

Director-General's Report (2009-10)



The Global Crisis and its Aftermath

2009–10 redefined India's place in the world, economically and politically. It also revealed, in graphic fashion, the meshing of the global and the local in shaping India's economic policy challenges and the policy space available to react to them.

At the time I wrote last year's message, it was already clear that the Indian economy had demonstrated considerable resilience in the face of a huge shock to global finance and to international trade. After a frightening couple of quarters in the second half of the previous fiscal year (2008–09) the economy was well on the way to recovery. By that time, India had already participated in the first two meetings of the G–20 leaders (in Washington DC and in London). The country's strong economic performance both prior to and during the crisis had made it an increasingly respected voice in shaping the global economic policy response.

This resilience, at a time when the nation was in the throes of an uncertain general election, and shortly after the devastating attack on Mumbai in November 2008 made the swiftness of the recovery even more impressive. It stood in sharp contrast to the fragility and brittleness of the Indian economy a couple of decades earlier. In effect, the collapse of global finance and global trade in the six months after the bankruptcy of Lehman Brothers in September 2008 represented a systematic, unexpected "stress test" for the Indian economy, Indian policy-making and Indian politics. With the passage of an intervening year, it seems now reasonable to conclude that the society passed this stress test remarkably well.

The effect has been to enhance further the growing international confidence and credibility that India has increasingly enjoyed since 2004, when economic growth reached a higher sustained level than ever before. While informed observers of the Indian economy were aware of India's consistent growth over almost thirty years, the performance in the second half of the last decade attracted broader international attention. One consequence of this increasing prominence has been India's progressive induction into the inner councils of international economic policy, initially on trade (through the WTO) and in global monetary affairs through our participation in the Bank for International Settlements (BIS) and the IMF, and more recently in climate change negotiations and global financial regulation (with our induction onto the Financial Stability Board).

NCAER has developed a broad suite of products and offerings over the past decade to track these developments in the global economy, and to explore India's responses to it. At the most senior level have been the annual informal conferences at Neemrana in Rajasthan, which NCAER organises jointly with the National Bureau of Economic Research (NBER) of Cambridge, MA (now jointly with ICRIER). The distortions in the global economy were intensively discussed after they began to build up after 2006, even if the actual implosion in the global financial system was not widely foreseen.

The problems for domestic economic management (and, in particular, for the domestic financial system) of reconciling fast growth, financial stability and enhanced financial integration in this global environment were also issues that were repeatedly addressed. Complementing these qualitative policy discussions has been more in-depth quantitative research on the implications for domestic economic management, featured in NCAER's journals (both published through Sage India), namely *India Policy Forum* and *Margin*.

The *India Policy Forum*, our annual publication produced jointly with the Brookings Institution since 2004, has carried important commissioned papers on such issues as India's trade policy, the monetary policy regime, reserves accumulation policy and the real exchange rate. In addition to the in-depth treatment provided by each published paper, the IPF format allows for commentary on the paper (and on the policy problem it addresses) by a distinguished group of international scholars. In addition, the IPF workshop is accompanied by a lecture by a distinguished academic. Over the past few years, the lectures given by John Williamson, Max Corden and Guillermo Calvo have helped contribute the insights of globally respected international policy analysts to making sense of the new world economy and of India's place in it. We look forward to the forthcoming



Handloom weaver weaving cloth during the NCAER survey on "Third Census of Handloom Weavers and Issue of Photo Identity Cards to Weavers and Allied Workers" in Tamil Nadu

2010 lecture by Professor Willem Buiters, a long-standing member of IPF's Advisory Panel, on the sovereign debt crisis that swamped Greece, and its implications for India.

There is no claim here that NCAER has been alone in these efforts: far from it. Delhi's increasingly sophisticated and vibrant policy analysis community has embraced these challenges whole-heartedly and collectively as a group, and there is productive interaction between the leading institutions, collectively contributing substantively to the climate of informed opinion in the capital. Within this cohort NCAER has traditionally seen itself as the institution that links micro and macro analysis. The goal is to achieve a deeper understanding of the forces shaping India's growth and the distribution of that growth.

The last five years have reinforced the importance of global integration as an additional cyclical influence on the Indian economy, operating through the trade and finance channels, as well as a less easily-defined "confidence channel". These demand-side influences complement the more familiar concerns with the impact of such integration on resource allocation and productivity. Such cyclical concerns are of particular relevance for the design of policies toward the financial sector and social protection. While in the former case the existing framework of prudential regulation and supervision of banks was equal to the task, the system of social protection, particularly for urban workers exposed to the global economy, many of whom are engaged in informal employment.

