

NCAER Podcasts: Episode – 4

Topic: Global Shifts: Emerging Markets, India & Global Finance

Guest: Martin Wolf, Chief Economics Commentator, Financial Times

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Transcript:

UD: Welcome to Episode 4 of the NCAR podcast series, and I'm really excited to have Martin Wolf with us today. Martin is one of the most influential and respected international economic commentators. When he speaks or writes, everyone in the economic and financial policymaking pauses to listen or read what Martin has written. Martin's career spans over 35 years at the Financial Times, London, and he's worked with the World Bank. He has also authored some amazing books like 'Why Globalization Works' and the recent one, 'The Crisis of Democratic Capitalism'. And both these books have sparked intense debates on the future of capitalism. Martin has a long-standing interest in India's economic development. He visits India regularly and attends prestigious events like the NCAER co-organized Neemrana Conference and the NCAER India Policy Forum. And while he's in India, he meets policymakers, the Indian media, academics, and others. His insights into India's growth trajectory are, to say the least, profound. And one of his notable columns in India was published in July, in which he discussed India's potential to sustain GDP growth and its position as a rising power, a rising great power, if I may say. Recently, a colleague of Martin at the Financial Times aptly referred to him as a grand legend.

Hello, Martin, and welcome to the NCAER podcast. It's great to speak with you again. I think we met last in July at the NCAER India Policy Forum. And so much has indeed changed, Martin, in just ninety plus days. There is a confluence of risks. Some people call it poly crisis. Risks are no longer just coexisting, but interacting, amplifying each other's effects and complicating solutions. And Martin, my policymaking friends, both in India and abroad, tell me that it is now becoming increasingly difficult for them to address each risk in isolation. And that's what some people call, you know, that's leading to uncertainty or "multipolar uncertainty". So, I hope you'll agree that the world in these ninety days has perhaps become more complicated. And there is absolutely no single model, method or explanation for why things are happening the way they are. Do you see this somewhat similar from your vantage point?

MW: Well, I always react to comments like that saying, is it really new? So, I think I would say that if you look back in the past, there have been a lot of periods when geo-politics and geo-economics have interacted intensely. So, it was very difficult to separate economic problems from political problems, both domestically and globally. That was clearly true in a different context in the 30s. I mean, that's an extreme example, but obviously it was true. And that's nearly a hundred years ago. And I think that aspect of what we're living through, that we have economic disturbance and political disturbance, both domestic and global, that's not new. What I think is new is that though I don't think we're really quite there yet, that we exaggerate this, that environmental issues, and though this is less new, disease is also affecting us or has been affecting us at the same time. But again, we shouldn't exaggerate this. Human beings, for instance, when we came out of the First World War, we had the

Spanish flu and that actually interacted with the First World War in very important ways. So, I would say that the world has always been complicated, always interactive. Thinking of things as we can separate out economics from politics, from the evolution of society, from the wider environment, from disease, I think that's always very naive. But where we are now is certainly reminding us of the interaction of many forces and now in a very global context because we have such an interactive global system.

UD: Thanks, Martin. I think that with that sort of perspective setting, I was wondering for our conversation, Perhaps, we can do four things. Talk a little bit about the emerging markets in the Global South, India, your books that are very well read in India, and some thoughts, Martin, going forward on both the future of economics and economic policymaking. Will that be okay with you?

MW: Yeah.

UD: But before we get into the sort of the substance of these four areas, let me introduce you to those who are watching the NCAER podcast, who know you but may not know much about you. And I was asked to ask you a question that why did you choose economic journalism and writing as a profession at a time when economic journalism was hardly something that people thought of getting into as a full-time job. And I think you grew up during the Cold War when there was already a bitter global battle between democracy and authoritarianism, a struggle that has become even more visible today. So why did you not take up fields like international politics or law, focusing on conflict and reconstruction or join the United Nations?

MW: Well, I think that there are two separate questions there in my life. I didn't actually choose to become a journalist at all. It chose me, which is a very strange story. I'll come to that in a moment. But the first part of the answer is I chose economics. And I chose economics as an undergraduate. I had a rather strange intellectual career, which is partly to do with my age, in that when I went to Oxford, I went out as a classicist which was very common those days. So, my speciality was Latin and Greek, and Latin and Greek history and literature and philosophy. And I loved it, by the way, and I've never regretted it. It was a very profound education which helped me. But then I decided, well, I didn't want to be a civil servant, which is the normal thing to be, and I certainly didn't want to teach classical. What would I really do? And I chose politics, philosophy and economics with a specialization in economics. Did a graduate degree at Oxford in economics, then I went to the World Bank. So why was there this emphasis? And the reason was very simple. I was the child of refugees from Hitler. Both my parents were European, my father was Austrian, my mother was Dutch, they were Jewish. And I asked myself, what explains the catastrophe that befell Europe in the inter-war years? And my answer to that is obviously politics was important. I could always study that myself. But a central part was the collapse of the economy. So, I came to the view, and I was reminded of that in the post-war period when I grew up, that economics has an enormous amount to say about how societies perform, how legitimate their governments are in the modern world. So, I wanted to understand economics, and I felt this was a subject that I could only understand by studying it properly. And I was lucky enough to be well taught. I did well, reasonably well at it, despite not being a real mathematician. I then decided to go to the World Bank because it seemed to me that the best thing for an economist to do was to work on development, because it seemed to me the greatest challenge of our age. I still think that and I was very happy doing that. Then I specialized in international trade. We'll come to

