

Shri R. P. Goenka, Dr. Pradip K Bhaumik, faculty members, students, parents, ladies and gentleman,

I feel truly honoured to be invited to deliver this convocation address at the 26th annual convocation of I.M.I.

Dear graduating students,

Let me first offer my warmest congratulations to all of you. The tremendous amount of hard work that you have done over all these years is now being rewarded with the prestigious professional diploma that you are receiving today. It is indeed a proud day for you and your parents, many of whom are present here today to observe their children as they complete this phase of their academic life. For you and your parents this day will always remain a memorable one as you make the transition to a life of work. I can assure you, however, that your days of learning have not ended. Given the pace of change in the world, the acquisition of new learning and new experiences will continue to be a lifelong effort. You will change professions; you will acquire new skills; you will acquire new interests, as you go on in life. So don't leave your books behind; and acquire a Kindle so that you can keep reading and learning.

Today we are all proud to observe that India is among the fastest growing countries in the world. This was not always so. Not too long ago we were the laggards. The Asian miracle started in the 1970s with the four tigers, Singapore, Hong Kong, Taiwan, and South Korea. South Korea was poorer than India in the early 1950s. It is remarkable that in this short period of time these countries have now effectively become members of the developed world. So a complete transformation has occurred within one generation. In their wake followed the flying geese, Thailand, Indonesia and Malaysia in the 1980s. Finally, China and India entered this fast growth trend in the 1990s. Our challenge is to emulate our smaller Asian neighbours and to transform ourselves also in one generation: your generation. Never before in history have as many as two billion people exhibited simultaneously the kind of growth and development that India and China are exhibiting today. The current century is now dubbed by some as the Asian century. India and China are now seen as being synonymous with the concept of growth and progress. So in the next 30 years over your full professional lives you will witness a historical transformation the likes of which the world has never witnessed before. It will be full of challenges in all spheres and you have to equip yourselves to meet them.

Perhaps you don't feel that anything particularly different is happening. That is because most of you are in your early to mid 20s. You are therefore of the generation that has grown up after India started its journey of economic reforms in 1991. You are therefore fortunate to have grown up in this period when high growth is seen as the norm. It was not long ago that India's image in the world was the opposite. It was the land of poverty and stagnation.

It is only over the last decade that India has come to the notice of the world as we ascended to a growth path, which suggests the doubling of per capita income every ten years. Actually we have been growing at an average of almost 6 percent a year for 30 years. Thus it is important to

understand that the current experience of high growth is not a flash in the pan but has strong grounding in the institutional foundations laid by your predecessors and forefathers. Although many of us deride the era of the 3 per cent Hindu rate of growth that characterised the 1950s, 1960s and 1970s, it was actually a major departure from the preceding century of stagnation. In the century before independence we actually suffered from zero or negative growth. With that experience covering many generations it was not surprising that people in India could not even dream of the possibility that poverty can someday be banished from India. Today this dream is within our reach. The institutional foundations of growth were laid in those first 3 decades after independence. After those first 30 years further change took place and significant acceleration actually began in the 1980s. The average rate of growth in these past 30 years is almost double that achieved in the first 30 years after independence.

You are therefore extremely fortunate to have grown up during this phase of high growth. Naturally, your attitudes are then totally different from those of the generations before you. You can now dream big and you must make sure that your dreams come true. The biggest dream you can achieve is the abolition of poverty in India in your lifetime. Your generation must collectively resolve that in your professional lifetime you will do everything to banish poverty from this land. With three doublings of per capita income in your professional lives over the next 3 decades, average income in India should be around US \$ 10,000. So you can actually do it, as long as you develop a hatred of inequity and then act accordingly.

What does the future hold for us? In the immediate present and near term future the world is undergoing a major financial and economic crisis.