NCAER has been active over many years on issues of measurement, modelling and policy connected with informal employment, particularly as these affect women in self-employment. This body of work was drawn upon in a small study commissioned by the World Bank that attempted to model the transmission mechanism from the slowdown in labour-intensive exports to distress in the informal economy. NCAER has also maintained active links with the Asian Development Bank in this area, acting as the Manager of a South Asia network on poverty which has attempted to collate analysis on the mechanisms, impact, and policy response of governments in South Asia to the crisis. This work formed part of my own intervention at an ADB forum in Manila in January 2010, remarks that have subsequently been published. The issue of how to provide social protection while maintaining labour market flexibility is likely to remain an important theme for the country, and for NCAER, for some time to come. It is, fortunately, a theme NCAER is well-equipped to handle.

While the global crisis had multiple causes, and the diagnosis remains controversial, global imbalances and inadequate financial regulation are widely considered to be two proximate leading causes. Both these themes were explored in depth in various events organised by NCAER over the past year. In early June 2009, in co-operation with the London-based research network CEPR, and with the financial support of the British High Commission, we held an in-depth, on-the-record, day-long workshop on the theme "India in the G-20: Macroeconomic Policy Coordination, Regulation and Global Governance." The workshop involved both international and domestic scholars and key Indian policy-makers and explored India's interests and perspectives in the issues that had emerged from the G-20 Leaders' Summit that had taken place in London a couple of months earlier.

Some of the same themes were also discussed in greater depth by Dr Ian Harper in his Crawford lecture of December 2009. In his lecture Dr Harper strongly argued that the proposals for financial regulation being proposed by leading G-20 nations were inappropriate for financial systems that had been better supervised and regulated, such as those of India and Australia, and that inappropriate regulation could well impose a cost in terms of desirable innovation and reduced credit availability.

To a limited degree these issues were also discussed at the Global Institute annual conference in October 2009, where NCAER collaborates with the New School, Moscow and Tsinghua University, Beijing. These conferences are designed to provide a forum where policy research organisations from large emerging markets can discuss issues of common interest. Although still nascent, this cooperation provides the kernel of a broader programme of engagement with research organisations from the leading emerging markets who also participate in the G-20. It would be desirable to expand participation at least to Brazil and South Africa, and in time to Turkey, Mexico and Indonesia as well.

With the financial help of the World Bank's New Delhi office, NCAER has recently created a special moderated website (www.indiapolicyforum.org) as a space to solicit contributions and reactions on key issues facing Indian policy and policymakers in

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the evolving global economy. This website is closely patterned on the very successful venture of our London-based partner CEPR, which provided valuable assistance to us in developing the site. The first round of commissioned contributions was also packaged into an "e-book" designed to be available at the time of the G-20 Leaders' Meeting in Toronto in June 2010. While we were successful in meeting this goal, the real challenge lies ahead, in trying to publicise the website as a space where India-focused, research-based, policy opinion is debated and discussed. These are skills where NCAER has arguably lagged its peers, and needs to catch up.

Organisational Developments

The areas of dissemination and communication have, accordingly, been key areas of focus and dialogue between NCAER and those foundations which provide core support to us. This has particularly been the case of the IDRC, Canada, which has sought to stimulate such "research-to-policy" activity at NCAER by embedding institutional support for communication and dissemination in a master grant for research at NCAER on rural decentralisation and service delivery. The availability of these resources has assisted us in developing a newsletter and website devoted to these issues. Now that the development phase is behind us, the challenge is to devote the attention and resources needed to make these tools the core of vibrant, sophisticated intellectual communities that can provide informed commentary on the important challenges facing the nation.

We are still experimenting with the right organisational structure to support and scale up these new but increasingly important functions, without sacrificing our core values of rigour, independence and quality. Our lead researchers have their hands full in managing clients, field-work and project reports. In addition, the senior researchers also assist me in managing the organisation through their membership in the Management Council (MC) and the committees of the MC where much important work is done.

With the enthusiastic support of the Governing Body we were able to take an important step toward exploring new, more scalable organisational forms through the creation, in March 2010, of an autonomous centre to provide focus to NCAER's long-standing and well-respected efforts in the collection and analysis of household consumer data. The NCAER Centre for Macro Consumer Research (NCAER-CMCR) has been provided launch funding by six nucleus corporate members, who also have a role in its governance through representation on a supervisory board. By agreement with NCAER's Governing Body, the Supervisory Board of the Centre is chaired by Ms. Rama Bijapurkar, an eminent analyst of Indian consumer behaviour and a long-standing champion of NCAER's work in this field. The Board also includes two nominees appointed by the NCAER Governing Body Board, one of which is the DG NCAER (ex officio); the other is Dr Rakesh Mohan.