that in a moment. So, it was almost twenty years after I left Oxford when I was actually 41. I was looking to decide what would I do next? I never wanted to be an academic. I didn't get excited about the idea of teaching forever. I didn't think I would be a truly original economist. I never wanted to be a civil servant. And completely out of the blue, because I had written quite a few pieces for him, the editor of the Financial Times asked me to join the Financial Times. And after a lot of thought, I decided that sounded wonderful and exciting, and that here I should perhaps point out, which I haven't normally done. My father was a writer. He was a very distinguished foreign correspondent and columnist for German newspapers. His language was German because he was Austrian. My brother went to the BBC. So, writing was very much part of my life. And I thought, well, for an economist, I'm quite a good writer. So why not give this a go and see how it went? I was rather nervous about it, but so I fell into journalism and that has been a really wonderful life.

UD: Fascinating, Martin, and thanks for sharing all those things. But surely you never thought, Martin, that you will then evolve into a commentator who is probably, if not the most, but one of the most respected voices today. And how are you then managing the spotlight on your views and analyses that you get whenever you write? And from the time that you found economics a very compelling area to get into, for the reasons you just explained, has your perspective on economics and economic policymaking changed as you have evolved as a journalist?

MW: These are very big questions to answer in a short time. So, When I joined the FT, I already joined at a very senior level, though anonymously, as a commentator. I was hired to be the chief leader writer. So, I wrote the unsigned editorials. And the only more senior position in economics at the FT was that of the chief economics commentator, who was then a very, very famous man, and since sadly died, Samuel Britton. Sir Samuel Britton. And I didn't think about replacing him, though I suspect that the people who hired me, the editor and deputy editor, were thinking about that. He was considerably older. But I was already doing quite senior commentary work. And the first thing I wanted to work out is, can I do this? And I found that with my economics and having, I think, a relatively good command of English and a relatively good command of just logic. I've been very well taught that I could express quite complicated ideas in a fairly compressed space. And once you can do that and you enjoy doing it, then you want to keep doing it. And the other thing I had, which I think is still true for me, is that I have a very wide range of interests and a fairly wide range of knowledge which I've built up very fortunately over the decades. So, one of the things I've loved about what I've done is that I haven't had to specialize-if I'm writing about I don't know, trade policy this week, next week it might be climate, or it might be the reform of the European Union, or it might even be a war. So, the sheer variety of this is a wonderful challenge. It's very exciting. It is a tightrope walking act, but it is very exciting. It keeps you young as I'm continuing to do it even when I'm way beyond the age of retirement. How you affect the world, I don't think about that at all, that's paralyzing, it's completely impossible to go around thinking about what does this mean for the world. I try to do my job of sorting out what's going on in the best way I can with my values and my knowledge and my research in topics which I think our readers will find interesting and important and then it's for the rest of the world and the bubble the editor of course to decide whether it's worth having me continue to do this. And it has so far. And that's why I'm doing it.

UD: Lovely. Let's move now to the emerging markets in the Global South. Through the years, you have written extensively on global issues, UK issues. You do a lot of writing about

the United States. You write about India too. But in your frame of looking at issues as an economist, how and where do emerging markets fit into that framework? I mean, for three decades now, emerging markets, particularly in Asia, India included, have been described as rising, and yet they remain in that state perpetually. So, I mean, do you think that there should be or there would be a shift in this global economic power balance if the emerging markets fit into your global economic construct and I have a specific question here which I raised with Barry Eichengreen in my last podcast where we discussed the dominance of the US dollar because you have written a lot on global imbalances, financial imbalances and that does impact exchange rates in and emerging markets and I mean, some people argue that as long as dollar remains what it is, the emerging markets have no other option but just to be takers in global trade. So, I mean, will this sort of North-South divide persist, Martin, or you see potential for it closing sooner than later?

MW: Well, I have rather heterodox views on currencies. I think we tend to exaggerate the importance of which currency happens to be the most widely used international currency at any particular time. And there are many other sources of power and influence than which currency people use. And I'm actually one of those people who think that often having an international currency can even be a source of weakness. I'm influenced in that, of course, like many British economists, with the post-war experience of sterling, which was clearly in rapid decline, and it mainly generated currency crises for the UK, and not any sort of global influence. I'll come to that later, because I think that's a controversial statement, but I think people are far too concerned with whether their currency is an international currency. How do I look at this? First, as I said already, I spent the first ten years of my professional life at the World Bank, and I went there because I had been persuaded by some of my teachers at Oxford and also a former Oxford fellow who was a very dear friend of mine, late David Henderson, who was head of the economics department at the World Bank when I was there. And I went there because I thought development is really, really important. And that ten years, working with brilliant people from all over the world, which I could never have done in any other way, making lifelong friends, particularly Indian friends, and working particularly as I did. I worked on Korea, I worked on Indonesia, I worked on Africa, I worked on India, as you rightly say, and I worked on world trade. This just gave me a sense of the world and what's going on in the world, which, however shallow, was obviously enormously much deeper than it would have been otherwise. So, I've got, I think, in my bones as a result of that, some idea what's going on in the wider world.