Although we in India have been relatively insulated from the worst features of the crisis we are not immune to developments as they take place in the rest of the world. Many people say that we have not been affected by this crisis because our economy is closed. That is not true. Our current account, which is the sum of imports and exports of both trade and services, is now in excess of 50 per cent of GDP. Similarly, the sum of gross capital inflows and outflows is equally high. In fact the current and capital account put together exceed 100 per cent of GDP. By this metric India is actually more open and more integrated with the world economy than the United States. So it is not the alleged closed nature of the economy that has insulated us from the ongoing North Atlantic crisis; it is the calibrated macroeconomic management of fiscal and monetary policies that we have pursued, and prudent governance of the financial sector that has given us economic and financial stability. We did not let greed and financial mismanagement overtake our financial sector even though growth rates in our financial sector were among the highest in the world over the past decade. We have ensured that the financial sector serves the needs of the real economy and not of itself!

The so called global financial crisis, which is actually a North Atlantic financial crisis, originated in the subprime mortgage market in the United States. The integration of the global economy is now such that what started in one segment of one market in United States then spread like wild fire to the rest of the world. In late 2008 the world was staring at the onset of the worst

economic downturn since the great depression of the 1930s. It is remarkable that the world has been able to deal with this crisis in a coordinated fashion. Recovery is now within sight in most parts of the world with Asia leading the way, though lately Europe is seen to be faltering.

The kind of global policy coordination that took place through the medium of the G-20, starting in late 2008, is probably unprecedented in the history of the world. The G-20 forum was started after the Asian crisis in recognition of the rise of so-called emerging market economies as significant actors in the world economy. This forum, consisting of representatives of Ministries of Finance and Central Banks along with the International Financial Institutions, met twice a year at the Deputies level and annually at the Finance Minister and Central Bank Governor's level. Because of these frequent meetings for over a decade an atmosphere of personal trust and cooperation was built up among the leading finance policymakers in the world. Consequently, as the financial crisis emerged in the U.S. in late 2007, spread to Europe and became serious in 2008, the G-20 forum got elevated to the leaders' level. Because of all the work done in previous years the leaders could agree quickly on coordinated policy actions in late 2008. The lessons learned over the decades since the great depression were applied quickly. Fiscal expansion and rapid monetary loosening was resorted to by all countries simultaneously. As a result we have clearly avoided what seemed in late 2008 to be a certainty of a complete financial meltdown. Governments and central banks used all the possible tools available to them during this crisis, both conventional and unconventional. The result is there for all to see. A reasonable degree of financial and economic normalcy has been restored.

What are the lessons of this experience that I wish to emphasize? First, building institutions is important. In this case the G-20 has proven its worth. Second, we can and do learn from both theory and history. Learning is important. We have avoided the egregious errors that led to the Great Depression. Third, from our own experience of prudent macro management and financial sector regulation: don't get taken in by the extant fashions of the world. Keep your own counsel, use common sense and do what you think is right. I believe that all these lessons are important not just in the policy world but also in running our own personal lives.

But the world is not out of the woods yet. Just as we thought that normalcy had returned the Greek debt crisis has emerged to threaten international financial stability again. In fact, what this has brought to light are the extremely high levels of public debt, in excess of 100 percent of GDP, now being held by many North American and European countries. As a consequence financial markets are beginning to question the solvency of some of the worst affected countries on the southern rim of Europe. There is no free lunch. They are now facing the consequences of previous excesses during the long global boom, followed by the rapid fiscal expansion that was started in 2009 and which has continued in 2010. While the going was good it was assumed that the going would always be good. Prudence was given the go by. Once again rapid coordinated action has had to be taken by the European Union, the European Central Bank and IMF to contain the fallout of the Greek crisis. It is incredible that action to stop the potential contagion spreading from the Greek crisis has involved a commitment of almost US \$ 1 trillion in funds and guarantees. Such is the global interconnectivity of the economic and financial world. To put this

in perspective we can recall that when India had its balance of payment crisis in 1991 the IMF package that was put together was of only US \$ 5 billion. What is the lesson from the current North Atlantic fiscal crisis? Don't assume that good times will always last. Make the most of them but act prudently and put away something for the rainy day.