The Centre's first Director is Dr Rajesh Shukla, who as Chief Statistician of NCAER has led many of the significant survey-based projects of NCAER over the years. The intention is to accord the NCAER-CMCR considerable autonomy in designing its work organisation and practices while having it remain under the broad non-profit umbrella of the parent. I am most grateful to Ms. Bijapurkar for her enthusiasm and commitment to the centre, and to the six nucleus corporate supporters (ICICI Bank; Hindustan Unilever; Mastercard International; Maruti; Nokia and McKinsey India) for their faith in NCAER and their desire to put this area of NCAER's work on a viable and sustainable basis. If this experiment succeeds, it could provide a template for other such specialised centres within NCAER.

To a considerable degree, the impulses that have driven the creation of the NCAER-CMCR are similar to those supported by IDRC in the programme of work on rural decentralisation and service delivery. In both cases, the underlying motive has been to generate stable long-term funding so as to develop a body of work and a cadre of younger researchers who can then develop domain expertise in a particular area, and to support the team with enhanced communications resources to ensure greater impact. While both initiatives are off to a promising start, it will take experience and effort to institutionalise them while maintaining a common NCAER perspective and corporate culture.

These initiatives ought to be further strengthened by the funding being made available to NCAER via the Think Tank Initiative (TTI), which will become available in the course of the current financial year. The TTI is an initiative of the Hewlett and

Gates Foundations, the IDRC and the UK Department for International Development (DFID). This consortium has pledged a significant volume of multi-year funding to allow promising think tanks (first in Africa, now in Latin America and South Asia) to reshape their activities to achieve greater domestic policy impact. NCAER is proud and grateful to have been one of the institutions selected for this award, which will give us important additional room for manoeuvre to sharpen and reshape the Council as the national intellectual resource it was always designed to be. This organisational reshaping will be accompanied by the renovation of our campus, planned over the next two years, and supported by a soft loan from the Department of Economic Affairs, Government of India.

Concluding Reflections

This message is my tenth, and comes in the middle of the last year of my second five-year term. I feel extremely privileged to have been allowed to lead this institution for this long at this particular moment for the Indian economy. I would like to thank my two Board Presidents, Dr Bimal Jalan and Mr Nandan Nilekani for their guidance and support over the years. I would also like to thank the two Vice-Presidents, Mr M.S. Verma and before him Mr Vikram Lal for their deep involvement and support on the difficult issues that inevitably arise in managing a small, complex and under-resourced organisation at a time of great change.

NCAER continues to benefit in innumerable ways from the very high quality of its Governing Body, drawn from the pinnacle of Indian corporate and public life. They have all been unstinting in their willingness to provide advice when asked, quite apart from their participation at formal meetings. I would like in particular to thank Deepak Parekh and Yogi Deveshwar for giving their time and experience to our campus development plans, and to the Delhi-based members of the Standing Committee (Surjit Bhalla, Rohini Nayyar and Tarun Das) under the leadership of the Vice-President Mr Verma for giving their time and thought on a range of management challenges. I would also like to thank Isher Ahluwalia for her advice and guidance on handling issues connected with NCAER's status as a charitable institution. NCAER also draws sustenance and support from the support of its General Body.

My deepest thanks though, must go to NCAER's staff members, past and present, in research and in administration, who have patiently coached me as I learned the ropes as CEO, and who have been co-operative with my efforts at experimentation and innovation even when they may not always have agreed with me. They have also been willing learners, and in almost all cases are operating at a much higher level of skill and ambition than before. The large range and volume of research and policy output captured in this report and in previous ones, are testimony to their energy and professionalism.

In sum, NCAER in 2010 is an institution which has the proven support and goodwill of a broad range of constituencies, both international and domestic. It has the fortune to be located in a country whose global interests and influence are steadily widening, and whose own economic growth promises to achieve unprecedented levels even as deep issues of poverty and inequality need to be addressed. NCAER has developed a broad range of research capabilities and has now been provided additional resources designed to allow it to make a more decisive contribution to national debate. The prospect facing NCAER, as it enters the second decade of the 21st century and the seventh decade of post-independence India, have perhaps never been more exciting.

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