And the second thing that interests me is, and you've got this, it's obvious that there are countries that are emerging. There is an enormous shift in global economic activity and as a result of that also in global economic power towards what is now called the Global South. I don't know whether that's the ideal phrase, but let's stick with it for the moment. And the relative power economically of the old developed countries has clearly been in decline on almost any measure you want to use. Over this period, they have a very great residual influence because they're still technologically quite advanced, they are still on the whole the richest countries in the world but their relative economic weight has declined. China is unquestionably now almost by most standards a superpower. India is rising and so this is a new world.

But the final point I would make, which I'm also very aware of, which is very helpful from my background at the World Bank and subsequent thinking, is that what we call the Global South is unbelievably heterogeneous. Countries are genuinely developing rapidly and

transforming. China was a great example. India is doing pretty well now. But others, alas, much of sub-Saharan Africa have not experienced comparable success. Or strangely, looking back, forty years ago, we would not have expected South America. So, it's very varied in performance. Some regions are in terrible difficulties and some are booming. Obviously, most of the booming economies since the Second World War have been in Asia. And this rise of Asia is fairly general. But of course, Asia, as I've argued, very controversially, I wrote a column a little while ago which said essentially there's no such thing as Asia. It's a geographical expression. It has no political meaning.

So, one has to understand that the world balance of power is changing in a profound way. But the result is not that there is some new power that will take over the old powers. It's just a world that is more multi-part and polar in a terribly complicated way. And then you have a phenomenon in which you can see, take India, a very important rising power. Well, on some things it's against the West, as it were, and on other things, it's with the West. And it's certainly not with China. So, it's complicated. And I think I have some sense, enough sense from my background, of the complexity of this new world we're moving into. And it's certainly not going to be one run by something that we can call the 'Global Sun'.

UD: Excellent. I mean, Martin, underpinning all this, in your writings, I have read that you've been very vocal about global economic inequality. You have highlighted the unique challenges facing developing economies, something you just mentioned. I was in a conversation with Shekhar Aiyar who's at Bruegel and Johns Hopkins. He believes that global inequality has fallen sharply over the last few decades, primarily because of the economic rise of India and China. But then, if I recall, what he also says is that the quantitative impact of this improvement in the income distribution between countries outweighs the increase in inequality within Western countries. So, the question I had was that I'm trying to sort of link this global inequality issue with what you just said. And India's sort of stronger push for South-South cooperation on trade and a collective approach towards trying to lift out and reduce these inequalities through all kinds of cooperative mechanisms between the developing countries rather than what the arrangement or the expectations have been so far. So, do you think that the push that India is giving on a stronger South-South cooperation for a more collective approach, for more market access through that mechanism, etc, can help in trying to reduce some of the concerns on global inequality that you have been writing about?

MW: This raises an immense number of linked issues. So, first the argument that global inequality has fallen because of a relatively rapid growth of quite a sizable number of emerging and developing countries, some of them have been to me even bigger surprises than China and India. I can remember in the 1970s when most people had written Bangladesh out of the picture, it has been actually one of the more remarkable successes. So, it's not just China and India, but of course, they're vast and that makes a huge difference. It's absolutely clear that global inequality has been falling among people because of the rise of many relatively poor countries. Indeed, and among other things, the decline in what we in the World Bank used to call absolute poverty, extreme poverty, people living on the borderline, borders of subsistence. The proportion of the human population that lives in that condition now seems to have stabilized. These measures are always unreliable at about ten percent. When I started at the World Bank, it was fifty. So, there's been a dramatic decline in proportion of the population living on the border of survival and clearly a massive reduction in global inequality. This has been associated with rising inequality in a lot of countries,

including actually China. I'm quite clear about the data on India. So, I'm not going to get into whether India is more unequal now than it was twenty or thirty years ago. You might well have a stronger view, but there's no question there's been rising inequality in many countries. And that creates political problems in remaining open and democratic. So, my most recent book argues that these increases in inequality are one reason. There are others why our politics has become so fraught.

Now, finally, you ask how should developing and emerging countries broadly respond to the protectionist backlash that you'll get from developed countries, particularly the US, more than Europe. I think partly because the US doesn't provide a very good safety net. It's one of the examples. Advantages of Europeans. They (Europeans) have disadvantages, but they do provide better safety nets. So, it's mostly immigration that concerns them, not trade. Trade is not actually a big issue in Europe. It's a very big issue in America now. My general answer has always been you should exploit all the opportunities that are available to you. I'm not persuaded that the US is a lost cause for most developing countries as a market. It depends a lot on the results of the election for China. China has to adapt its policies and that's going to create a problem.

