

Raghuram Rajan: Money and education

Speech by Dr Raghuram Rajan, Governor of the Reserve Bank of India, at Shiv Nadar University, Delhi, 7 May 2016.

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Thanks very much for inviting me to speak today. First, congratulations to all of you who are receiving degrees today. Congratulations also to your teachers, family, and friends who have invested in you and supported you.

Convocation speeches are meant to give you one last set of issues to ponder on before you are let loose on the world. I will actually talk about two issues – an economic point deriving from my training as an economist, and a point about private universities deriving from my work at one for over 20 years. I embark on this talk comforted by the knowledge that the bar for convocation speeches is low. If you even remember a word I say a few years from now, I will have surpassed the average convocation speaker – most people don't remember who spoke at their convocation, let alone what they said.

First, the economic point: In a very interesting recent book, Harvard philosopher Michael Sandel points to the range of things money can buy in modern society. He seems to want to make us angry at the growing dominance of the market.¹ Professor Sandel worries not just about the corrupting nature of some exchanges as they are monetized but also questions their effectiveness; For instance, do kids really develop a love of reading if they are bribed to read books? He is also concerned about unequal access to money, which makes trades using money inherently unequal. More generally, Sandel fears that the expansion of anonymous monetary exchange breaks down social cohesion, and argues for reducing money's role in society.

While Sandel's concerns are not entirely new, his examples are worth reflecting on. For instance, some companies pay the unemployed to stand in line for free public tickets to Congressional hearings in the United States. They then sell the tickets to lobbyists and corporate lawyers who have a business interest in the hearing but are too busy to stand in line. Clearly, public hearings are an important element of participatory democracy. All citizens should have equal access. So selling access seems a perversion of democratic principles.

The fundamental problem, though, is scarcity. We cannot accommodate everyone in the room who might have interest in a particularly important hearing. So we have to "sell" entry. We can either allow people to use their time to bid for seats – the one who stands the longest wins the seat – or we can auction seats for money. The former seems fairer, because all citizens seemingly start with equal endowments of time – we all start with 24 hours in a day. But is a single mother with a high pressure job and three young children as equally endowed with spare time as a student on summer vacation? And is society better off if she, the chief legal counsel in a large corporation, spends much of her time standing in line for hearings?

Whether it is better to sell entry tickets for time or for money thus depends on what we hope to achieve. If we want to increase society's productive efficiency, people's willingness to pay with money is a reasonable indicator of how much they will gain if they have access to the hearing. Auctioning seats for money makes sense – the lawyer contributes more to society by preparing briefs than standing in line. On the other hand, if it is important that young impressionable citizens see how their democracy works, if it is important that we build social solidarity by making corporate executives stand in line with jobless teenagers, perhaps we should force people to bid with their time by standing in line, and make entry tickets non-transferable. And if we think that both objectives should play some role, perhaps we should

¹ *What Money Can't Buy: The Moral Limits of the Market*, by Michael Sandel, 2012, Allen Lane, London.

turn a blind eye to some operators hiring those with spare time to stay in line in lieu of busy lawyers, so long as they do not corner all the seats.

What about the sale of human organs, another example Sandel worries about? Something seems wrong when a lung or a kidney is sold for money. However, we celebrate the kindness of a stranger who donates a kidney to a young child. So, clearly, it is not the transfer of the organ that outrages us – we do not think the donor is misinformed about the value of their kidney or is being fooled into parting with it. Nor, I think, do we have concerns about the scruples of the person selling the organ – after all, they are parting irreversibly with something that is very dear to them for a price that few of us would agree to.

I think part of our discomfort has to do with the circumstances in which the transaction takes place. What kind of society do we live in if people have to sell their organs to survive? But while a ban on organ sales may make us feel better, does it really make society better off? Possibly, if it makes society work harder to make sure people are never driven to the circumstances that would make them contemplate a sale. Possibly not, if it allows society to turn its back on the underlying problem, either moving the trade underground, or forcing people in dire circumstances to resort to worse remedies.

But I also think part of our unease has to do with what we perceive as an unequal exchange. The seller is giving up part of her body in an irreversible transaction. The buyer is giving up only money – perhaps earned on a lucky stock trade or through an overpaid job. If that money was earned by selling a portion of a lung, or by painful savings accumulated after years of backbreaking work, we might consider the exchange more equal. But the central virtue of money is precisely its anonymity. We need know nothing about the rupee we get to be able to use it. But because money's anonymity obscures its provenance, it may be socially less acceptable as a medium of payment for some objects.

