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[The full text of the Lecture will be available 1930 hours in digital and paper form]

THE 5th C D DESHMUKH MEMORIAL LECTURE 2017

Reflections on the Art and Science of Policymaking

Vijay Kelkar

*President, Indian Statistical Institute
Chairman, National Institute of Public Finance & Policy &
India Development Foundation*

Friday, January 27, 2017, 7:00 pm

**Nehru Memorial Library Auditorium,
Teen Murti, New Delhi**

New Delhi (January 27, 2017): Dr Vijay Kelkar, one of India's most prominent economic policymakers and thinkers with over four decades of public service in and outside the government, delivered NCAER's 5th C D Deshmukh Memorial Lecture at the Nehru Memorial Library Auditorium, Teen Murti Bhavan, in New Delhi, on January 27, 2017.

The distinguished audience included eminent economists, civil servants, industry analysts, media and a large number of students. Dr Kelkar, who was recently elected President of the prestigious Indian Statistical Institute, and is Chairman of the National Institute of Public Finance and Policy and the India Development Foundation, spoke on his ***Reflections on the Art and Science of Policymaking***. Dr Bimal Jalan, former President of NCAER's Governing Body and former Governor of the Reserve Bank of India, was the evening's Guest of Honour.

NCAER instituted the C D Deshmukh Memorial Lecture series in 2013 in memory of Sir Chintaman Dwarakanath Deshmukh, one of India's most eminent economists and a founding father of NCAER in 1956.

The 2017 Memorial Lecture by Dr Kelkar comes at a time of heightened economic and political debate in the country, with the Union Budget 2017-18 scheduled to be presented to Parliament in five days' time on February 1st, impending elections to five key state assemblies, the demonetisation initiative launched in early November, and events in the US, UK, Europe and the Middle East that foretell growing economic and political uncertainty in 2017 and a challenge to the post-war, global economic order.

Against this backdrop, Kelkar drew on his intense experience and close involvement in some of India's most significant economic reform initiatives, including as former Finance Secretary and Chairman of the 13th Finance Commission, to remind the packed audience at Teen Murti Bhavan that good economic outcomes relating to growth and efficiency come only from following a principled approach to economic policymaking. Kelkar emphasised ten critical elements of what he called the science of policymaking, complementing this with his observations on the art of policymaking that balances economic, political and state capacity concerns.

While introducing the speaker, **Dr Shekhar Shah, NCAER's Director-General**, said, "*Vijay Kelkar is exactly the right person to deliver this C D Deshmukh Memorial Lecture. There is a consistency of approach and a coherence of purpose running right through Dr Kelkar's illustrious career.*" He added, "*That, teamed up with Kelkar's unbounded optimism about India's prospects, his humility, grace, and generosity to his fellow colleagues, particularly those junior to him, and his willingness to roll up his sleeves and take on any number of the challenges our country faces with patience and a light, inspiring touch, make him the immense force for change that he has been for all these decades. We are privileged today to have him share with us his guidance on good policymaking at a time in India and overseas when the need for such advice has perhaps never been greater.*"

At the outset, **Dr Vijay Kelkar** thanked NCAER for offering him the opportunity to pay homage to the memory of Dr Deshmukh, whom he described as "*a titan among Indian policymakers.*" Kelkar recounted how Deshmukh had headed the selection committee that gave him his very first job in India.

In focusing on the science of policymaking, Dr Kelkar argued that well-functioning markets and competition can be tremendous sources of prosperity, creativity, innovation and individual freedom, and that we should be mindful of the adverse consequences of the State interfering needlessly or coercively in the workings of the market. Noting the benefits of competition, **Kelkar** stated, "*The market economy yields good outcomes for society when there are high levels of competition. Competition pushes firms to cut costs, to innovate, and to deliver the best bargains for customers.*" However, markets are also vulnerable to 'market failures'—arising out of what economists call 'externalities', poor information, unregulated market power and socially desirable goods and services that are undersupplied—creating the critical role for good government to correct such failures.

In each case, Kelkar noted that the State and the policymaker have a major role to play. But in doing so, we should worry about the fundamental role of incentives for people and how they will be affected, about balancing the costs and benefits of policy interventions, and about the State's capacity to implement its policies. He talked about the need for 'sunset' clauses on policies and laws, regular monitoring of their effectiveness, and avoiding the temptation of trying to attain multiple goals with too few policy instruments.