I have nothing against if the Global South decides to liberalize trade internally to pursue trade-oriented policies without liberalizing vis-a-vis the developed countries. I would have no great problem with that but I think actually it's going to be very difficult to agree to that sort of package because in all massive trade liberalization exercises, there's always had to be a leader. This is a point that the great Charles Kindleberger made. You need a leader on both the monetary and trade side. And it seems to me one of the problems. Actually, the Global South doesn't have a leader. China is clearly the biggest player. But as I've already hinted, my very strong sense is India is not prepared to follow China's leadership. At the same time, lots of countries are not going to be all that keen on following your leadership. I'm not really sure that the world is ready for Indian leadership and I'm not sure the world is ready for Chinese leadership either, which is why I still think the least bad arrangements are reformed global ones. But that may be naive. And the truth may be that we can't make progress at all in this sort of global liberalizing efforts that I would like to see. And we are moving into a world where actually chaotic international economic relations will be quite general, not just between China and the US, but more general. And that concerns me a great deal.

UD: I'm with you, Martin. I mean, I'm personally also of the view that we have to bring it all back into some kind of a multilateralism and then sort out the issues that a lot of people are now bringing in statecraft and all that stuff.

MW: But anyway. I tend to say that it's ludicrous for the West to think that they can run the world the way they used to. But at the same time, it's pretty ludicrous for the South to think that they can run the world, at least in the present situation, without the West.

UD: Let's go to India, a few things on that. Look, you said that you began your professional life more or less at a time... which I would call a pivotal period in India's economic transformation. You know, the proverbial Hindu rate of growth was the one that we used to say, but that is also the time when you started your innings. And in 1982, and correct me if I'm wrong, I think it was your first book. You wrote India's exports for the World Bank. And by the way, sorry to personalize this, but I just started my career in India at the Reserve Bank. And I still remember those are not the days of Google or Internet that we could simply download a PDF version of Martin Wolf's book. But one copy came and that copy was then

photocopied, multiple times, both in Delhi and Mumbai, and it was very widely read then. I distinctly remember. I was struck then by how, for me, for a long period, it was the most comprehensive bibliography in index, a resource point, because, you know, those days, you didn't have the access that we have today. And credit goes to you, Martin, for thoroughness at that time. The question is really that if you were to rewrite that book, in whatever construct you want ... how do you think India's role... in the global economy has evolved since the 1980s. There's a book that William Dalrymple has just written about ancient route, silk route and all that. I mean, India was always a part of the global trade channel historically. And then came a period when, you know, there was a blackout for several centuries and you come and you look at India's exports. How has that changed?

And Martin, when you were answering that, you know, now currently there are what I would call two camps. There is a camp very critical of India's growth story. And they continue pointing out deep-rooted structural issues, complex bureaucracy, state-level inequalities within the country. And then there are the optimists who acknowledge the challenges of job creation, for example, or inequality. But they also point out the problems of scale. I mean, India is not a small country. We are talking about a billion plus. And the fact that India has ridden the worst of periods well and they're seeing the digital revolution, the demographics, the rapid urbanization as solid growth figures. So, the story is, Martin, go back to AD 2 and try to extrapolate from there and tell us and our listeners, how should they look at where India is today and what it has gone through?

MW: Well, this question invites an hour-long answer, at least.

UD: Indeed.

MW: I've thought about this so much, and apart from the US and UK, I haven't thought as much about any other economy as I have about India over my lifetime. It's a strange relationship, in a way, for an outsider who hasn't even lived there for any lengthy period. I think it's very important to go back to what I started with. So, I started the work on this or thinking about this actually ten years before that. I joined the India division of the World Bank as senior divisional economist. I was very young. I was only 27. And India was our biggest borrower because China was not a borrower. That was a great honour to do this. And if I remember correctly, I started in early 1974. And it was just before the oil shock. And I read a lot about it and visited and then the oil shock happened. And this is very, very important. The price of oil quadrupled roughly. And when I started looking at the figures, I discovered that India's imports, and I think this figure is right, were about four or five percent of GDP, which was also its exports. They were really reduced to the absolute minimum of essential goods. India was an extraordinarily closed economy at that time. It was also, as you say, caught in what was then called the Hindu rate of growth, which, if I remember correctly, was a phrase invented by my dear friend Raj Krishna. I thought he was one of the most wonderful people I've ever met. And so, I said, here's a country with growth of about close to per capita population growth. So next to no growth in GDP per head. Clearly very poor by any standards. So tremendous potential, obviously, for growth with an extraordinarily able economy. And now suddenly the oil price, the cost of oil imports, I can't remember the exact figures, probably triple. And so, India was in a terrible crisis because they couldn't afford. They didn't have enough exports to afford the most basic raw materials they needed. It had written itself out of the world economy that gave it absolutely no cushion for managing this massive crisis. And it took an enormous aid effort. I was busy writing the papers justifying

support for India. But we said then to ourselves-- this mustn't happen again. This is ridiculous. India has to accelerate its introduction, its openness into the world economy. It has to have an appreciable cushion so that it can cope with crises of this kind, which means trade ratios have to multiply. That will generate real competition for Indian manufacturers who were showing next to no signs of productivity growth. I mean, the figures were dismal. So, the place needed clearly very radical reforms. And one of the ways we could talk to the Indian government about this without telling terribly unpopular things that you need to liberalize, you need to do what Jagdish Bhagwati says you should do. What we could say, which they could all agree, is you've got to get your exports up.

