

# ***India: Prospects and Challenges***

## ***by***

### ***Shri Montek Singh Ahluwalia***

**Shri Montek Singh Ahluwalia**, Deputy Chairman, Planning Commission, Government of India and Co-Chair of the Indo-US Economic Dialogue, addressed more than 80 IIT alumni at the Indian Consulate in New York on October 26, 2006. This event was organized by IIT Greater New York in cooperation with CII (Confederation of Indian Industry) and Headstrong Inc, the platinum sponsor.

#### **The Road Ahead**

The attendees were privileged to receive a precursor to India's 11th Five Year Plan (2007 - 2012). Providing a historical context, Shri Ahluwalia began by observing that the Indian economy had been growing at less than 4% per year from the 1950s to the late 1970s. It started its climb under Prime Minister Rajeev Gandhi in 1984, when Shri Ahluwalia was a member of the Prime Minister's Office. In 1991, the then finance minister, Dr. Manmohan Singh, liberalized the Indian economy with assistance from Shri Ahluwalia, who was his Finance Secretary. During the past five years, the economy has consistently grown at an annual rate of 8%. One of the key highlights of the 11th Five Year Plan is to achieve and sustain a growth rate of 9%. Focus on infrastructure, the financial system and farm sector will be key features of the 11th Five Year Plan.

#### **Economic Challenges**

Shri Ahluwalia described India's economic challenges including extreme economic disparity, the lack of availability of reasonable health services and education, labor laws, and bureaucracy. He pointed out that many of these problems are being addressed by the State Governments. For example, Governments of Haryana and Goa are against reservations for backward classes for admission to private colleges. Another example is the Government of West Bengal adopting fairly progressive labor policies, thereby accelerating job growth.

#### **Rural Unemployment**

Shri Ahluwalia mentioned that the current government recognizes that the farm sector will probably grow at less than 4% per year. This means a large percentage of farm labor needs to be moved to the industrial sector in order to achieve an overall growth rate of 9% in any sort of a balanced manner. Keeping the aforementioned displaced farm workforce continually employed is crucial.

#### **Credit Growth**

Credit is growing at a more rapid pace than GDP. Will the current high rate of economic growth be sustainable with this imbalance? Shri Ahluwalia felt that as long as the financial system works transparently, the credit issue is not likely to hurt India in the near term.

#### **Higher Education**

India is producing a large number of college graduates today. However, far too many of them are trained in arts and humanities, instead of science and technology. Another prevalent problem with College education is low-quality training offered by

several institutes. Shri Ahluwalia also talked about burgeoning of numerous fledgling medical, engineering, and other technical institutes across the country, some of which are merely money-making rackets imparting low-quality education and training. Sam Pitroda (Chairman and CEO of World-Tel Ltd.) is leading "India's National Knowledge Commission" as Chairman. This Commission is expected to make helpful recommendations to address these issues.

### Questions and Answers

Shri Ahluwalia addressed several thoughtful and probing questions from the audience:

- **Reservation** in the educational system in general and IITs in particular was an issue on many attendees' minds. Shri Ahluwalia pointed out that quotas are a reality of life in India. Fifty percent of the seats will now be reserved for SC, ST and OBCs (Scheduled Castes, Scheduled Tribes and Other Backward Classes) at most colleges. Many of the premier institutions are trying to fulfill this by expanding their capacity. This will maintain the number of non-reserved seats at their current level. He pointed out that Tamil Nadu has had over 65% reserved seats in their colleges for over 20 years and has produced very good graduates. So, reservations per se is not the worst thing, though most reasonable people agree that it is not an efficient method for offering equal opportunity.
- The audience asked several questions pertaining to **agricultural reforms** (such as encouraging a different mix of crops) and **alternate energy sources** (such as wind and solar). Shri Ahluwalia frankly replied that these issues are not high priorities for the current government. He further commented that the major issue with the Indian agriculture is raising agricultural productivity and India is exploring nuclear power and clean coal technology for its energy needs.
- Shortage of **potable water** is another major problem faced by the country. According to Shri Ahluwalia, this problem is directly attributed to the inefficient distribution of water, free of charge. He proposes charging for water, so people value it and use it more efficiently.

In summary, Shri Ahluwalia remains optimistic about India's future and made a convincing case to the IIT Greater New York alumni who attended the presentation. The Oxford-trained economist was eloquent in his speech and impressed the attendees with his genial disposition and thorough knowledge of the prospects and challenges facing the Indian economy.

For detailed information on India's Planning Commission, Union Budget, and Economic Survey, visit <http://planningcommission.nic.in/> and <http://indiabudget.nic.in/ub2006-07/ubmain.htm>

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**Brief Bio:** Shri Montek Singh Ahluwalia, BA (St. Stephens), MA & M.Phil (Oxford University) is the Deputy Chairman of India's Planning Commission (Prime Minister, Dr. Manmohan Singh is the Chair). He is also the core convener of the US-India Economic Dialogue. Shri Ahluwalia began his career in public service as an economist at World Bank from the late 1970s to mid-1980s. He earned his reputation as an economic reformer during India's initial liberalization period in the early 1990s, while serving as Finance Secretary under the then Finance Minister, Dr. Manmohan Singh. He later served as the Director of the Independent Evaluation office at the International Monetary Fund. When Congress Party returned to power in 2004, Dr. Singh appointed Shri Ahluwalia as the Deputy Chairman of the Planning Commission.

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