Professor Sandel makes us think. But he seems to move too quickly to prescribe banning monetary transactions, when his real concern is perhaps with the unfair distribution of money. What he also seems to ignore are the virtues of anonymity. In a free market, all it takes to buy what you want is money. You do not need a pedigree, a great family history, the right table manners, or the right fashionable clothing or looks. It is because money has no odour, because it is the great equalizer, that so many people across history have been able to acquire resources and invested them to make the world we live in. Indeed, making it easy for Dalits to start businesses may do more for their social status because money empowers than many other forms of affirmative action. Rather than prohibiting the use of money and wealth, let us think about increasing society's tolerance for its use.

What can you take away from all this? First, that it helps to question everything, including my interpretation of Sandel, for only with questioning comes clarity. Second, if you believe my interpretation, there is a strong link between society's support for free markets and the fairness with which wealth and opportunity is distributed among the population. Unfortunately, even while inequality between countries is diminishing today, inequality within countries is increasing. Today, even well-run market economies seem to be favouring those who already have plenty. In part, this is because skills and capabilities have become much more important in well-paid jobs, and those born in good circumstances have a much better chance at acquiring these. The winner-take-all nature of many occupations, where a few of the most capable entrepreneurs and the best workers take most of the income (think apps, architecture or acting, for example) accentuates the value of early childhood preparation; and hence the benefit of being born to the right parents in the right community. Income inequality is on the rise, with some having colossal incomes and others worrying about the next meal.

What can we all do to restore faith in markets? We have to work to provide effective access to schooling and healthcare for all, a non-discriminating job market with many jobs, equal opportunities for further advancement regardless of gender, race or background. All this will increase the perceived legitimacy of wealth and society's willingness to broaden the areas where it is spent. Thoughtful philanthropy, as reflected in the founding of this school, can

further help enhance society's acceptance of great wealth. Finally, as you embark on careers that are likely to be very successful, you should earn by creating perceptible value and, equally, spend to create value. Not only will your work be more enjoyable, but you will strengthen the economic freedoms we sometimes take for granted.

Let me turn briefly to my point about private education. Private education across the world is expensive, especially in high-quality research universities, and getting more expensive all the time. That is because the critical resource, good professors, is in short supply. Two solutions are proposed. One is technology. Why not have the best professors beam lectures at thousands of students over the net? The problem is that while such classes seem theoretically attractive, completion rates are abysmal. We do not finish such courses perhaps for the same reason we do not simply take a course syllabus and read the recommended books in the library – there are too many distractions in life for us to complete without other forms of compulsion. Online courses still need to figure out, not just how to get student commitment, but also how to provide the learning support that a university community and environment offers.

A second solution is to dispense with research and to have teachers who do not do research. After all, such teachers do not need Ph.Ds, and there should be many more available. Yet it does appear that students prefer degrees from research universities in the United States to those from teaching colleges, even for their undergraduate degrees where students do little research. Let me conjecture why. It is not that research professors know more about the basic material that has to be taught – their research is often specialized in a narrow area. Neither does research necessarily make you a good teacher – understanding the material at a deeper level may sometimes make it more difficult to explain. I do think, however, that good research requires curiosity. Almost all researchers remain curious through their lives, and constantly update their teaching material to reflect developments in the field. I would conjecture, though I have no proof, this is why teaching at research universities is, on average, preferred to teaching at teaching colleges – you are taught more up-to-date challenging material in the former.

The bottom line is that education at high quality research universities will remain expensive for a while, certainly till we learn to combine technology and people better. Given the need to broaden access to all the deserving, we have to make degrees affordable. One part of the solution is student loans, but we have to be careful that student loans are repaid in full by those who have the means, while they are forgiven in part for those who fall on bad times, or those who take low paying public service jobs. We also should make sure that unscrupulous schools do not prey on uninformed students, leaving them with high debt and useless degrees. A second part of the solution is philanthropy, not just by the founders, but by the successful students from a university. Giving back to the university is a way of subsidizing the costs of future generations acknowledging the subsidies you received from the founders when you got your degree. I hope we develop a strong culture of alumni giving in India.

You have been very patient in listening to me. Let me conclude. India is changing, in many ways for the better. You will be able to help shape our country, the world, and your place in it. By all means set yourself ambitious goals. But remember that, as both ancient Indian philosophers and modern day behavioural psychologists say, the achievement of narrow personal goals – greater wealth, rapid promotion, or increasing renown – rarely brings you anything other than brief pleasure. I don't claim to know the secret of happiness, but this seems obvious – if you like the journey, if you get pleasure from the work you do, it matters far less when, or indeed whether, you reach your destination.

You have far more control over the journey you choose. And often the most enjoyable journeys are those where your goals are broader and where you take others with you, especially others who could not make it without your help. In doing so, you will make this world a better, and more stable, place.

Thank you! I wish you good luck in your future endeavours and hope they are crowned with success.