And then I wrote the book. And it's obvious when you start thinking about how do you get your exports up. Well, you have to liberalize imports and you have to change your currency policy. And the book focused on the former largely because it's something they could do. And I knew already by that stage that I was following on the work of previous great men who had written on the need to get India's exports up, of whom the most distinguished by far was Dr Manmohan Singh with his seminal book of the early sixties, his great thesis on exactly the same topic. And so basically it was a footnote to one moment, if I may put that way that I tried to write and others have written this. And of course, nothing happened then. But then in the early nineties, policy changed because they had another crisis and that crisis, instead of being so conservative in the previous crisis, was just about managed. Nothing really changed very much. But the crisis in 1991 was seen as an opportunity. And Manmohan with my very dear friend Montek Singh Ahluwalia and Shankar Acharya, both colleagues of mine and dear friends from the World Bank, saw the opportunity to change these policies decisively in the direction that I thought was necessary to give it the cushion, give it the dynamism. And to my mind, given all the problems of policy in your huge, complex country, it's been a spectacular success. So as to the pessimists and optimists, my position is absolutely clear that when you visit India, when you look at the figures, when you look at everything, things have improved measurably over the last thirty years, with this bipartisan orientation towards liberalisation. I think the BJP government of the late 90s, early 2000s was really very good. It has transformed India but I would also argue that India can do still better. So, I feel one should always not encourage complacency. India still has problems. I do feel if the Indian government had accepted our advice in the mid-70s instead of the early 90s, it would look now like China. And that's a lost opportunity. And that was really, really infuriating me because I've always believed that India had the capacity to generate perhaps ten percent a year, eight percent a year or so growth for generations. And if it had started in the early seventies, instead of the early nineties, you'd be twenty years ahead. And just think what a difference that would make.

UD: I agree, Martin. I mean, effective and good policies have a moment in time. And if you don't do it then, you know, it gets too late and you lose out.

MW: The Indira Gandhi government was unfortunately very economically conservative and not economically imaginative. Her son Rajiv was better, but he didn't do it. Perhaps he couldn't have. It took the crisis. And the government of Narasimha Rao and Manmohan did it. They wasted twenty years.

UD: Martin, you mentioned this, and those looking at India's future point this out as one of its biggest assets at the moment, which is the youthful population. A lot of people say it's the primary advantage, not just the number of young, but also the basic stock. You know this

well, close to about 27 percent of global population between 18 and 35 now resides in India. And about 18-20 percent of the world's working age population, which is a very significant part of the worldwide labour force, is now Indian. Now, as the advanced economies and China are beginning to grapple with aging workforces, clearly the global labour market will change. The demographic profile of the global labour market will change. Now, is that, in your view, going to be a plus? Because a lot of people believe that, you know, we are young and there's so many young Indians, therefore it should be a good asset. So, will it be a plus for India or pose a challenge? And the reason being that you probably are reading this big debate going on that the pessimists are arguing that India's growth story has been jobless and we have the number of the workforce but basically, they need to be retooled or skilled and they deserve more formal high-quality jobs. Obviously in India, always there is the other side of the story countering the narrative of jobless growth. So, what is your view? I mean, how do you see this demographic, the youthful population factor, from an economic point of view?

MW: So, I have to make a sort of footnote comment, which is that I find that my understanding of the data underlying these debates is inadequate. My understanding of the data is that I don't understand enough about their quality and how they are to be interpreted to decide which of these sides is right. My strong sense is that both are right. That is to say, the economy is certainly growing, and in the process, it's generating employment opportunities. That is true. But second, an astonishingly high proportion of these are in the informal sector as opposed to the formal sector. And it's very difficult to know really what's going on with these jobs. And a lot of these jobs appear to be pretty unproductive in terms of both the incomes they generate and their ability to use such skills as India has generated. So, there are a lot of people with some qualifications who don't seem to be doing things that are commensurate with those qualifications. And then the question is, is this an opportunity or a challenge? And the answer is obviously it's both. I mean, it's to say you have a very large number of young people, probably not as well educated as you would want them to be. There's another huge debate about the quality of the Indian labour force outside the very famous Indian Institutes of Technology and so forth. But there is an argument that actually much of the labour force is really very, very poorly qualified when you look carefully at it. But on the other hand, labour forces can improve. And there's a lot of literature that shows that if people really demand skilled workers, actually it's surprising how easy, how they can be developed if you've cultivated young people. So, it may not be a binding constraint. There are opportunities here, but there's also the challenge of generating labour-intensive growth. And there's no doubt, and this is a new model, I think, of development, that historically the countries which were still predominantly rural or agriculture, which India still has a huge proportion of the labour force in low productivity agriculture or very low productivity services, generated lots of jobs, which were good jobs for people and had stupendously rapid industrialization. And that's China. So, India is, I think, a bit of an anomaly in all this. And so, my view would tend to be that there's clearly the potential for the labour force to be valuable. It will clearly require very rapid growth. There's no doubt about that. And I suspect that will have to include pretty rapid growth of labour-intensive manufacturing. It can't just be services. And it's not clear yet to me that what's going to happen. And it will depend a lot on the policies that are now undertaken and how successful they are. But I would agree with you that if there is the right policy and growth is maintained at eight percent or so, I think there's a pretty good chance it will generate lots of employment. This youthful population will be a windfall and it will be usable. But if on the other hand, that doesn't happen, it could

