

Flagship Dialogue

**Reflections on Policy Making and Governance in India:
Dialogue between YV Reddy and NK Singh**

Centre for Social and Economic Progress (CSEP)

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Watch the full event video here: <https://youtu.be/7eDKkVUjZSI>

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PROCEEDINGS

Rakesh Mohan: We at the CSEP are really more than deeply honoured that my two great guru friends have come. Venu, Dr Y V Reddy has come all the way from Hyderabad to be with us. N K, I know doesn't generally go to in-person events. So, this is a major exception. So, we are deeply appreciative and deeply honoured that both of you have made this amazing effort to be with us. They clearly do not need any introduction. So, I wouldn't introduce them. But just make a few remarks. Personally, I have known each of them for about the same time. Around a little over 30 years from the time that economic reform started. I was the ministry of industry; Dr Reddy was mostly sleeping in the commerce ministry after active stint as joint secretary in the ministry of finance. His room was opposite mine. So, we used to have lunch together. The standard practice was, he would go to sleep and we would then keep having our lunch. He was the joint secretary of finance ministry before that. Then he went back to the finance ministry. And onwards to the RBI. NK was joint secretary, ministry of finance with Manmohan Singh and had a lot to do with the World Bank and IMF negotiations. Both in different ways had a big hand in managing the 1991 crisis, particularly in the foreign exchange side negotiations. NK was there with both the fund and the bank. As in the last dialogue, what is common among them? I have a list of six things. Both are from the 1964 IAS batch, first. Second, both went far beyond the IAS role in policy and public service. Third, both have written very long but very absorbing and thoughtful autobiographies. Both are written in a very personal tone but along with the personal tone, their experiences, their families and everything else, also amazing vignettes and insights into the art of administration and policy making. Both at the bureaucratic level and the political level. Fourth, few IAS officers have been finance commission chairman but they are unique in that they were batch-mates and successive finance commission chairman. Of course, Venu beat him, he was the fourteenth and he was the fifteenth. So, he has been basically correcting all the damages that he did. Fifth, both have enviable international reputations with incredible number of friends across the world. Sixth and final, both of the best finance ministers that India never had. I couldn't find that many differences. Of course, one always wears nice things over here which he doesn't. NK was born and raised in the Hindi heartland whereas Venu was in the south in Andhra. Telugu speaking and Hindi speaking. Apart from that something that people like me envy that both are really eloquent in their own languages. Of course, I don't understand when he gives Telugu speeches. But it sounds very eloquent. I have heard NK speaking in Hindi. It is incredible. So, both are totally comfortable and totally eloquent in both English and their own languages. One abandoned the IAS and became a quintessential central banker. NK joined politics to a certain extent, I wouldn't say to the full extent. And also worked directly with Prime Ministers but maybe not directly in the Prime minister's office. Given these amazing backgrounds, they are going to discuss their personal journeys as far as I know, their experiences in administration and policy making. And also, I hope their view of the future of civil service in India, the future of policy making and the relations between bureaucracy and politics. At some point also it would be interesting to hear from them particularly because with the beginning of their careers as IAS officers having been down in the districts or up in the districts and then ending up in some sense finance commission chairman which are highly related to relationship between the central government and state governments. The first thing, as a continuation of what I was saying, you had incredibly amazing long and varied careers, which were the most satisfying and interesting assignments? You can't say everything. Which were your most satisfying, interesting assignments at the very high level or when you started? NK, would you like to start?

N K Singh: Thanks for such an affectionate and warm words which you have spoken. I myself have an endearing affection for you since I met and fortunately, I think that has only strengthened over time.

