

PALANIAPPAN CHIDAMBARAM

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NAME:: Palaniappan Chidambaram

DATES::

BIO HANDLE:: Finance minister of India from 1996 to 1998, Palaniappan Chidambaram is vocally pro-business and one of the architects of India's economic reforms under Prime Minister Rajiv Gandhi.

INTERVIEW DESCRIPTOR:: Chidambaram discusses India's experience with central planning, the economic crisis and subsequent reforms of 1991, and globalization in the Indian context.

BLOCK:: 1

TITLE:: Introduction to India's Experience with Central Planning

TAGS:: Central Planning, Poverty, Protectionism, Import Substitution

COUNTRIES:: India

YEARS:: 1950-1989

INTERVIEWER: How important was Soviet-style central planning to the old Indian economy?

PALANIAPPAN CHIDAMBARAM: The government of the day was greatly influenced by Soviet central planning. It appeared to be an alternative model. We were fascinated by the idea that everybody can share in the prosperity and wealth, and that poverty would be abolished, and that the state can provide virtually everything to all the people. This was an idea which seemed to have fascinated that generation.

INTERVIEWER: And you're implying that it failed?

PALANIAPPAN CHIDAMBARAM: Obviously. It failed miserably in India. For the first 30 years the average growth rate of our GDP was barely 3.5 percent, and if you account for a population rise of about 2.3 percent or so, the per capita growth rate was barely 1.2 percent.

INTERVIEWER: That's really dismal.

PALANIAPPAN CHIDAMBARAM: It was pretty dismal growth, and that is why there was such massive poverty in India.

INTERVIEWER: Why did foreign trade play such a small part in the Indian economy?

PALANIAPPAN CHIDAMBARAM: Because of our colonial experience. The British, who came to India as traders, eventually became rulers. There was, therefore, a great degree of fear about foreign traders, foreign companies coming into India once again, establishing a kind of hegemony. In fact it was called at that day the "neo-colonial" attempt by industry and trade.

It was a very foolish attempt to keep India out of the world trading system. Because, after all, India was a major trading nation for many, many years. We have a long maritime history. Indians have traded with countries as far as Greece and China. But then again, the government of the day thought that we should produce everything, we should be self-sufficient and we should not depend on imports. In fact, import substitution was a great mantra during those days.

INTERVIEWER: When you went to the Harvard Business School, did this change your own perspective?

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PALANIAPPAN CHIDAMBARAM: Let me tell you very frankly, when I went to the Harvard Business School I was more or less a committed socialist. Even in the Harvard Business School I don't believe I quite gave up my admiration for socialism, although remaining in the U.S. for two years exposed me to another model, which appeared to be more successful, which appeared to have brought jobs and incomes and prosperity to a much larger proportion of people. But I must confess that I still remained quite pink when I was there.

END BLOCK:: 1

BLOCK:: 2

TITLE:: The Social, Economic, and Political Effects of the Permit Raj

TAGS:: Corruption, Bureaucracy, Trade Unions, Law, Poverty, Distribution

COUNTRIES:: India

YEARS:: 1950-1989

INTERVIEWER: Would it be fair to say that the inevitable consequence of central planning was the Permit Raj?

PALANIAPPAN CHIDAMBARAM: Yes. Once it was decided that the government will allocate resources, or at least controlled allocation of resources, the license Permit Raj was inevitable, because capacities had to be limited, growth had to be limited, and a system of rationing had to be adopted in terms of both bank funds as well as permissions.

INTERVIEWER: You had direct experience in the license Permit Raj. What did you actually come across?

PALANIAPPAN CHIDAMBARAM: When I came back to India after Harvard Business School I started as a lawyer and as a trade union leader. Now, I had a very special advantage -- I was looking at the way government worked as a lawyer, challenging government action in courts. I was also looking at the working of Indian companies from a trade union point of view. And I found that enterprise was stifled, [there was] rampant corruption, efficiency was penalized, growth was crippled and because of this protective market, the Indian people were being given shoddy goods and services at very high prices. Only rent-seekers flourished.

The system simply was not creating enough jobs. There was not a sharp rise in incomes as we thought it would have, and the most disillusioning aspect of it was the rampant corruption in government. Every license, every permit, every amendment to that was procured by corrupt means.

INTERVIEWER: A bribe?

PALANIAPPAN CHIDAMBARAM: Well, bribe is the simpler word, I suppose.

INTERVIEWER: Can you give me some kind of specific examples of the way in which the Permit Raj would interfere in businesses?

