



Convocation address – IIM Ahmedabad
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University
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The only thing I can think of better than getting a degree from an institute of higher learning as famous as the Indian Institute of Management, Ahmedabad, is giving the convocation address to those getting a degree from the institute. My heartfelt thanks to you: The Director of the Institute, Professor Errol D’Souza, the Chairman, Shri Kumar Mangalam Birla, and Members of the Board of Governors, and professors, students and staff of IIM, for giving me this invitation. Thank you also for the opportunity to return, after many years, to Ahmedabad. My last visit here was in 2004, on Basant Panchami. I remember the city bathed in festivity with the sky speckled with kites. This city is that mirrors the entire country, its colorful history and its diversity.

Dear graduating students of IIM: This is a watershed moment in your life, the moment of leaving your nest—home, hostel, family, and teachers—and going out into the big wide world. You will face many challenges in whatever your ambitions.

People have different ambitions. Some of you will want to be entrepreneurs, breaking new ground, creating new products and new wealth. Some will want to be researchers looking at our chaotic world and trying to discover the mysterious laws of society and economy, unearthing new ideas and philosophies that could leave a mark on human thinking over hundreds of years, the way the great philosophers have done through history.

In pursuing these ends, you will face good times and bad, days of hope and times of despair. Remember it is fine to both aspire and fail. The story of one of the great economists in history, Joseph Schumpeter, illustrates this. Schumpeter had boasted in his youth that he had three ambitions: to be the greatest economist in the world, the greatest horseman in Austria and the greatest lover in Vienna. In his old age, he is believed to have lamented that he never quite made it as a horseman.

I don't think he made it to being the number one economist. He was a great economist, but not the greatest. The ambition in which he may have succeeded is being the greatest lover in Vienna, because for that it is difficult to get hard evidence. Whatever the quibbles and whatever his failures, no one will doubt that his life was a phenomenal success story.

Drawing on experience from my personal life and policymaking, I want to talk to you about two themes for whatever you aspire to in life: These are reason and morals.

Let me begin with reason. I have, over the years, become convinced that reasoning is the most under-utilized of human faculties. Read some of the discussions and commentary on social media, and listen to television debates, and you will wonder where reason has vanished. This is a telling commentary on education and why we make unnecessary policy mistakes. Even in personal lives, when people suffer from depression or anxiety, when they encounter hurdles in their career, they take anti-depressant pills and go for counselling. I do not deny that these may be needed. But there is also a lot that we can do through pure reasoning—reasoning with oneself, as clearly and honestly as one can.

Within economics, game theory illustrates the power of good reasoning. One important axiom of game theory asserts: It is not good enough to be

rational yourself. You must recognize that others are likely to be rational too and take that into account.

Policy mistakes, such as the demonetization, which has hurt India's growth, would not have occurred if there were policymakers that paid heed to this simple axiom. For every policy, you have to anticipate how ordinary individuals and also bureaucrats will respond. That is the key to designing successful policy mechanisms. I was very pleased to discover this morning that there are researchers, here in IIM(A), who work on these kinds of game-theoretic problems.

Some years ago, **Scientific American** asked me to write about game theory and its paradoxes. Game theory is one of the most exciting disciplines that emerged from the interface between economics and mathematics. Some of the original contributions came from mathematicians and logicians, such as Germany's Ernst Zermelo, who in 1912 proved a stunning theorem on the game of chess, and John von Neumann and John Nash. Nash's few papers helped lay the foundations of the discipline. Unfortunately, Nash's career came to an end by the time he was 29 years old because of schizophrenia.

In writing the article for **Scientific American** I thought about how to convey the message of game theory to the readers of this journal, who are intelligent, know science, but may not know game theory. I wanted to illustrate the importance of appreciating other people's intelligence and rationality, which is the core of game theory, and also the core of good policymaking. Then I remembered an old story that a friend in Delhi had told me. It is such a lovely story that I must repeat it for you¹.

¹ I have recounted this in my most recent book, **The Republic of Beliefs: A New Approach to Law and Economics**, Princeton University Press, 2018.

A hat-seller, in some remote area of India, was going from one town to another to sell hats. On the way he felt sleepy, put down the hats and went off to sleep under a tree. When he woke up, all the hats were gone. Then he looked up and saw that a group of monkeys had taken them to the tree top and were wearing the hats. What would he do? Hat-selling was his livelihood. In desperation, he took off his own hat and threw it down. Monkeys are great imitators. Within moments they were all throwing their hats down. Relieved, he gathered them and went his way.

Forty years later, his grandson, a hat-seller, was going from one town to another with hats to sell, when he felt sleepy, and decided to take a nap under a tree. When he woke up, to his dismay, all the hats were gone. Then he looked up and saw that monkeys had taken them to the tree top and were wearing them. What would he do, since hat-selling was his livelihood? Then he remembered his grandfather's story. He took off his hat and threw it down on the ground. But now, one monkey came down, picked up the hat, put it under his arm, walked up to the hat-seller, gave him a tight slap, and said, "You think only you have a grandfather?"