There are very few friends of that vintage I see. Some of them are here I see. Deepak and Venu of course always make me very nostalgic and Rakesh. So, most interesting sort of assignments. I would pick one in the state. And one in the central government. In the state, I think that apart from serving in the district and all, it really struck me as being one of most enigmatic things for a state like Bihar and think Rakesh at a time when Bihar was not divided. Jharkhand was very much part of the state of Bihar. That is an enigma, I was not able to resolve how, doesn't explain how Bihar continuously ranked at the lowest bottom of the development pyramid in terms of every conceivable social indicator of growth. And yet had this enormous mineral mines, natural resources in terms of Jharkhand. Jharkhand was under populated, Bihar was over populated, and the land- man ratio in Bihar would be one of the worst you can think of. Land – Man ratio in Jharkhand one would be the best favourable one. So that is an enigma which I have not been able to resolve very frankly to this date and if you ask me, this enigma commenced with my stint in Bihar. It has continued with me and on a slight jocular vein once Dr Manmohan Singh asked me – N K, how is it that civil servants from Bihar when they come to Delhi, reach the top and they do exceedingly well. How is it that back home, when they get back, the same civil servants behave in a manner which would really do nothing to ameliorate the development of Bihar. Can you explain this? Then he added little tongue in cheek that, I think that India will prosper much more if Bihar begins to prosper. Can you hope to see that day? One is still waiting to hope to see that day. I did have my one back on him. Because there was a period when the rate of growth of Bihar, from a very low base, had shown rates of growth which were significantly higher than the GDP of India as a whole. So, coming out of the Rajya Sabha I told him, incidentally the one question that you asked me, India can only prosper if its rates of growth now approximate the rate of growth that Bihar has clocked in in the last one or two years. But of course, that was from a very low base. Central government I think that the most poignant moment that I can remember, not these periods which you mentioned about IMF, World Bank, balance payments and so on. But the most poignant moment which set me thinking and this is something which I have mentioned in my autobiography, is that when I went to PMO, on my first day I went to call on Mr Vajpayee. He was sitting in his stately way. I asked him – you have called for me. What do you expect from me? So, for about 30 seconds his eyes just kept wandering. You know in that little room every second ticks. It looks like an enormous amount of time has passed. Finally in reply to that he said only one word. What work? Everything. And conversation ended. I couldn't figure out what he really meant but when I came to my room it did strike me as a puzzle that perhaps what he has mentioned is that I can do things which is not assigned to any department. So maybe if I decided to take interest in education... now that to some extent is a transgression of what the rules of allocation of business would do. But that is the order of the day. I will stop here; I have given two examples. Thank you, Rakesh.

Rakesh Mohan: In the 'everything', I wish you had taken interest in archaeology so that country's heritage would be much better off. Venu.

Y V Reddy: The first job I enjoyed most was Deputy Secretary planning. In charge of Rayalaseema development in particular. I was as secretary of the regional development board, also doing annual plans. This board is a very interesting concept. Some MPs, some MLAs, some ___ chairman are members of this board. They got a sort of a separate budget allocation; they recommend and the government accepts some of the schemes. We could interact with planning commission and outside agencies. That provided me a very good opportunity to see the political factors operating, interacting with the bureaucracy on the one hand. And their regional sentiment was the state sentiment. I learned a lot in terms and particularly planning commission, Nitin Desai, Vijay Kelkar used to join there for lunches also. It was a great learning experience. In fact, at one stage ___ in his typical manner in a meeting he said, in India planning is best in Andhra Pradesh. Development is best in Punjab. But anyway, we were noticed, my point is we were noticed. And some of the outside consultants also had employed work.

As a result, Rayalaseema regional development plan became a case study for UNDP. Then of course I went as an expert in UNDP, Tanzania etc. my point is two skills. One, interacting with variety of institutional levels. As well as backgrounds. It is something which we will learn not by reading books. So therefore, I would say that is perhaps a very satisfying experience. Second one also was with the state government. But that was a fascinating experience where the state government viewed central government with utter contempt. N T Rama Rao. Once in one of those moments he asked me in Telugu. Mr Venu, don't you think I am a great man? I said I don't think so. What is great about it? I became a successful cine actor. That is ok, many people become. But I started a political party and won the elections in no time. Am I not a great man? Finally, he said - this "Rakshashi", he was referring to Indira Gandhi, 'she removed me undemocratically. But I managed to come back to power'. 'Yes, now you are a great man'. The point was, I am saying only as an atmosphere. But in that some of the things he did are not recognised fully. One, institutional changes. The Tahsildar system, the Taluk system in India, first time, he shook it up. He changed it totally. Mandalisation. Second. He was the earliest in fact in computers. When the National informatics corporation was started free services were provided by NIC to state governments. N T Rao said – No, I don't want free service from government of India. I want to be ahead of government of India. He started his own corporation. I was the planning secretary. And we were ahead as you know, Andhra was quite ahead. The way he abolished the very old revenue system. He brought about significant institutionalisation. And above all during his period there was never a communal incident. He used to go in saffron clothes. He used to do pujas. Very, very religious in his life, not only private life, very seen. But on this he was very clear. So, there are some things... I was associated with some of the fundamental changes, because... I try to be technical but I am sorry, I thought this was a fascinating experience.

