



25<sup>th</sup> T. A. Pai Memorial Lecture

## India - Fostering Inclusive and Sustainable Growth

Delivered by

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# India - Fostering Inclusive and Sustainable Growth

By Shri Arun Maira

January 2008 has turned out to be a very special month for me because I have long last visited two shrines I have long wanted to visit. One was the Golden Temple in Amritsar. The other was the university in Manipal.

In my Hindu family, which originally comes from the North West of India, we have always followed Sikh customs along with Hindu customs. Every year, when I returned from boarding school, there would be a Sikh 'padh' at home to purify our minds. Therefore my first visit to the Golden Temple this month was very special for me.

Here in Manipal is the other shrine I have long wished to visit. For 30-40 years I have been curious about something that was happening in Manipal that was not supposed to be possible in our country. That is to have a private sector university of world standards, at a time when higher education had become the monopoly of government, and a time during which the private sector would blame the government for deteriorating standards of education. Here in Manipal was a miracle, seemingly. How did it come about?

Thank you very much for inviting me to deliver the memorial lecture to Mr T. A. Pai, the great man who, with others in his family, provided this gift to the people of the country, even the world—because

students come to this university from many countries.

When I saw the list of people who have preceded me in delivering this lecture, I was wondering how I could have been included. I know now. The subject of the lecture today is Inclusion. Perhaps you wanted to demonstrate what Gandhiji had said that—the test of inclusiveness of the country's development would be the inclusion in it of the last man. Considering the list of eminences you have invited so far, I know that I am not in the class of people you had speak here before me. But you must have felt compelled to reach out to the poor 'last man', and so I got included!

I do care for the country. We need solutions to many problems that we can see around us. The need for more inclusive and ecologically sustainable development can not be far from the minds of anyone who looks around India today. I cannot remember any month in the last year, when there were not 2 or 3 major conferences on the themes of inclusive development and sustainability. Yesterday CII opened its annual flagship Partnership Summit in Delhi. The subject was 'the emerging consensus for inclusive and sustainable development'. There is consensus that development must be much more inclusive, and environmentally sustainable. The challenge is how to bring this about.



## The need for new models

I am reminded of Einstein's words of wisdom: You cannot solve the intractable problems you face with the same type of thinking that has brought you into those problems. Therefore my proposition is that we need new theories of development and growth, different to those that have been driving the economic development of the world so far. I also believe that India is specially placed to produce the new models and theories that are required.

The Indian economy has been growing very fast in the last 3 or 4 years, reaching growth rates of 9%. However, in the past few months, some leading Indian economists have openly said that they cannot explain why the economy is growing so well. Because according to conventional views of good economic policies, India should not be doing so well. Recently Swaminathan Aiyar, one of our prominent economic commentators said that India's economic growth is a mystery. He said that economists in India and elsewhere continue to criticize India for its tardy reforms, and its wrong policies, and for its miserable infrastructure in relation to the needs of its economy and people. Yet the Indian economy has grown so well. He says that this a feat not achieved before in history, and that text books on economics cannot explain it. We really need a new economics he says.

I have been wondering for some years about the inconsistencies in economics

models and theories. Let me give you examples of five inconsistencies, and after that let me turn to the framework we need to construct a better model.

There was a story in the Mint newspaper yesterday. It said that the real key to economic growth, which it says is required to move countries out of poverty, is economic freedom. It also publishes a ranking, compiled by the Right wing US think tank, the Heritage Foundation, of all the countries of the world according to their degree of economic freedom. India is way down in their rankings of economic freedom. Even Pakistan is ahead of India, in their view. Surprisingly, they rank China very low also, even though China's economy has grown at double digit levels for many years now. Indeed, the lifting of hundreds of millions of people out of poverty in China in the last two decades is considered a great feat. Clearly, at least this famous think tank's theory is inaccurate. It is unable to predict the outcomes we actually see.

Let me give you another example of inconsistency between theory and fact. This has to do with things, corruption and political instability, two factors considered antithetical to economic growth. A couple of years ago, I got two young colleague of mine in The Boston Consulting Group to examine the records of European countries after the Second World War. One mapped their economic growth rates. The other analyzed the sizes of their black market economies, which is a measure of the

amount of corruption in the country, and also the number of changes in governments as well as number of coalitions in government, which is an indicator of political instability.