How good reasoning is critical for good policymaking is illustrated well with India's foreign exchange reserve story. For more than 20 years, up to 1991, India's foreign exchange reserves used to be roughly 5 billion dollars. The years 1991 to 1993 India saw some of the most far-reaching and well-designed reforms ever undertaken. Those were the reforms that changed India's growth story. One of the policy changes pertains to foreign exchange reserves. For a long time, the government's belief was that since we have so little foreign exchange, we must not let people take foreign exchange out of the country. What this demonstrated was the failure to see that, if you don't allow people to take foreign exchange out, they will not bring foreign exchange in.

This logic led to the conclusion that you have to make it easier for people to take foreign exchange out of the country to increase the amount of

foreign exchange in the country. This was part of the policy reform package of 1991-93. The benefit was magical. The foreign exchange reserve which used to be roughly 5 billion dollars for 20 years, rose in the next 20 years to nearly 300 billion dollars. It was professionalism with fine reasoning that led to this huge success.

But, students and friends: Success is not the only thing you should pursue. This is where my second topic comes up: morality. Traditional economics talks a lot about profit-motive and individual rationality. What is forgotten but is actually as important for a society's long run success is morality. Morals and trust are the nuts and bolts of an economy. Without those you can get short run success but not long-run development.

Before getting into this topic, let me digress with a personal story. A former student of mine, and now a prominent social activist, Jean Dreze, recently wrote in a paper that some 40 years ago I said in class that I do "economic theory for its own sake, without any illusion that it helps to improve the world we live in." Jean was disappointed by this and went on to console himself, "I have a feeling that Kaushik has changed his mind on this. ...[He] ended up dabbling quite a bit in economic policy, and even holding positions that necessarily involve changing the world we live in."

I do not recall saying what Jean attributes to me, but I can believe I said it, because that is how I felt. But, as far as changing my mind goes, I have to admit, I have not. Let me explain.

It is true that when I did research, I did so for its own sake. I know there are more noble individuals who become economists to change the world for the better, but I was not one of them. I am not justifying my behaviour but that is the way I was. I found the puzzles of the economy and philosophical paradoxes underlying society so fascinating, that

understanding them was an aesthetic pursuit, like art or Euclidean geometry. I did it for its own sake.

I never cared much for money. I can fully understand Paul Samuelson, one of the greatest economists of all times, saying, he “had been incredibly lucky throughout his lifetime” because he was “overpaid and underworked.” I feel the same because my work as researcher never felt like work. [I don't advertise this fact because I don't want my employer to cut my salary.] So my selfishness was different from that of many other people's. But, Jean was right, it was selfishness, nevertheless. All I can say is that I tried to make up for it later in life.

In 2009, when I was Chairman of Cornell's Department of Economics, and taking a vacation in India, I got an unexpected phone call from the Prime Minister's office. The caller, a Joint Secretary, quickly got to the point. Dr. Manmohan Singh wanted to know if I would consider being the Chief Economic Adviser to his government. The following day, after I met Dr. Manmohan Singh and had a wonderful meeting, I made a vow. I told myself that, since my life till then had been one of pure indulgence, that of the joys of research, if I were to wean myself away from that, I must do so with only one purpose, that of serving society. That is what I tried to do during the 7 years I worked as a policymaker—3 years with the Indian Government and 4 with the World Bank.

Looking back, I feel better. Someone told me that most people spend 80% of each day being selfish and 20% on altruistic pursuits. If this is true, then I have done much the same, in a slightly different way. I spent the first 34 years of my working life being totally selfish and the next 7 years trying to be totally unselfish. That's roughly the same percentage.

Turning to more serious matters, let clarify that the morality I am referring to is about instinctive ideas, such as compassion and kindness, human decency, humility, trustworthiness, and adherence to some form

of Kant's categorical imperative, which is the principle of treating others the way you wish them to treat you.

This basic moral axiom of European enlightenment was described beautifully by Kenneth Arrow in the prelude to his famous impossibility theorem. Arrow quoted an inscription on the tombstone of an unknown person, requesting God to follow the Kantian imperative:

Here lies Martin Englebrodde,
Have mercy on my soul, lord God,
As I would do, were I lord God.
And thou wert Martin Englebrodde.

All this has nothing to do with religion. It is possible to be an atheist and also possible to be theist and religious, while being moral in the above sense.

In the rough and tumble of everyday life, in trying to be successful, many people push aside morality. We see this among politicians, who try to win elections at all cost; we see this among business persons, who try to maximise profit at all cost. This is the cause of many of society's woes. Indeed, for a society's long-run success, it is essential to have these moral anchors.