Rakesh Mohan: Thank you. That is very interesting. Given what each of you has said which would seem to value a great deal your experience in the state governments and as well as at the district level also, how important is it for civil servants in the central government in India to have had state and district level experience? I am asking this because I am not aware of any other country that has a governance system like this. UK never had it even when they were here. They had other colonies where people go from different levels up and down to some extent. As a corollary to that do you think that people like Deepak Nair, myself, I don't see any others here, would also have gained as economists for having served in state governments.

Y V Reddy: My take on it is that IAS, IPS is basically one of the three things contemplated in the constitution in the special circumstances of India. In fact Ambedkar in his speech, he explains how these three are not the normal features of a federation. I&A services, common criminal procedure courts and judiciary. So, the context is more to have linkage between centre and state government. It is nothing to do with the experience. We have to view that differently. I would say the idea of IAS, centre state relations are different from generalist and specialist. They should be separated. It is true to some extent that IAS is in a way an agent of the centre in the state. Sometimes as an agent of the state in the centre. But that is a result. At a conceptual level this should be treated as an issue of how essential it is to the federation rather than... I think that is how it is contemplated in the constitution. That is what I feel. Secondly, since you have raised this issue of generalist and specialist, the issue is, should we get rid of the IAS in the central government? Substitute it with what? Just look at the ministries now. There are IAS officers and if there is a relation with IAS officers where is the increase coming from? My limited point is if the IAS is being substituted by good professionals, it is good. But if it is going to be bad specialists, bad specialist may be more dangerous to the society than bad generalists. Because generalists cannot be very effective.

N K Singh: I think I agree with the broad thrust of what Venu is saying. Frankly speaking let us view this in the context of some of the other features in the constitution. One of which is of course the periodicity of the election cycle that you are going to have elections every five years. Embedded in the election cycle is the possibility of change. And the change can be sharp and the change can be disruptive. So how do you keep a measure of continuity and stability and what is the mechanism. I think where I really supplement what Venu is saying is that perhaps in really seeking an all-India service like the Indian administrative service and by that I would also add some of the other all India services like the police service, represent really the need for stability and continuity, keeping in mind the other features of the constitution. The possibility of change and change which can be disruptive through the inherent election cycles. I think that to be a really a significant feature. In fact, I think of situations where there can be such sharp changes in the governance of the states that unless you have a system you would end up in really anarchy and chaos of a different kind. So that would really supplement what Venu says, substitute IAS with what? What are the better substitutes than what the all-India service which really comes through a process which we know? On the general issue of the specialist and generalist I think it is an old debate Rakesh which goes back. Deepak would have better memory of this that even when Mrs Indira Gandhi was the Prime minister, some important departments Raj Kumar, I remember, Wadood Khan and Krishnamoorthy, Sondhi and few others she did induct laterally talent from outside. But fortunately, they did not turn out to be in the category of bad specialists. Each one of them turned out to be in the category of a good specialist which harmonised very well with the structure. So, I think that one point where I tend to also agree with Venu that a bad specialist can be really very debilitating and the need here therefore to discern. One more reason is that once you get a specialist it is difficult to say good bye to that specialist. Because the specialist hangs on for much longer period. Whereas once you get a bad chap as in IAS officer it is easy enough to shuffle him around. So, he is more dispensable, the specialist becomes a permanent feature. So, I think that one has to see from context to context.