PALANIAPPAN CHIDAMBARAM: Oh, yes. If your capacity was limited, say, to producing 100,000 cycles a year and there was an excise duty on cycles, if you produced one cycle more than the capacity you are to pay a higher duty, because you were exceeding your capacity. And then there was a reservation for small scale, which meant that once you touched the ceiling in allowing you to grow and enjoy the economies of scale, you were obliged to set up

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another unit under a bogus name -- the same proprietor, the same manufacturer -- in another unit in order again to start from scratch and go up to that ceiling.

So you were not getting the economies of scale, you were simply setting up a large number of bogus and fraudulent units, and by and large the system was a self-defeating system. Yes, it did create a small entrepreneurial class in this country, one can't deny that. But by and large I think the system failed in terms of our objects, namely abolition of poverty and creation of jobs.

INTERVIEWER: One of the phrases that people always say is that the [Permit Raj] was more interested in redistributing wealth than creating it.

PALANIAPPAN CHIDAMBARAM: Well, at least if wealth had grown in leaps and bounds, the redistribution could have been welcomed. But as I told you, the GDP was growing at the miserable rate of 3.5 percent a year.

INTERVIEWER: So they were redistributing poverty?

PALANIAPPAN CHIDAMBARAM: There was very, very little to redistribute.

END BLOCK:: 2

BLOCK:: 3

TITLE:: The Causes of India's Economic Crisis of 1991

TAGS:: Devaluation, Narasimha Rao, Manmohan Singh, Currency Crisis, Economic Reform, Socialism, Civil Servants

COUNTRIES:: India

YEARS:: 1991

INTERVIEWER: Clearly there was a change of heart in the offing, but things are happening abroad which must have had some impact on Indians intellectually. Did the collapse of the Soviet economy lead to a rethink here?

PALANIAPPAN CHIDAMBARAM: Actually, the rethink started before the collapse of the Soviet economy. The collapse took place in December of '91, but Congress Party had a manifesto written in early '91 which had included all these reforms. Mr. Rajiv Gandhi was killed in the middle of that election and Mr. Narasimha Rao took over as prime minister. But he had with him a manifesto, and when he appointed Dr. Manmohan Singh as finance minister the natural thing to do was to implement parts of that manifesto.

Of course, the very precarious position we were in at that time -- reserves that collapsed to less than a billion dollars, we were borrowing heavily, we had to mortgage our gold deposits, our growth rate had come to virtually zero and there were no inflows of foreign exchange -- all this, of course, added to our very enormous crisis, a crisis of enormous proportions. Therefore, the first reforms started in July 1991 with the devaluation, and then everything followed after that.

The collapse of the Soviet Union in 1991, December, only confirmed our view that the Soviet model simply would not deliver. Even if it appeared to deliver for a short period, it would not deliver in the long run and to a large population like the Indian population.

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INTERVIEWER: The Soviet economy collapsed in 1991, but its failure was quite clear for 10 years before that.

PALANIAPPAN CHIDAMBARAM: Oh, yes.

INTERVIEWER: On another front, was Mrs. Thatcher's attack on the mixed economy an eye-opener to India?

PALANIAPPAN CHIDAMBARAM: I don't think Mrs. Thatcher had a great impact on the political leadership of this country. Yes, some of us were aware of what she had done in the public sector reform and in scaling down the bureaucracy. But, frankly, except as a matter of academic interest, I don't think it had a very profound impact on the decision makers here.

INTERVIEWER: How about the success of non-resident Indians in the United States and Britain?

PALANIAPPAN CHIDAMBARAM: At a subliminal level, two things played an important role upon administrators, both political and the civil servant. First, the phenomenal success achieved by Indians abroad by practicing free enterprise meant that if Indians were allowed to function in an open market, they could replicate some of that success here.

Secondly, by 1991 sons and daughters of political leaders and senior civil servants were all going abroad and studying abroad and living and working abroad. I think they played a great part in influencing the thinking of their parents. I know a number of political leaders, a number of civil servants, who were shuttling between one ideology at home and one ideology at the workplace. They had been challenged by their children. "What are you talking about when we are doing the exact opposite thing?" You see, 1970 to 1977 was the period when we went about socialism with a vengeance. Anti-poverty programs and the government nationalizing virtually everything -- banks, insurance, coal mines. At the end of that period, I knew that that whole approach had failed. I was observing it both as a member of a political party, the ruling party, and as a lawyer handling real live cases in court involving government on the other side.

And I had also seen how state governments simply exploited the system, and [how] political leaders built huge private fortunes on this license permit system. I think the total experience - - lawyer, trade union leader, political activist -- left me completely disillusioned by 1977. Please remember, the emergency of 1976 was in a way a response to a collapsing economy.

