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FROM THE RINGSIDE

Let grey matter rock and roll

Atque inter silvas Academi Quaerere Verum.
(And seek for truth in the groves of Academe)
Horace 65-8:BC Epistles

I am having a somewhat crowded set of meetings at Harvard, ranging from interactions with Kim Clark, Dean of the Harvard Business School, Lawrence Summers, President of the Harvard, Martin Feldstein, the President of the National Bureau of Economic Research, Mark Rosenzweig of the Kennedy School of Government and Ken Rogoff, Professor of Economics, among others. Who can fail to be impressed by the diverse range of academic disciplines being pursued by this university, and equally by the range of cultural entrepreneurs in the surrounding areas. In my quick trip, I noticed “Little Tibet”, Afghani cuisine, Mongolian specialities and Ethiopian delicacies! Not to mention the French-Cambodian cuisine that I thoroughly enjoyed.

Does this centre of academic excellence have any definitive answers to the complex economic riddles that currently beset our policymakers? Perhaps not. However, on some of the issues which I have posed to them, the responses I gathered are along the following lines.

At this centre of excellence, one obvious question is what will make India a knowledge powerhouse and a hub for research and development? Right now, India has competitive advantages as a location for outsourcing, as a source of human capital for the rest of the world, and has demonstrated skills in reverse engineering and complex manufacturing. But what will help the country to make a quantum jump to development of new technologies, and to a creative R&D?

In the long run, there is no substitute for an education policy which favours inculcation of skills and encourages innovation and creativity, particularly in centres of educational excellence. While the CSIR in India is becoming increasingly industry-driven, there is need to combine the values of fostering pure research, which has much longer payoffs, with more innovative ways for public-private partnership and the corporate sector putting aside a much larger corpus of resources for R&D if India is to become a knowledge leader. It must get away from some past tendencies to concentrate on reverse engineering. A sound regime on intellectual property rights will be crucial for development in the pharma and biotechnology sectors.

However, mere technical excellence of manpower and creation of research facilities will not make us a “knowledge powerhouse”. For this, we need to be at the cutting edge of technology and at the frontier of research in areas such as stemcell research, nano-technology, manipulation of atoms and a greater synergy between

different branches of R&D.

What does it take to create a research hub in which the most talented in the world find it attractive to work? What kind of an atmosphere attracts them to some locations and what “cultural changes” are necessary to achieve this? As an example, the famous pharmaceutical company NOVARTIS has recently shifted its entire global R&D to Boston. The “research triangle” in North Carolina is an example of creating a research hub almost as a separate administrative entity governed by its own rules and regulations which prompts researchers from all over the world to find this an attractive location to conduct their work.

So can India aim to create at least one or two research hubs of international class at the cutting edge of technology? Can we say create separate administrative entities which can foster a culture which can attract the most talented researchers to participate in this fascinating world of building a knowledge economy?

Second, what are the big priorities in agricultural sector reforms, management of the farm economy both from the perspective of addressing rural poverty and the sector contributing much more to growth? This touches upon issues of a new food management strategy not merely in terms of crop diversification or combine productivity gains new strains of disease resistant hybrid seeds with optimum mix of fertilisers. The earlier technology adopted for the extension of Green Revolution through extensive use of water is not sustainable as aquifers are not being recharged and falling water levels pose a serious challenges.

The technological research in this area like in many others follow market signals. Unless the use of water and the use of energy to exploit the water are appropriately priced technological research in water conserving crops will remain under-financed. We need to devise a strategy to incentivise national and international research which can secure requisite finance for a significant breakthrough in this area.

Third, how can India balance rising productivity with the need to generate more jobs? The positive side of rising productivity is that it creates additional resources that can be set aside for re-investment, creating more jobs, and likely higher quality jobs. The process of “creative destruction”, and replacement of labour with capital, is an unlikely path over the medium and long term, provided that incentives for private sector growth are in place. It may also be advisable to create incentives for additional investment in employment-creating sectors with high employment coefficient such as tourism. Freeing up the urban sector from many labour market policy restrictions and encouraging the agro-processing sector with an affordable and assured supply of energy for greater value-added non-farm employment-intensive activity are also important steps to consider.

Fourth, on the issue of essential policy changes that India must carry out to sustain the 8% rate of growth, no discussion can escape the medium and the long-term consequences of the current fiscal policy stance. The fiscal consolidation plan prescribing annual targets presented by the Finance Minister to Parliament was a positive step. Nonetheless, many in India have continued to deride the “fiscal fetish” without fully recognising the examples where beyond a point this had inherent consequences in the crowding out effect, in stifling investment and carry the inherent dangers of a “low level equilibrium trap”. It was also difficult to

sustain the improvement in the health of the banking sector and improve efficiency of transaction or other range of services concurrent with the prospect of “parking the deficit in the domestic financial system”.

Finally, the inevitable concerns. Concerns on whether a coalition government with outside support of Left parties would be able to stay the course in implementing many measures and obligations which the UPA government themselves have accepted in the National Common Minimum Programme and articulated in the budget speech of the Finance Minister. The attendant compulsions of managing the “political economy” of a coalition Government was understandable. It was however important to ensure that the broader direction of a strategy which can guarantee a sustained 7-8% growth coupled with rising productivity and employment remain broadly on course.

There was general confidence that the current political leadership of the Prime Minister and his able team, which had international credibility will measure up to these complex challenges. It does not matter whether the Indian way of responding to these challenges was a convoluted and even a tortuous one provided the right things get done. In the end one would rather be right than consistent. The next six months are however crucial. Clearly, the proof of the pudding will be in the eating.

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