Turning to the art of policymaking, Kelkar emphasised the part played by politics, intuition, philosophy, and experience in real-world policymaking, over and beyond sharp economic analysis. He noted the vital need to sequence the building of State capacity by first establishing easy objectives before attempting to tackle complex ones. As an example, **Kelkar** noted that *"it is better to first build a single-rate GST with a low GST rate, achieve full mastery of this, and only then consider more complex possibilities such as high rates and] multiple rates"*. According to him, some of the constraints that impede rational analysis in the country include the unavailability of comprehensive data, flaws in the standard public data sources, and limited access to statistics and analytical models for undertaking the formal economic assessment of many problems.

While delineating ways of improving policymaking in India, Dr Kelkar stressed the need for continuous research on the Indian economy. He said that India needs to encourage independent policy think tanks, universities and research organisations that conduct policy research and foster public debate. In this context, **Kelkar** said, *"We should ...recognise the scarcity and value of criticism, and create an environment where we disagree without being disagreeable. There should be pleasant friendships, and an environment in which many persons are comfortable airing divergent views. Critics of public policy strategies are a valuable part of society, and essential for the process of crossing the river by feeling the stones."*

He referred to Shri Lovraj Kumar, a distinguished past President of NCAER, former civil servant and also Dr Kelkar's mentor, who had held that in open societies more knowledge leads to better policies. Kelkar noted that NCAER, founded by Dr C. D. Deshmukh along with others, was an outstanding reason for his optimism in this regard.

Dr Kelkar concluded the 2017 Lecture with the argument that policies formulated in a transparent manner and implemented on an 'MFN' basis—favouring no one party over others—have a much greater chance of acceptance and achieving outcomes. Citing the example of the Finance Commission's awards for revenue sharing, he said that these have been accepted by all stakeholders because the policy recommendations were arrived at on a fair and transparent basis.

In thanking him, **Dr Shekhar Shah** said, *"What Vijay Kelkar has done today is to provide us a road map and a torch for troubled times."* He added, *"Kelkar's lecture should be must reading (and viewing) for all policymakers keen to make the most of the immense opportunities India offers for its future if we know how to use them wisely."*

About Vijay Kelkar

Vijay Kelkar is one of India's most influential policy economists, with over four decades of public service in and outside government. He is currently the Chairman of NIPFP and the India Development Foundation, and was recently elected President of the Indian Statistical Institute. He has been involved in some of India's most significant economic reform initiatives, including on direct and indirect taxes, on fiscal responsibility and its underlying law, as Chairman of the 13th Finance Commission, on enhancing domestic oil and gas production, as Chairman of the Committee on PPPs in Infrastructure, and his strong and steady promotion of India's long-awaited GST. Kelkar has been India's Finance Secretary, the Executive Director for India, Bangladesh, Bhutan and Sri Lanka on the IMF Board; Secretary, Ministry of Petroleum and Natural Gas; Director and Coordinator of the International Trade Division at UNCTAD in Geneva; Chairman, Bureau of Industrial Costs and Prices; and Secretary, Economic Advisory Council to the Prime Minister. Kelkar recently joined with Ratan Tata and Nandan Nilekani to start *Avanti*, a technology enabled platform for financial inclusion. Kelkar was awarded the *Padma Vibhushan* by the President of India in 2011. Kelkar holds a BE from the College of Engineering, Pune, an MS in Economics from the University of Minnesota, and a PhD in Economics from the University of California, Berkeley.

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Established in 1956, **NCAER** is India's oldest and largest independent, non-profit, economic policy research institute. NCAER's work cuts across many sectors, including growth, macro, and trade, infrastructure, labour, and urban, agriculture and rural development, human development, and consumers. The focus of NCAER's work is on generating and analysing empirical evidence to support and inform policy choices. It is also one of a handful of think tanks globally that combine rigorous analysis and policy outreach with deep data collection capabilities, especially for household surveys. More information on NCAER is available on www.ncaer.org.

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The 2017 C D Deshmukh Lecture is part of NCAER's celebration of its 60th Anniversary

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