blow up. I mean, if you've got, you know vast numbers of young people who feel there aren't good opportunities for them. I mean that's not a good situation to be socially and politically and there are clearly parts of India where things are not going so well.

UD: Absolutely. I fully agree. And I also fully endorse the point you made at the beginning that your understanding is probably not that complete in the absence of data, good data. And I think that still is very much the problem that I also have, that I don't know what the baseline here ought to be for us to start treating this as a positive or a negative. Lot of people say there's need to be reskilled. I don't even know how the skill demand determination is being made. We don't know how in Tier 2, Tier 3 and rural areas, the young of India are living, where we just need to understand what their expectations are and what is it that they need. So, I'm fully with you, Martin. At this point in time, it seems to me at least more of a challenge. But you are dead right that if only we could see good policies coming in quick and fast, then this could become a very potent asset for India's future. That takes me to a non-people factor. You have met Nandan Nilekani, the key architect of India's digital transformation, and he is also the chairperson of NCAER. You know that he is very, very optimistic about technology driving India's future growth. And he believes that this could be a way to sort of bridge the discussion we were having on the youth of India, the skilling and India's potential. And he's sort of obviously benching himself on UPI, Aadhaar as enablers of growth, jobs, inclusion, innovation. How do you see it? And I have a specific thing here, not so much as a digital tech person, but I'm really looking here at a more vibrant democracy that India will grow to be. Because there's chance of economic growth, but I think the democratic roots will only become stronger when there is deeper digitization. So, democracy and digitization growing together to ensure India's economic success. Any reactions?

MW: Oh, yes. I mean, my job is to have opinions about everything. So, I deliver them. And at least, I have thought about all those questions over the years. Well, first of all, I think Nandan is a wonderful man who's done, and I always stress, this started under Manmohan when he was Prime Minister. I always remind people that there's a long history to these things. But again, it's been bipartisan, I give tremendous credit actually to this government in the way they've used this, particularly in creating something like a sort of universal welfare state, which is unique. And I think that's a remarkable achievement. But certainly, the digitization of India on the basis of the universal identification system is a stupendous achievement. And I speak as somebody who really wondered whether it could be done. It's stupendous opportunity so that's clear and in many ways, it's ahead of so-called advanced countries.

The second thing is that it ought to create opportunities for new businesses and must be creating opportunities for new businesses. But what those new businesses do and the sort of incomes they generate in the process is obviously crucial. By and large, in my view, the immediate impact of very rapid development of the tech sector, at least in the Western context which I'm more familiar with, is not equalizing. It has generated stupendous incomes for a significant group of highly trained and sophisticated technicians and, of course, other successful entrepreneurs who've made unimaginably huge fortunes. But if you start looking at the tech business itself directly and who they employ, it does generate a lot of jobs. I mean, Amazon, for instance, generates lots of jobs. Most of these are pretty unskilled warehouse-type jobs or delivery-type jobs. Now that there is tremendous opportunity for India. You can have an awful lot of that, but that doesn't generate the sort of jobs that high wage manufacturing used to do. So, I think I would say that at the moment, I'm agnostic, perhaps

agnostic to sceptical on the extent to which this alone will generate satisfactory middle-income jobs of the type that will allow people to live a secure life, educate their children properly and give them a genuine sense of a good future for them and their families, which is, I think, what economic success really consists of. And that then links with your profound question about, well, what are the implications for democracy of all this? I think the impact of the tech sector here as having two different dimensions are probably more. But the first is the sorts of jobs it generates.