END BLOCK:: 3

BLOCK:: 4

TITLE:: Political Changes After India's Economic Crisis in 1991

TAGS:: Socialism, Narasimha Rao, Manmohan Singh, Yashwant Sinha

COUNTRIES:: India

YEARS::1991

INTERVIEWER: We were talking about 1991. Mr. Rao made a very significant decision in whom he chose as his finance minister. Tell me what Mr. Rao did, who he chose, and why.

PALANIAPPAN CHIDAMBARAM: Mr. Rao was aware of the gravity of the crisis. Three or four months earlier, during the last days of the Chandra Shekar government, which the Congress Party to which I belong was supporting, we had been given a presentation about the state of

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the economy, and Mr. Yashwant Sinha, the current finance minister, was then finance minister for a brief period. He had in fact opened talks with the IMF and the World Bank for assistance.

Mr. Rao was aware, as a member of the Congress Party, that the economy faced a grave crisis. My information is that he chose a distinguished economist to be his finance minister, someone whom he had worked with earlier, or had known earlier very closely. But that gentleman recommended that Mr. Rao appoint Dr. Manmohan Singh. Dr. Manmohan Singh was a very wise choice. He came with no baggage at all. Although he was part of the economic establishment of India for over 20 years, his views had changed when he worked for the South-South Commission. He came with no political baggage at all. Few knew him except as an economic administrator, few thought that he had any sharp political views, he was acceptable to everybody. From day one Dr. Manmohan Singh simply took charge and said, "These things have to be done."

The crisis helped. Without a crisis of that proportion we could not have moved at that speed.

INTERVIEWER: So the crisis helped you force the pace of change?

PALANIAPPAN CHIDAMBARAM: In fact I've maintained that every time we need to force the pace of change we may have to invent a crisis.

INTERVIEWER: What arguments did you use to persuade members of the Congress Party or other politicians?

PALANIAPPAN CHIDAMBARAM: The rank and file of the party were simply bewildered. But there's a middle leadership which is used to the socialist model, and many of them are perhaps rent-seekers in their own way. They did resist the kind of changes that we brought about. But we replied by quoting chapter and verse from the manifesto, which had the approval of the late Rajiv Gandhi, and we also presented them the hard facts that unless all this was done the economy would simply collapse.

The biggest argument was that we would default on our international obligations. There was no investment coming in. The socialist mantle which most political leaders wore during that time was simply a mask. I don't think they really believed in what they were saying. Over the years growing doubts were there, and [at] the first opportunity many of them were willing to shed that mask and speak their mind.

END BLOCK:: 4

BLOCK:: 5

TITLE:: Liberalization and Reform Since 1991

TAGS:: Liberalization, Economic Reform, Deregulation, State Owned Enterprises

COUNTRIES:: India

YEARS:: 1991-2001

INTERVIEWER: What effect has liberalization had on the Indian economy? Has it been dramatic?

PALANIAPPAN CHIDAMBARAM: "Dramatic" is a very strong word. But clearly what has happened is that the whole economy has opened up, and the whole vocabulary of political dialogue has changed in this country. Nobody now even uses the phrase "socialist" or "socialism," except the two communist parties. Nobody now talks in terms of investments in

the public sector, or massive investments in the public sector. Nobody now questions private enterprise, private wealth, big industry, big business. Big business was a bad phrase in India. To be accused of being big business was the worst accusation you could make. All that has gone now. The whole mindset has changed.

In hard economic terms, yes, growth rate has moved up to a 6 percent path. That is significant, but not dramatic. I would use the word dramatic once we moved to an 8 percent path. The result is that many sectors of India's economy are still not opened. The unreformed sectors are as large as the reformed sectors, and this is what is holding back growth. But clearly a 6 percent growth is a sharp improvement on a 3.5 percent growth or a 5 percent growth, and at least for about five or six years in the '90s we were generating a large number of jobs.

Inflation has been at an historical low for many, many months in this decade, compared to the average of 8 to 10 percent. The average has been only about 5 to 6 percent here. And today there is a sense of hope and confidence about the future among the young generation. And we no longer penalize efficiency or enterprise; in fact, we reward it.

All this has brought about a sea change. Nobody in India today would question the correctness of the decision to open up India's economy. Even the Communists grudgingly can see that this is the right path now.

INTERVIEWER: How far does India still have to go towards full liberalization?

PALANIAPPAN CHIDAMBARAM: A long, long way. As I said, we need more reform, not less. We need a faster reform, not a slower pace. Our petroleum, coal, railways, aviation, road sector, they are still heavily dominated by government, central and state government or the municipal government. The private sector has a very small role to play here. In fact, the financial sector is still heavily dominated by government-owned banks. That requires massive deregulation and privatization.