The European country with the fastest cumulative annual growth rate of the economy after the War until the 1990s was Italy. It was also the country with the largest black market economy, and also a country in which the government had changed on average almost once every year! Many of those governments were coalitions also. On the other hand, countries with much more stable governments and far smaller, parallel economies grew more slowly! I present this example not to condone black money. But only to show that the 'theories-in-use' underlying some economic orthodoxies are questionable.

In our country, we seem to be concerned that coalitions in government, as well as changes in governments, will stall our economic growth. The truth is that our growth accelerated when we had more changes in government and more coalitions. From 1951 to 1991, a long 40 year period marked by relative government stability built upon one major political party, and a period in which there were only two coalition governments, our growth rate was 3-4% per annum. Whereas in 15 years since 1991, we had five coalition governments, and governments changing every two and half years on average. Nevertheless, in these

years of relative political instability, our economy has grown much faster, now nudging 9%. Perhaps then we should wish for more coalitions, and more changes in governments, so that we can have faster growth!

Let me come to inconsistency number four between economic theory-in-use and facts. We are told that openness to trade enables faster economic growth. This notion is built upon the idea attributed to Adam Smith that if every nation produced what it is equipped to do best, and traded that product or service with other nations who were also producing what they did best, the world would be using its overall resources most efficiently and economic growth would accelerate.

Paul Bairoch documents some interesting facts in his book, "Economics and World History Myths and Paradoxes". He says,

"In the 19th century, the most highly protectionist European countries experienced the most rapid trade expansions. As protectionist measures were strengthened, economic growth accelerated. Furthermore, in Continental Europe, the rate of growth reached its peak at the time all countries strengthened their protection!"

He also points out, and I quote him,

"The best 20 years of American growth took place in the 20 years 1890 to 1910 when its trade policy was protectionist and Europe's liberal. During the entire 19th



century and in fact until the end of the 1920s, the USA the 'mother country and bastion of protectionism experienced one of the fastest rates of economic growth in the world."

Finally, here is inconsistency number five. This has to do with protection of property rights and the process by which property rights are acquired. Strong property rights and a strong legal system to protect them are supposed to be essential for a healthy, growing economy. Hernando de Soto, the now famous Peruvian economist, points out the following in his book, 'The Mystery of Capital', in the chapter titled, 'The Missing Lessons of US History'.

He says the first session of the new Congress of the USA in 1789 applied itself to the problem of squatters on land. A Congressman declared, "They will not pay you money. Will you then raise a force to drive them off? That has been tried; troops were raised and sent to affect that purpose. They burnt the cabins, broke down the fences, and tore up the potato patches; but soon after the troops were gone, the people returned again, repaired the damage, and are now settled upon the land in open defiance of the Union."

"The problem was," he says, "That Congress as, in the case in many countries today, was not in touch with reality, it had no conception of the sheer dimension of the pressure from squatters, nor did it have the means to impose its mandates."

Therefore, after some decades of struggle, Congress was compelled to pass the General Prospective Pre-emption Bill in 1841, whereby it legalized what was until then illegal, and gave property rights to the squatters.

An insight from these five inconsistencies between currently espoused theories and the facts is that the theories countries use when they were growing their economies are not the theories they are using now that they have grown up. However, those like us who are growing try to emulate what those who have grown up are doing now, rather than what they did when they were growing up. And that is inappropriate.

Even in business, an advice to those who go around bench-marking, looking for best practice is to be sure you are not copying what the companies who are huge today are doing. What you should want to know is what they did when they were growing up. Therefore emulation of the current Fortune 100, or 500, may not be the right way to learn.

### **More inclusive and more sustainable development**

The challenge before India is to find a model of development, as it grows its economy, which achieves what no other country has done so far. Which is to increase inclusion, and address sustainability even as the economy grows. Inclusion can not be left to 'trickle down' after the economy grows. The rising

concern with human rights since the last century, the desire to promote democracy globally that has grown since the 1980s, and the rapid proliferations of digital communications since the last 10 or 15 years, makes people much more aware of what others have. Therefore countries no longer have the same luxury of time for the benefits of economic development to trickle down to everyone that they had before the 1990s.

In India, we have taken up the slogan of Garibi Hatao in many forms for the past 30/40 years. Yet poverty persists. No doubt many people are coming out of poverty as the economy grows and the overall percentage of the population below the poverty line may be less. But as Minister Kamal Nath pointed out to the CII yesterday, the absolute number of people who are poor in India may be even higher than it was decades ago because our population has also grown. He said that the number of very poor people in India is larger than the population of the United States. Maybe these people will come out of poverty some time in the future if our economy continues to grow at rates of 9/10%. However, the problem, he said, is with the perception that economic growth benefits the rich more than the poor.