The coincidence of deindustrialization with the growth of the tech sector and to some extent is a coincidence in the West has, I think, being politically destabilizing rather than stabilizing. It has basically de-anchored a lot of our working class. Now, that's not a problem for India because you don't have a large working class, but it may be very difficult to create one. And then the question is, well, what do all the people who are now in the informal sector end up doing? How anchored do they feel? Does this merely break their connections with their villages, with their communities, and end them up in a sort of what Durkheim, the great sociologist, would call anomie. And that is a genuine question. Where does it end up, this new digital world? That's in the employment sector. Where do people live? How do they feel they belong in this world, which is very different from the old rural India from which they ultimately came? And the second aspect, of course, is that, to put it bluntly, the digital economy, technology, has allowed an extraordinary proliferation of disinformation, misinformation, and outright lies, which are not necessarily conducive to a stable democratic order. Because if people don't trust information, the famous remark of GK Chesterton, a very reactionary British writer, who once said, that the problem when people cease to believe in God is not that they believe in nothing but they believe in anything and the way I think of this is the problem when people cease to believe that there is a source of truth is not that they believe in nothing but that they believe in anything. So, I'm nervous about the impact of digital systems on our democracy, certainly if we end up with a very large number of people who feel essentially ruthless, lose their old roots and develop new ones. And for India, I don't think I need to go through the potential risks of that becoming more general in terms of communal relations, in terms of issues relating to social and religious relationships in the country and the sheer complexity of this monstrously large country with all the changes that it's undergoing.

UD: Martin, that sort of is a good bridge for me to get to your most recent book- The Crisis of Democratic Capitalism. I think there you have explored some of these things and you also explored how liberal democracies are under threat in today's globalized world. And I'm linking it up because I think digitization, in a sense, becomes sort of an instrument of capitalism. But at the same time, it impacts the democratic fervour. I mean, you interviewed Anne Applebaum the other day in your podcast series. And I believe she had said that we are living in a moment when the global battle between democracy and authoritarianism has become starkly visible. Question is, do you believe that the same crisis you discuss in advanced democracies are beginning to manifest in developing economies or developing markets and how concerned are you about what might happen to them in this whole crisis of democratic capitalism. It's the democratic capitalism problem in the US. Are the emerging markets or developing economies again going to be a taker in this?

MW: Well, I think politically people are never really just takers. Even small countries could use their own way. Look at North Korea. It's amazing that it has survived, as it were. I think that what I've described is global. And it's pretty obvious from any of the standard reports and

analyses that from a high point in the nineties, after the fall of the Soviet Union, I call liberal democracy law- governed rules-governed democracy, entrenched rights have been somewhat in the retreat in both high income and middle and low-income countries. I mean it's very clear and there are quite a number of emerging and developing countries in which rulers are more authoritarian than they were before and the rule of law is being eroded. The independence of legal and other crucial institutions, including the bureaucracy itself, has been eroded. And all these are signs of a move towards what my colleague Gideon Ruffman calls 'Strongman Rule', or I would call autocratic rule. And I think it's pretty clear that's not exactly absent, or some of that is not absent in countries which have vibrant electoral systems like India. You can have vibrant electoral systems, but in other ways, freedom is being eroded, freedom in the media and so forth. This is partly because of the opportunities created by new media to spread messages. I think that's important. But it is also true the new media provide a countervailing force, which is very difficult, unless you're China to monopolize information completely and going as far as China requires an enormous effort. And that sort of party structure is fortunately now very, very, very, very rare. But I think the future of liberal democracy is now threatened in two ways. A very large proportion of populations don't think democracy really is very valuable for them. and are very angry about their positions in societies and about other groups in societies against whom they have, to some extent, been mobilized and they want something done about this. And often what that tends to mean is they want a strong man, an autocratic leader to do it for them. And you can see that all over the world.

And the second point is that it is clearly true that it has become really hard to gatekeep truth, if that's the right way of putting it, to confront sophisticated falsehoods sufficiently, quickly and effectively to make people sort of have a shared view of what's going on in the world. And when you don't have a shared view of what's going on in the world, then you can invent anything and people do. So, I am very concerned about the stability of democratic order. And I think on democracy, hangs many, many unbelievably valuable human freedoms. And let me just go back to a period of Indian history, which I remember very well, the Emergency. I was working on India during the Emergency in the 70s. So, I don't need to talk about contemporary history. And it was obvious. Terrible things were done. And they were done because the political leaders were not actually effectively accountable to the people. And I'm a passionate believer in that basic principle that they should be.

UD: Martin, I think it's very important, both as a reminder as well as what as other developing countries watch each other, their peer group, then some of these things become extremely important. May I take you to one concern? We've talked about global inequalities, globalization, your views on India, but one glue or the lubricant for emerging markets' future is finance, money, capital markets, monetary policy. And I think I always go back to the two books that you wrote in 2008 and 2014, which probably people may have forgotten. I have not. These are the books that came out from you just before or at the time of the global crises fixing global finance. And the other one was a fascinating title you gave- 'The Shifts and the Shock'. What we have learned and have still to learn from the financial crisis. I do not know to what extent in your current frame of issues, you have linked that knowledge and viewpoint into, say, future of democracy or democratic capitalism. But you did highlight the critical relationship in these two books between global imbalances and crisis and how to sort of restore economic balance. And the latest IMF external balance assessment has pointed out-, this came out just a couple of months back- that excess global current account imbalances

remain broadly unchanged and the IMF has called for collective international action to reduce these global imbalances.