Central government itself owns over 240 public sector enterprises, in which something like US\$50 billion has been invested. It gives us a paltry return of about 3 percent or so. It preempts land, it preempts office space, building, capital, debt, labor. All this is preempted by failing or losing enterprises. All these require massive change and a very large degree of reform.

INTERVIEWER: Massive change causes disruption, and people get hurt when that happens. Is there a danger of a political reaction against the reforms?

PALANIAPPAN CHIDAMBARAM: This is an argument of the "no changers." I have maintained that the people of India are ahead of their governments. The people of India are at least 10 to 15 years ahead of their governments. Once a reform is done, in fact, I have been amazed over the last 10 years to see how quickly and easily people accept it. Those who hold us back are really the rent-seekers in government and in the civil service and not the people. We tend to pass the buck to the people, put the blame on the people. They're not to be blamed.

INTERVIEWER: What is the moral, in your view, of the considerable success of information technology in this country?

PALANIAPPAN CHIDAMBARAM: Indians have a natural flair for mathematics and engineering. Our boys and girls have done phenomenally well when they went abroad to American

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universities and British universities. And that sector in India fortunately escaped the attention of government. We had one little government company called CMC, but fortunately the powers that be did not eye that as a major sector. So it was growing at its own pace, without too much government interfering. In fact, that is one of the businesses which was virtually unregulated.

Once we opened up and there were no regulations, it just blossomed. And our exports are now close to \$6 billion a year. Thousands and thousands of jobs have been created. So the lesson to be learned there is the less the regulation, the further the government is away from business, the better it is for business. I'm opposed to the creation of a ministry for information technology. I think that ministry should be wound up immediately.

END BLOCK:: 5

BLOCK:: 6

TITLE:: The Possible Effects of Globalization on India

TAGS:: Globalization, Poverty, Global Governance, Migration, Trade Liberalization, Capitalism, Free Trade

COUNTRIES:: India

YEARS:: 1990-2001

INTERVIEWER: What does globalization mean for India? What do you hope it means?

PALANIAPPAN CHIDAMBARAM: It means different things to different people. To the professional, entrepreneurial class it means integrating India's economy with the world, and at least for that class sharing world standards of living. Travel, education, health care, cars, all the accessories of life can be world class for that limited number.

For the bulk of the people, the middle class, it means greater choice and products and services. You don't have to live with shoddy products and shoddy services. It has raised their aspirations. They think they have a chance. They think their children have a chance in a freer world where efficiency, enterprise, [and] skills will be rewarded.

To the vast majority of Indians who are poor, and clearly to the 30 percent who are below the poverty line, globalization means nothing so far. In fact, they want to be integrated with the Indian economy. They're outside the production processes here because they have no skills, they've no capital, they've no jobs, they've no property. They really have to be integrated with the Indian economy first. They have to be brought into the Indian production stream. To them globalization means nothing.

But if, through globalization, we're able to attract capital [and] technology and give to them, say, potable drinking water, a good road which connects their village to the town, health care, [and] education, then they will see that the opening up of India's economy has brought them benefits. At the moment, they are simply bewildered.

INTERVIEWER: You believe that globalization will put India's poor on the path to prosperity?

PALANIAPPAN CHIDAMBARAM: I think so. Real wages of farm labor have increased in the last 10 years. Absolute poverty has declined by 10 percentage points, both in rural areas and in urban areas. Therefore, more jobs are being created. We are creating something like 6 to 8 million jobs, not necessarily in the organized sector, but 6 to 8 million jobs are being created.

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I think if our growth rate goes up to 8 percent we will see a very marked and very dramatic impact upon the lives of the very poor of this country.

INTERVIEWER: What do you say to the anti-WTO demonstrators and the anti-capitalist campaign? They claim they're concerned about the poor of the world. Are they actually helping the poor of the world or harming them?

PALANIAPPAN CHIDAMBARAM: I don't wish to doubt the intentions of the anti-WTO demonstrators, but I think their claim to represent the poor is not a particularly valid claim. Why assume that elected governments do not have the interests of the poor at heart... ?

They have a point when they say that the WTO regime is not bringing enough dividends, enough benefits to the developing countries. That's a valid point. While we recognize that point, in my mind there is no question, there is no doubt that a rule-based world trading system or a regime is one that will benefit the developing countries. In fact, if we do not have a rule-based trading system, we will be poorer, we will suffer more than the developed countries. We need rules. The developing countries need rules more than the developed countries. And this is something which I don't see why the protesters don't understand. If the rules are not fair, let's rewrite the rules. But that is not to say abolish the WTO or abolish the rule-based regime.