Rakesh Mohan: I was just thinking which bad specialist Venu has been thinking about?

Y V Reddy: I was saying from the system's point of view. As far as specialists are concerned, I think this gathering has a preponderance of specialists. And most of them are very dear friends of mine. So, they can't be bad. Having said that, from the whole system's point of view, I noticed something. In UK there is permanent civil service which sort of constrains perhaps political excesses. But there is no constitution. In USA there is a constitution, but civil service is not that permanent. So, in one of the discussions, a politician, a chief minister, told me this is the position in those two countries. But for us I have to suffer from both constitution and permanent civil services.

Rakesh Mohan: Let me just push you on this. At least from my view point, one of the strengths of our all-India services is indeed they are permanent. Which in principle ought to make them independent minded where they can stand up to ministers, politicians etc. But that increasingly seems not to be the case. Since I have not been around for as long, was it different earlier, that people used to stand up to their ministers, chief ministers, even prime minister?

Y V Reddy: On first principles the political leadership is accountable. And therefore, you cannot have a situation where the bureaucrat is. The problem arises when the politician demands. My point is the independence. Independence should be that you should be able to give independent advice number one. Should be independent enough to insist that rule of law is followed. That is independence. Very often there is ego clash also. Either it is ego clashes especially from the higher side and the other side other interests predominate. I think it is somehow the concept of asserting independence by bureaucracy. No, you should be asserting the rule of law by bureaucracy. Asserting some principles. Let me put it this way. In the first five years of service, I had eight transfers. By the time of end of the

service I had five-year job. So, you learn also. But it is not necessary. I don't know this... it is frustrating often especially when the political leadership is less than honest. So now coming to your time dimension. I think the time dimension is that over a period the level of respect in the society for adherence to law and law itself being good enough. So, whatever is happening is more a reflection of the type of social changes that are occurring. If the civil service is being subordinate to certain political leader, if that is the impression obviously that sells. So, I think it is deeper. It is far deeper. We are getting into deeper problems. Maybe I am not very clear.

Rakesh Mohan: The reflection on this issue of are civil servants less independent or law abiding, adherence to the constitution before or it is about the same. And the importance of the whole issue actually.

N K Singh: No. Law abiding, they cannot not afford to be law abiding. Because if you break a rule, if you overtly break a law, it had its consequences. So, the law abiding yes. But by the way it was said about law again by someone very well known to both of us former Prime Minister Manmohan Singh, he said – law is the biggest mule which has ever seen. You bend it in the direction that you like the mule to move. So, one has to also see the way in which the interpretation of the law itself really has been subjected to the kind of malleability which perhaps was not intended while framing the law. But to your direct point Rakesh, that has had over a period of time has the independence of advice of the civil servants under gone a change for the worse, that they are becoming less and less independent. Venu quoted an exceedingly good example of the difference between the American system and Westminster model which we talk about the British system. In the Westminster model there is British permanent civil service and permanent undersecretary. The Americans we know that with every presidency roughly, Anup can correct me, I read that with every president roughly about 4000 odd jobs change hands. And require senate and congressional confirmation in one kind or the other. But their horizon is very limited. I come with the president; I go with the president. Is the American administration better run than the British administration? By the fact that it is so much in a state of flux with the change of presidency as compared to the United Kingdom? There I agree with Venu that the far-reaching changes in the societal expectations and the psyche of people who choose who are to govern them has undergone really tectonic far-reaching changes. These are not being reflected adequately in the institutions which were created at that time in a different orbit altogether. Looking back if I might, my own experience and perhaps drawing from my father's anecdotes and so on much earlier than mine, up to 1967 a civil servant giving his views fearlessly was regarded as an important asset to the state administration. I am talking of the states because at that time I had no experience of central government. But post 67 with every successive turn the malleability of civil servants, because of the power of the political executive in taking decisions which vitally affect his future career has changed so dramatically that we will have to go in some time or the other to the drawing board to rethink the nature of the institutions which the current system of governance would be best served with.