Now, you know that on climate change, there is a huge clamouring of resources for sustainable development goals. There is a huge call for resources. We then are talking about resources needed for reconstruction whenever the wars finish, the two going on. The call on resources at a global level is massive, and then we have this problem of imbalances. The question was for you that as an emerging market like India or other emerging markets look at their future, do you believe that the global financial system will be able to respond and help them? And is the current state of the system resilient enough to allow the emerging markets through market mechanisms to go through the transitions and uncertainties that lie ahead?

MW: Well, another hour-long answer needed. The short answer is that, in my view, the underlying problems of the system have not been resolved in any way whatsoever. I see that there are two dimensions of those problems that are perhaps worth emphasizing. First, it remains very risky for most emerging and developing countries to run really large current account deficits relative to their GDP, because there remains a very severe risk of sudden stops. That is to say, the capital outflows dominated increasingly by the private sector halt in the context of some crisis. And the international insurance system against sudden stops which is predominantly the IMF, is inadequate in scale. It's far too illiquid. and in the sense, they can't provide huge quantities with unlimited scale in short time and therefore well-run emerging and developing countries are wise to ensure themselves against these risks by both holding large foreign currency reserves which means reliance on western currencies and constraining their current account deficit which constrains effectively their ability to invest. And that has a particular problem, which means that we can't, in many parts of the world, get the climate, energy transition under way. So that's absolutely crucial. So, in this sense, the global financial system broadly defined and the global development finance system, related to it, are very inadequate. And that's very depressing.

The second problem is that the way most emerging and developing countries sorted out the difficulties they confronted, particularly in the nineties, was to decide, okay, we're not going to run large current account deficits. We're going to be very prudent. We're going to accumulate massive reserves. Quite a number of developing and emerging countries run pretty large surpluses- China, the oil exporters and so forth. Somebody has to run the countervailing deficits. And for reasons which we've known since the days of Robert Triffin and earlier in the sixties, that tend to end up being the reserve issue in the country. And the reserve issuing country being the US ends up with a very large structural fiscal deficit, which leads directly to American protectionism. And in my view, it also led, that's more controversial, to the sort of monetary and bank regulation policies that led to the financial crises in 2008. So, that's the other dimension of this mess. But of course, the US loves hanging on to the dollar. And so, you could say it's their fault. They want the system that generates this outcome. They should stop complaining.

But the result is that the fragilities in the global financial system from the stability point of view and from the point of view of development are very, very significant. They have not in any way been resolved. Nobody wants to resolve them. It's more difficult now, even than it would have been twenty years ago. And it's concerning. I expect that we end up with lots of developing and emerging countries not growing as fast as they need to. That's particularly

true in Africa because of these constraints. And that will lead to the sort of backlashes we're seeing.

UD: Martin, time is running out. And I think in that note, this all seems very daunting, by the way, just to comprehend and to navigate. Any advice that you would like to give to the young professionals in India and the developing world? I mean, anything they should prepare for? I mean, how should they prepare for what I think T.S. Eliot may have called the wasteland, because it might become the wasteland in the future? What would you tell them?

MW: Well I've been lucky enough. I've lived through a period of what was in the end, with many qualifications, global peace and prosperity and development, unparalleled in scale in history. So, I've been unbelievably fortunate. And I am very concerned that won't be true for my children and grandchildren. And this may well be true in much of the world. But I don't think one can live on that basis. You can't live a whole life purely defensively, in a sort of defensive crouch. So, I would say first and foremost, people should look on their prospects rationally, but with hope. And to be rationally hopeful, they should try to the extent that they are able, and of course fortune and luck is so much involved in this, to get the best education and pursue activities which both excite them and will give them the means to live a decent and normal life. I would say there are more people and a higher proportion of the world's population with those sorts of opportunities still or smaller than ever before in history. And they're probably the people I'm addressing. And with luck, my life ended up far more interesting, challenging, enjoyable than I really expected when I was at university, even though I was a very lucky person to have gone to Oxford in the 60s. So, as I said, I think it is crucial if you have any chance of it, which obviously so many don't, to live in hope, but live with purposeful hope. Don't just expect things to land on your lap and use your talents as best you can. And I would say this, it sounds a bit tendentious, but try to lead, if you can, a decent and valuable life. And there are so many ways, I think, that one can do it.

UD: Martin, let me thank you. This has been an incredibly enriching conversation, priceless. And thank you for giving us so much of your time at a time when so many things are happening. You rightly said there were lots of questions which could have gone on for hours. But let's leave them for another time. We appreciate all your help and support to NCAER's activities. Wish you the best. We look forward to reading more from you and to say the least I think you have also given in this podcast a lot to chew upon and reflect. So, thank you again!

MW: It was a great pleasure, it always is and particularly to talk with an Indian about India and the world, which is a subject very close to my heart.

UD: Thank you.... On a final note, your participation and feedback are vital to a shared learning journey. Please email us at info@ncaer.org with any questions or requests for further clarification. We will do our best to respond promptly, and if needed, I'll be delighted to chat with you. So, until next time, goodbye, namaste, and remember, while economic policy is what it is, it can always be different.

(Ends)