INTERVIEWER: You talk about rules, but in a sense you're also talking about free trade. In this interview you talked first about the fact that imperialism followed from trade, so that culturally, historically, Indians had an aversion or fear [or] suspicion of foreign traders. Now it's almost as if the best hope for India's poor is foreign trade.

PALANIAPPAN CHIDAMBARAM: The fear of foreign trade was natural in the immediate post-independence years. But there is [also] a fear which was created and supported by political leadership. I don't think the majority of the people of India feared foreign trade. In fact, they were migrating. They were migrating to East Asia or the Middle East. They were migrating to Singapore and Malaysia and Sri Lanka and South Africa. And they were sending back money. We were trading in services if not goods. They were bringing back goods. I don't think they had a fear of foreign trade. It's the political leadership which created this fear of foreign trade.

But today we realize that we have to pay. We have to pay for our oil, we have to pay for our technology, we have to pay for our capital goods. We have to pay for a large number of raw materials. We have to pay for intermediate goods. We have to pay when our children go abroad for higher education. And how do we pay for all this unless we export? The world will not accept our currency, the world will only accept currency which can be exchanged. And therefore we have to export. And once we have to export, then others are being asked to open their markets for our goods and services.

Let me give you an example. When we had this regime of tight control of foreign exchange, our reserves dwindled to less than a billion dollars. When we scrapped most of that law, the last 10 years of reserves have risen to over US\$40 billion. I think these are visible signs of what the change has brought about.

INTERVIEWER: Is free trade, then, the path to prosperity?

PALANIAPPAN CHIDAMBARAM: Free trade in a nondiscriminatory, rule-based regime is the path to prosperity. Because in the name of free trade, if you do not have rules which are nondiscriminatory the weaker of the trading partner could be hurt.

INTERVIEWER: It's also been said that whenever a poorer country has traded with a richer country, the poor country always ends up better off. Is that true?

PALANIAPPAN CHIDAMBARAM: I think so. There are a number of examples of that. China [and] Southeast Asia, which engaged the U.S. and traded with the U.S., have certainly gained, but it's still based on non-discriminatory, rule-based free trade.

INTERVIEWER: You talked about the anti-WTO [movement]. If the more radical demonstrators, the anti-capitalists, had their way, who would be hurt most in the world?

PALANIAPPAN CHIDAMBARAM: As I said, the developing countries would be hurt most. The flow of capital, the flow of technology will slow down, maybe even stop.

INTERVIEWER: Can I ask you to put it in the context of the anti-capitalist or anti-WTO demonstrators?

PALANIAPPAN CHIDAMBARAM: I'm not sure the anti-WTO demonstrators are anti-capitalists. I think they are all children of capitalist societies and have gained from what the capitalist societies showered upon them. I don't think they're anti-capitalist. They are simply well meaning and sometimes misdirected. They want autonomy for nations, they want autonomy for communities and societies, they want a multicultural world. All that is good, but I think they are targeting the wrong organization, the WTO.

Be that as it may, let me assume that there is some logic to their anti-WTO [position]. Who will be hurt is the question? There is a developing country that will be hurt, because what will happen is flow of capital, flow of technology will certainly slow down, if not stop. The developed countries will also become more protectionist and if they become more protectionist, who will be hurt? Again, the developing countries will be hurt. We want markets to be opened up quicker in order to catch up with the developed world. I have no doubt in my mind that the developing countries will be hurt more than the developed countries.

END BLOCK:: 6

BLOCK:: 7

TITLE:: Eliminating Poverty in India

TAGS:: Poverty, Free Trade

COUNTRIES:: India

YEARS:: 1990-2002

INTERVIEWER: Do you actually believe that free trade can help eliminate India's poverty altogether in the foreseeable future?

PALANIAPPAN CHIDAMBARAM: Yes, free trade plus other reforms surely lead us to a day when poverty will be abolished in India. In the last 10 years the proportion of people below the poverty line, that is defined as people of an income of less than a dollar a day, has declined by 10 percentage points, and today no more than 20 to 24 percent of India's population is below the poverty line. Now, if we grow at 8 percent a year, surely this proportion will decline to about 3 percent of India's population by the year 2020. If we grow at a moderate rate of 6 percent a year it will take a little longer. But surely in growth lies the answer to abolition of India's poverty, and this growth can be quickened by freer trade, by a more open market, by a more competitive economic environment in this country.

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