Robert Reich, who was Labor Secretary in Bill Clinton's administration, and is now Professor of Public Policy at the University of California in Berkley, has written a noteworthy book recently, called "SuperCapitalism". He says that the

capitalist economic model in the US has led to great inequities in that country. He points out that the combined wealth of only two US citizens—Bill Gates and Warren Buffet—now equals the combined wealth of 100 million of the poorest Americans. In the last few weeks, we heard that a couple of Indians are now amongst the richest people in the world, even richer than these Americans. Therefore, I would presume that the wealth of the richest Indian today—perhaps Mr. Ambani—may be equal to the wealth of several hundred million of the poorest Indians. I, for one, would not grudge Mr. Ambani the wealth he has earned. Just as Robert Reich is not grudging the wealth earned by Bill Gates. However, as he says, a system in which a few people can be as wealthy as millions of others seems unfair.

Human beings value fairness as much as they value the amount of wealth they may have. When I was working as a consultant in the US, I came across a young man of about 30 years, who was working with a large merchant bank. He was miserable when he got an annual bonus of 10 million dollars. I wondered what he would do with all that money! He was miserable because his colleague had got 11 million dollars. He thought the company had been very unfair to him.

As I mentioned before, the increasing consciousness of the rights of all people, including the poor, as well as the rapid spread of information lately, is making the process of capitalism appear unfair.



Therefore it must be made more inclusive.

Nor can issues of environmental sustainability be ignored during the process of development, as the rich countries seem to have. Indeed China and India are being pressed to address these issues while they grow their economies because the fear is that the earth does not have the capacity any longer to support their growth. India and China do not need to be told by the West that the environment is critical. In India we know that our water resources are diminishing. Pollution in our cities, as they grow relentlessly, has become very unhealthy, as it has in China's cities too.

The international debate between China, India, and other developing countries on one hand, and the countries of the West on the other, on climate change is sticking on issues of fairness. Too much carbon-de-oxide has been put into the atmosphere by the process of economic growth already, scientists say. Humanity must stop adding more carbon-de-oxide to the atmosphere. The West and Japan are pressurizing China and India to change their development trajectories and stop adding more carbon-de-oxide to the atmosphere. China and India say they must grow their economies to lift all their people out of poverty. They are only doing what the rich countries have done, and which the rich countries have, so far, been advising them to do also!

The only way a global catastrophe due to climate change can be avoided is to find

another model of economic progress, different to the one that the rich countries have used for their own growth. Moreover it is up to India and China to find and apply this new model.

The limitation in the model of economic progress used by economists so far is that it is a uni-dimensional model. It has one principal and over-riding measure of the health of an economy, which is the size of the GDP and its growth. The effect this growth has on the environment and the condition of society is not measured. Certainly these other vital indicators of the health of a society have not been measured with the same intensity so far as the size and growth of the GDP.

Corresponding to the uni-dimensional model of measuring a nation's economic progress, there is a uni-dimensional model of measuring a corporation's performance. In this uni-dimensional model, financial performance is the principal measure. The effects the growth of the corporation's business and its performance has on society and on the environment are not measured and reported with the same rigor at all. These are considered to be side-effects of the business of business which, as Milton Friedman famously said, must be only business.

In this uni-dimensional model, care of the community and the environment is considered 'CSR'—something to be done with a portion of the profits of the company if its managers want to do it. Or

to be done, as philanthropy, by the owners, from the accumulation of their profits from the business. The problem with this paradigm of CSR and philanthropy, is that the attention that managers and owners give to society and the environment, and the amount of resources they apply, is only a small fraction of their time and resources, and optional too. Whereas the damage that may be done to the community and the environment may result from the basic operations of the business.

Indeed, this approach to CSR and philanthropy can be compared to a man cutting the branch he is sitting on, with CSR and philanthropy blowing off the dust behind him.

Ladies and Gentlemen, we need a new model of economic development, and congruent with it, we need a new model of corporate management. These models must stand on three legs, not only one, if they are to be stable and sustainable. One leg will be the measurement of the financial results. The second leg must be the measurement of the impact on the human condition. For example, for a business, how many people are being included in the extended enterprise's activities as income earners and entrepreneurs. Because the larger the number of people who can earn, the more inclusive is the process of development.

