On its part, the Reserve Bank has taken significant steps to promote financial inclusion. The Kisan Credit Card (KCC) Scheme has immensely improved farmers' access to bank credit while banks have disbursed credit for non-farm entrepreneurial activity under the GCC Scheme. During 2012–13, the public and private sector banks issued 3.5 million additional KCCs and

0.8 million GCCs. But, universal financial inclusion still remains elusive. What can we do about it? Our banks are still struggling to evolve a cost-effective delivery model to extend the banking services to the far corners of the country. It is inexplicable why a country which is the backyard for providing the technology solutions to the world cannot develop a cost-effective solution for our banks. We need to harness technology more systematically to ensure scalability of such services at reduced costs. We need to direct our financial inclusion efforts towards what the poor need and are likely to demand, rather than trying to impose the supply-led solutions upon them. In this context, I would like the IIM students present here today to serve as the leading lights and ensure that the mission of financial inclusion does not remain only a fashion but becomes a national passion. It is expected that ensuring access to institutional finance to all individuals will itself increase the GDP by 1.5 per cent. What is needed is efficient governance. With good governance from authorities such as the government, there should also be a revival of the animal spirits among the educated graduates from IIMs and IITs. We have descended into a languishing stupor, ennui, a melancholy feeling that nothing is happening or is likely to happen. We have to break this melancholy and revive optimistic spirits and optimistic thinking.

17. We are often reminded of our burgeoning fiscal deficit. Let me emphasize that there are a few very simple steps that need to be taken to rein in a sizeable chunk of the deficit. We must look to reduce wastage in the system and curtail the subsidies- in urban transport system, power distribution, LPG and diesel. If we can improve our governance and minimise such wastages in the system, the fiscal deficit will automatically come down. Efficient use of subsidies will reduce expenditure, which will, in turn, reduce imports of fuel and help bring down the Current Account Deficit.

18. So it behoves on us, the public at large, and the government in particular, to adopt fuel conservation as a national priority. We should also stop the matter-of-right cornering of subsidies by all, which undermines their efficient and economic use. We must appreciate that these are difficult times for our economy and, therefore, we should be willing to make small sacrifices. We should be willing to live with smaller wage hikes. This is applicable to all sections of the society, especially, the elitist section.

## **Infrastructure**

19. A very disquieting aspect of infrastructure usage in the country is that we demand the best infrastructure but want to access them for free. In India, VIPs get access to subsidies and infrastructural services first, and there is little concern for whether or not it reaches the poor and needy. We should stop this culture from becoming a moral hazard. Again here, the need for good governance comes to the fore. While on the subject of infrastructure, I would like to add that one cannot fund the growth of the infrastructure sector based on debt alone. As the situation stands, many of the stalled infrastructure projects have been financed solely by debt and promoters' equity contribution is absolutely minimal. Our observation is that often debt is raised in the holding companies and is down-streamed as equity in subsidiary ventures or SPVs. This is a risky practice. Corporate groups have become hugely leveraged and their debt servicing abilities have been severely constrained. The promoters of stalled infrastructure projects have little incentive to bring the projects on stream. As future business managers of the country, I would like to impress upon you to realise the importance of equity in running successful businesses, as it creates an incentive for managements to eschew excessive risks. We need ideas to be able to raise fresh equity.

## **Concluding message**

20. I would like to conclude by giving you three messages, which I always do, whenever I get an opportunity to interact with students. My first message is that you must strive to be "third generation literate". All of you have acquired the first and second generation literacy i.e. gained subject knowledge by reading books and the knowledge about computers and

information technology. What I mean by third generation literacy is to become “information literate”. I read somewhere that every day, we create some 2.5 quintillion bytes of data and more than 90 per cent of the data has been created in the last two years. I do not know how many zeroes a quintillion has, but, that definitely means a whole lot of information. Every day in your professional and personal lives you will come across volumes of information and that is why I want you to be information literate. Try to be aware of the things happening around you. You should be hungry to learn more and constantly update yourself by keeping alive your quest for knowledge. Information literacy envisages not just seeking information, but developing the ability to assimilate the same and to apply it in decision making. My second message to all of you is to never be complacent in life. Think positive and avoid complacency. It is all the more important for the people who ply their trade in the area of finance as moments of complacency can bring disastrous results. My third and final message is, be prepared for bad times. In your career you are bound to encounter tough situations. During such situations, lie low and pray to God. Do not get desperate, as good times will surely come back. You will always be successful in your life and professional career, if you follow the above three commandments. The knowledge that you have acquired in India’s most premier academic institution, will open the doors of success for you in whichever field you choose. I leave you with a quote from Francis Bacon which aptly sums up the power of young men and women like you. “Young men are fitter to invent than to judge; fitter for execution than for counsel; and fitter for new projects than for settled business”. I hope many of you will nurture your ideas into entrepreneurial ventures and truly contribute to the economy and the nation.

I once again thank the organizers for inviting me to this seminar which provided me an opportunity to engage with the brightest minds in the country. I wish you a very fruitful and engrossing two days of interaction ahead. I hope you would find time to ponder over the point I made about narrowing the courage gap during your deliberations which is so very crucial to ensure that not only ideas are generated, but also find their way into execution. If good ideas could be incubated and acted upon, India would soon return to the higher growth trajectory and gain its rightful place in the world order.

Thank You!