Rakesh Mohan: Let me press both of you little more specifically. Since both of you have indeed had very direct contact with Prime Ministers at different times, you in Prime Minister Office itself. But Venu as central bank governor, earlier in the government in the ministry of finance and yourself in many different roles of course, chair of the finance commission, can you give us one instance each where you vehemently disagreed with the Prime Minister all the time. And one good reason obviously. Who wants to go first?

Y V Reddy: I had very little direct contact with the Prime Ministers. I am not joking except with Manmohan Singh because I have worked with him before. So that is one. And I had freedom to go and meet Mr Manmohan Singh once. I also believe that you operate essentially through your minister. You

don't operate directly through PM or PM's office. But the problem arises when there is a PM's office and if the PM's office which runs the bureaucracy, that makes things complicated. For me it didn't happen. Second, when I was meeting Prime Minister regularly, I was always making it a point to inform the finance minister that I am going in a meeting, coming back and briefing and briefing used to be essentially comprehensive not necessarily comprehensive. Essentially comprehensive. But it used to be frank exchange. So, I think it's the Prime Minister's decision to operate through the Prime Minister's office, maybe the way it functions rather than directly dealing I doubt any secretaries will be directly dealing with the Prime Minister.

Rakesh Mohan: So, you are not giving us any specific instances where you disagreed with the Prime Minister.

Y V Reddy: If you want, yes, I will give you one. The Prime Minister was very annoyed. That was an agreement in Singapore where we signed the agreement saying that so many bank branches will be licensed every year to Singapore as part of bilateral treaty. So, I said no from the RBI. Legally it is of course RBI's. Apparently Prime Minister was very unhappy. He expressed his unhappiness to cabinet secretary and I submitted to cabinet secretary that there are broader issues. Under law the power to give branches is still with the RBI. So therefore, I would like to... one. Second though not directly, indirectly. And you were there to resolve the problem when you were a finance secretary. Secretary in the economic office. You can correct me if I am wrong. At that point of time, the government led by Manmohan Singh, had agreed to allow foreign banks to take over the private banks in India. A commitment made by the previous government in the parliament, later supported by the congress. And therefore, it was to be implemented. Finance minister called me to his house, showed the file and said that this is the position. And your predecessor agreed. So, the government cannot change its policies whenever the governor changes. That is quite as blunt as that. Then I went to the secretary economic affairs and I told him that this is the position. I told Chidambaram, if it has to be done it should be done sir, it will be done. But I may kindly be relieved so that it can be implemented with vigour and by somebody who agrees. Therefore, I may be relieved and rest of the story you know. I think the finance minister wisely I presume on the advice of Rakesh perhaps, with the approval of the Prime Minister said, well no problem, we won't change the decision we will have a time path. So, I was asked to propose time path. I proposed five-year time path and somebody said Chidambaram asked why five years? Sir, I won't be a governor by then.

Rakesh Mohan: NK, obviously, the issues of principle no any personal issues.

N K Singh: So, I think that deeper question which you have raised and Venu has given his response. I think that the deeper question really is an issue on which we need much greater debate and discussion, what should be the relationship of the cabinet office with that of the Prime Minister's office. Venu has mentioned of course the fact that if you are a junior officer, it will be unlikely you will be called by the Prime Minister himself personally. Very, very unlikely. Of course, if you do report to the minister if you are a secretary or if you are a joint secretary reporting to the secretary and so on. But I think in all this of course the cabinet secretary has the most important coordinative function. This was the story. Till the 13th of July 1974. On the 13th of July 1974 late Lal Bahadur Shastri when Lakshmi Khan Jha was transferred from Secretary economic affairs to be the first secretary to the Prime minister and being the man that he was, he said he will not go till there was a proper insertion in the transaction of business rules. Otherwise, he said there would be a total illegitimacy in whatever happens there. So, two days later an insertion was made in the rules of transaction of business, which had for the first time an insert, 'the Prime Minister's office' and defined that as a function. That was in some ways a watershed date in redefining the contours of power and redefining the nature of the whole governance rubric. It has one can talk about how it has evolved, evolved for the good or evolved for bad, that has