Let me briefly turn to India's economy to illustrate some of these arguments. There are unmistakable signs of India's economy slowing down, over the last few years. The latest data on industrial growth, pertaining to January 2019, shows that India's industry is barely growing, with the growth rate down to 1.7%. In the year 2017-18 India's exports were a little less than what the country exported in 2013-14, which means virtually 0% growth in exports on average for 4 years, which has rarely happened in the past.

What is happening to overall growth? The official data shows that GDP growth in the last quarter has gone down. And there are analysts, such as Arun Kumar, in **Caravan** magazine, arguing that growth is even lower because the unorganized sector for which we do not have proper data shows signs of a massive slowdown.

Further, the agricultural sector is in recession, and the farmers feel neglected. The most worrying is the jobs situation. If you put together all the piecemeal data coming in, it is clear that our workers are suffering greatly, with unemployment rate at over 7%, according to the Center for Monitoring the Indian Economy, and youth unemployment at 16%, as per a study by Azim Premji University. It is unfortunate that data on unemployment are being held back.

The concern about this, expressed recently by 108 leading economists, is a genuine concern. When I was Chief Economist of the World Bank, it was always good to see that India stood out, not just among emerging economies but all countries, for the quality and integrity of its statistical system. The Nobel prize-winner, Angus Deaton, in an article with Valerie Kozel in 2005, gave India tribute for its pioneering statistical work. He mentioned how India's "NSSO surveys, pioneered by Mahalanobis in the 1940s and 1950s, were the world's first ... household surveys to apply the principles of random sampling." We must take care not to damage this reputation.

None this is necessary. India's fundamentals are strong and we should be doing much better. The two reasons why this is happening are a shortage of professionalism and a disproportionate focus on big businesses and their interests. The first pertains to reason and the second to morals. Professionalism means policymaking based on data and reasoning. The economy is too complex to be handled by hunch and gut feeling. Passion is important but you cannot have exports booming,

jobs being created by passion alone. Expertise and professionalism are critical.

Make no mistake. Business and enterprise are important. Big business is also a fact of today's world and technology. But in trying to nurture business and enterprise we must not neglect the poor and the unorganized sector. India is still largely an agricultural nation and it is sad to see this major sector suffering.

India's long-run prospects are excellent. It can be a global leader. I must add that I want India to be a leader not to enrich itself, but to be a force for good in the world. The aim should be to provide leadership for a better world, a world of prosperity, sharing and equality. As you, the students of IIM, go out into the world, you will have your own ambitions, but harbor, somewhere in your heart, the ambition for goodness in the world.

India's is a remarkable history. Around the time that we got independence, several nations--in Asia, in Africa, in the Americas--also gained independence. Many of these nations wanted to be open and democratic. It is an amazing fact of history that the only new nation from that time that has managed to hold on to democracy, secularism, and free speech, for all this time, is India. We were lucky to have open-minded founding fathers, like Gandhi and Nehru, and thinkers with global humanity, like Rabindranath Tagore. They had their own struggles but in the end they strove to build a nation that was open to all religions, all races, and *tried* to banish divisions of caste and gender.

Did India do right by holding on to democracy, secularism, free speech and quality higher education so early? I do not have a definite answer. But I do know that nations like the United States, by holding onto these qualities, did phenomenally well *in the long-run*. In the early 20th century, Argentina and United States stood neck to neck in terms of economic

status. Many observers were predicting the Argentina would become the global leader. But within a few decades United States had far outstripped Argentina. There is a lot of analysis of what happened; and there is now some consensus that two factors played a role. Argentina fell pray to hyper-nationalism and xenophobia, which affected its policy judgement, and, further, it did not invest nearly as much as United States did in higher education, research and openness to ideas.

The point is simple, whether or not the early investment in democracy, secularism, free speech and higher education was right, having made these investments, we must not fall into the trap of narrow-minded group identities, and begin to imitate nations that do not value these qualities, and make ourselves in the image of those nations.

On February 8, 1994, on the occasion of receiving the Indira Gandhi Prize, Vaclav Havel, Czechoslovakia's great revolutionary and, later, president, spoke about his admiration for India and its founding fathers, and how India's victory "was a great victory for the ideas of nonviolence, tolerance, coexistence, and understanding." He went on say, "I am convinced that the creation of multicultural civilization I have talked about, the creation of conditions based on mutual respect and tolerance of different cultures ... will always find one of the important sources of its vitality in Gandhi's work."

India commands huge global respect for its polity of openness and tolerance. There are forces at work in the country that want to destroy this and make us in the image of failed nations.

You, the students of IIM, by virtue of your excellent education, have a special responsibility on your shoulders, the responsibility to reject narrow sectarianism, uphold scientific thinking, openness to new ideas, and freedom of speech.

I hope you will succeed in your careers and there is of course satisfaction in success. But there is no joy, no happiness comparable to the joy and happiness of knowing that we have contributed, in even a small way, during our brief journey on earth, to the legacy of leaving a better world for all of humanity.