And the third leg must be the measurement of impact on the

environment. How much water is consumed throughout the supply chain, how much carbon-de-oxide is being added to the atmosphere, etc?

### **India must, and can lead**

Both China and India are challenged to find new, more inclusive and more sustainable models of economic development. India more than China I would say. Because India has democracy and a vibrant, independent press. Therefore feedback about the condition of the environment and about the condition of people comes through pretty loudly. This makes India the world's best laboratory to develop models that are more inclusive, more sustainable, and also provide rapid economic growth.

There is one more reason why India may have a better chance than China to find the new models. China is ahead of us. Its economy is two and a half times our size. No doubt, China has to grow more, but we have even further to travel yet. It is as if our glass is not even half full, and China's is already more than half full, while the rich world's glass is full and even spilling over.

The rich world's glass has been filled the old liquid—the old models of development. The empty parts of China's and India's glasses that have yet to be filled. They can and must be filled with a new liquid. What is the new, less toxic, liquid with which we will fill our glass? In other words, what is the better, three-pronged, more inclusive and more sustainable model that we will innovate?



Ladies and Gentlemen, Manipal is a temple to institutional innovation. Mr. T.A. Pai was a great innovator and great leader. He wanted to improve the lives of people here in Manipal, and in the whole country. As you think ahead of what you will make of this great institution he founded, you should ask yourselves, what is the country you want to help create? What is your vision of it? And what will you do to help create this country?

As an innovative management institution in India, what are the management ideas you will develop? Or will you merely keep teaching the ideas that we have imported from elsewhere—the ideas that the world needs to change, and is counting on India to change?

You may be a small institution now. Think ahead 20 years. How will the world be

looking at you then? Will the world see you as the leader, and innovator of new ideas that the world is beginning to respect and adopt?

If that is the vision you have of yourself, ask yourself what you must do in the next ten years to approach your vision. You cannot just keep shuffling along, following behind those that have been rated as the benchmarks today. You have to find your own way towards that vision. You will have to evolve the new, inclusive, sustainable, models of management. Those innovations will come from your passion, and your commitment to find such solutions.

In conclusion, I thank you once again for honoring me by inviting me to deliver this lecture. And I wish you all the best in a fulfilling journey of innovation.

*Arun Maira*





## ARUN MAIRA

Chairman,  
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Arun Maira has a combination of hands-on leadership experience, consulting experience to leadership teams internationally, and thought-leadership as an author and speaker on the subject of organisation transformation.

Arun Maira is Chairman of The Boston Consulting Group in India since 2000. He is a thought leader and writer on the subjects of transformational change and leadership. He writes regularly in the Economic Times in India and other management and business journals. He is the author of four books, *"The Accelerating Organisation: Embracing The Human Face of Change"*, published in 1997 by McGraw Hill International, *"Shaping The Future: Aspirational Leadership in India and Beyond"* by John Wiley's & Sons in 2001, and *"Remaking India: One Country, One Destiny"* by Response Books in 2004, and most recently, *"Discordant Democrats: Five Steps to Consensus"* by Penguin Books in 2007.

Arun was a member of the Tata Administrative Services and worked in several senior positions in the TATA Group in India and abroad for 25 years until 1989. He worked with Arthur D. Little Inc, the international management consultancy, in the USA from 1989 to 1999, and consulted with companies across the world on issues of growth strategies and transformational change. He returned to India in 2000.

Arun has advised clients across a wide variety of industries and in many countries on issues of strategy and organisation. He has worked with clients in North America, Europe, South America and Asia in industries ranging from automobiles, steel, and oil, to pharmaceuticals, and financial services. He has also advised Governments and international agencies on leadership processes to accelerate development.

Arun is on the advisory boards of international think tanks in the UK, Sweden, and USA, and a Senior Advisor to the UN Global Compact. He is a frequent speaker at international forums on the future of India. He is serving as Member of The Confederation of Indian Industry's (CII) National Council, as well as Chairman, CII's National Council for Corporate Governance. He is on the Boards of several Indian and international management education institutions. He is Chairman of the UTI Bank Trust, and President of Save the Children Bal Raksha Bharat.

Arun Maira was born in Lahore on 15 August 1943. He received his M.Sc. and B.Sc. in Physics from St Stephen's College, Delhi University.





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