to some extent a very large bearing on the sort of issues which you have raised namely embedded in your question, is the evolving relationship between the Prime Minister's office and the cabinet office. I think that some of this has been dealt with remarkably in Harold Wilson's book on the series of 'A Prime Minister on Prime Ministers', when he describes the evolution of the Number 10 and the role of the cabinet office and so on. It is an interesting sort of stuff. So, I will leave the answer there. To your second question, it is a more interesting one, have I ever disagreed with the Prime Minister and what was his reaction and what was the issue. Venu has quoted an example on the bank. But the issue which I am going to mention that instance is that in a responsibility which I held which Sri Ajay Narayan Jha held much later as expenditure secretary, I was directly called by the Prime Minister on a particular kind of a decision pertaining to the defense ministry. The principal secretary was present, he wanted that particular decision and I said that would be somewhat difficult in the processes. Very unhappy with the response and then of course the finance minister called me subsequently and said what happened and so on? So, whatever it is, here is a clear instance where in the responsibilities which were held much later by Ajay as expenditure secretary, I was unable to really do that. So, there is one instance of having disagreed. But there have been many other instances where you talk him out of the possibilities or show what, Venu has called, a time path or what is typically, I use the word a middle path, or a muddle path so that everybody is happy whatever be the outcome of it. That is the more common feature of it. But I think that yes, there has no doubt been... of course I am not going to quote any instance of where you work directly as secretary to Prime Minister, it is a daily thing of this you give in or you are able to persuade the Prime Minister. That would not be a very typical situation. Venu has quoted very correctly the normal way in which these dynamics of this relationship evolved. But the issue of the relationship between the role and the functions of the Prime Minister's office and the cabinet office remains in a melting pot.

Rakesh Mohan: On this issue of independence, giving straight advice in terms of the law, constitution etc. a particular issue comes up with the functioning of central banks where in the last 20 or 30 years, not before actually, the issue of central bank independence has become in sense a given across the world. I just want your view on that. But I want to ask you first before Venu because he has answered this question many times. So, he will have a very easy answer. So, NK I want from you since you were not in the central bank. But from the topmost positions in the government how do you see that that this whole argument, the central banks really have to be independent and in many other countries you have much longer terms of central bank governors. In the UK for example is 7 years now. And he or she can't be reappointed. Also, can't be fired. In our case, the act says up to five years but ever since Venu showed his independence and he was appointed for five years, no governor since Venu has been given five-year appointments. It is only three-year appointments. So anyway, first your view and then Venu yours. It is complicated and not a simple issue in my view.

N K Singh: Actually, Venu is in a better position to respond.

Rakesh Mohan: You having been a parliamentarian actually it is important.

N K Singh: Well then let me take the last one first. Having been a parliamentarian what does it mean? One liner to that would be I think that the interactions between parliamentarians and central bank governors including other independent regulators should be far more intensive than any mechanism exists. Therefore, that is one of the infirmities in the relationship between the legislature and the executive that the interactive processes between parliament... no central bank governor has to the best of my memory ever been called to the chamber of the house even though he is a constitutional entity because the person who represents the governor of the central bank there is the finance minister who answers on behalf of the central bank. But is that a satisfactory situation. I would say it is not a satisfactory situation. I do believe that there must be much greater engagement. The