So what of the future? The consequences of the financial crisis that began in the subprime mortgage market in the United States are still being felt and will continue to do so over the next few years. European and North American countries will have to put their fiscal house in order while at the same time carrying out structural reforms in order to reignite private sector business activity as the monetary and fiscal levers are warmed down. This is rendered even more difficult because of the ongoing demographic transition that these countries are experiencing. Their ageing populations will put further fiscal burdens on their governments, implying higher taxes and subsidies for health and other needs. I therefore expect that North Atlantic economic growth will continue to be constrained over the next few years, putting an overall dampener on global economic growth. However, in all of this conditions in Asia remain much more optimistic.

How does all this affect you? Although we expect robust economic growth in India in the years to come, global conditions will not be as easy as they were in the couple of decades preceding the current financial and economic crisis. At the global level, and especially in the North Atlantic, life will not be as easy as it has been over the past decade or two. Belts will have to be tightened all round. The economic fulcrum of the world is clearly turning towards Asia and you will be well advised to learn Chinese rather than French or Spanish! A good deal of our trade expansion will be towards Asia and possibly even Latin America in the years to come. So I would imagine that the business world that you will see will be much more Asia centric than what we have been used to in the past.

Second, I would expect a great deal of change to take place in the financial sector. With the kind of regulatory and technological changes that took place in the 1980s and 1990s finance was among the leading growth sectors in the world and especially in North America and Europe. A significant proportion of business school graduates gravitated towards the financial sector as opportunities expanded and compensation exploded. In fact, among the key concerns emerging from the examination of causes leading to the financial crisis is the role of distorted incentive systems that led to excessive greed in the financial sector. There is deep questioning of the excessively large pay packets that financial sector managers and employees have been receiving, and their doubtful contribution to social welfare. I will not be surprised if some legislative or regulatory action is taken in advanced economies in this regard. So, money may not be as easy to come by in the financial sector as it has been in the recent past.

Third is the issue of greed and ethics in the business sector. Profit maximization is at the root of a good deal of economic theory. In principle profit maximization should also lead to maximization of shareholder wealth and overall public welfare. However, one of the significant features in the corporate scene over the last decade has been the repeated occurrence of

cheating and malpractice in some of the largest and most celebrated companies of the time. The bankruptcies of Enron and Lehman Brothers are only the most notorious of failures that took place during this past decade. It would appear that the prevailing ethos of money making at all costs has dwarfed all other concerns of ethics and public welfare. The pursuit of money has come to be seen as an end rather than a means to achieve some higher ends. Even sport has been sacrificed at the altar of mammon. Clearly all is not well in the practice of business and perhaps all is not well in the practice of business teaching. I understand that business schools in the West are undergoing a great deal of soul searching. Have they not been imparting the right attitudes to business in their students? What is the role of business in the economy? What is the role of business schools in preparing the young as they go out in the professional world?

I would hope that as you all go out into the world of business you will have time to reflect on these issues. The pursuit of profit is essential for a dynamic economy. But the pursuit of profit can also be done without abandoning the basic ethics of life. In fact some of the most successful and profitable companies in the world have also been those which have been known for observing very high ethical standards. So what is often said that business cannot be done in a straight forward manner cannot be true. I would hope that as you go out and look forward to long and successful careers in business you will help in the process of profit making but also refuse to indulge in unethical behavior.

As I get the opportunity of travelling around the country I observe an incredible buzz of activity everywhere I go. There is an air of hope that pervades almost all parts of the country. All kinds of new activities are being generated. New fields of social entrepreneurship are also emerging. Entrepreneurship and creativity are in the air. Innovation is the order of the day. I hope that as you all go out into the world you will open yourself to these new possibilities of experimentation and creativity. I hope that you will not just confine yourself to the safety and comfort of corporate jobs. I hope that you will find new activities to absorb yourselves in as you create new wealth and jobs. Above all I hope that you will have fun in everything that you do.

Thank you.