parliamentary standing committee on finance is perhaps expected to perform this. But the legislative business of the ministry of Finance is so heavy that I do not remember as a member of the standing committee for many years, I do not remember of any occasion when you called the governor of the central bank except perhaps on something or the other. That is the standing committee. Leave parliament aside. The result is that the level of understanding of an average parliamentarian on some of this would really benefit from a very, very major process of, if I may say so, domain understanding being enhanced through a better engagement process. You ask the other question. Well, to some extent it must be viewed in the context of, what is the central government want from the banker. What are the objectives which he has? Now it is much later, thanks to more recent times that you got the reserve bank into being judged by their achievement of that one-point issue of keeping the inflation in a certain band. It was never defined so clearly earlier and you judge him only for that. But what about for instance growth and stability in the system? Isn't he responsible for that? What should be the role of the central bank? Should it not be a contributory factor to overall economic development instead of... the debate on that is wide open as you can see particularly currently when people are saying that is he too focused or should the central bank be so focused on achievement of a single objective. Last, your question was degree of continuity. I am in favour of continuity for a much longer period. I wouldn't say that seven or ten years, but I would say that in the Pre-Venu era and Venu if you are saying the last one, certainly I would say that subject to any reappointment which shouldn't be ruled out a five-year period giving him stability and continuity, imparts confidence to the markets, imparts confidence to investors, knowing exactly the way in which... and predictability is a very important factor when it comes to the management of the Central Bank. So, I would say these are my three responses, we need to be clear before we talk of autonomy, what is the objective that a country would like or the people of the country managing the country and economic affairs would like the central bank to achieve. Is it just inflation targeting... that is what it turns out to be now? There have been so many critics for and against whether that should be only single dominant objective. That has also evolved over a period of time. By the way, the American example Rakesh takes me back to just one sentence, that the level of engagement between the American senate and the congress and their FED chief is much more intense than is possible here. That makes an enormous difference in the entire management of the whole monetary policy framework. And that is something which in my view is desirable objective to achieve. I will stop here.

Rakesh Mohan: Venu, this is an old subject for you.

Y V Reddy: Okay, first I will repeat what I have been telling in public. And now I will share my personal views. In public I always took the stand that as governor of RBI I am independent. Central bank is independent in India and I have taken the permission of the finance minister to tell you that. But my intellectual position is that the concept of central bank independence is not central to central banking. Nor did it exist for most part of the history. This whole concept of central bank independence is in 1970... post 1970 when the advanced economies had big problem of inflation. So, it is an entrant in context and it is already exiting because the context is changing perhaps. So therefore, I think we should not take it as Vedic truth but rather a contextual philosophy or something like that. See, much depends on, when I mentioned jocularly, a government may like to convince the people that there is independent central bank, therefore have faith in the price stability value of money. But another government may say that look we have bigger philosophy and everybody has to implement it, and we don't want...they may not say we don't want... the central bank independence. Central bank can have independently functioning but definitely we dictate it. In other words, the government may not like to take credit for independence of central bank. See if the government wants to take credit it will take credit. It doesn't want to take credit it doesn't take credit. I think it is basically in the ultimate analysis, central bank is not created as a constitutional authority.

Rakesh Mohan: This is a very interesting subject because as you were saying this started in the developed world after discussions started in the late 70s after high inflation. It actually came into force really in the 1990s. But what is very interesting is that the most enthusiastic of course was bank of England and they separated out the financial services authority. And what has happened is that after what I call the North Atlantic financial crisis, it was reversed. So financial regulations came back to Bank of England and now they have three committees. Financial policy committee, monetary policy committee and the third I think is called the financial stability or something committee. So, it is very interesting, it is a live issue. What is interesting is that something that has happened in the last six or seven years, that prior to the last six seven years you had economists as governors of most major central banks. It has reversed, not in the US, now not an economist, not in the UK, not in the ECB, not in India. And see what has happened. Inflation has gone up. If you don't have economists as governors of central banks. Of course, Venu had the advantage that he was everything. IAS, economist, so he was able to claim everything actually. Let me ask one more question and then to the audience. This of course is not an easy question. The two of you stand out among civil servants in terms of your distinguished careers despite having completely different backgrounds. I have already said you are unprecedented record of two IAS officers of the same batch heading successive finance secretaries. What is the secret of your success? Please tell us.

N K Singh: What do you mean secret of success? How do you know that this is the most successful story which have been woven? I mean how do you know that each one of us deep down would not be having our own sense of the things which we failed to do? Things that we failed to achieve.

Rakesh Mohan: Then you tell us what you failed to achieve?

N K Singh: What I mean is that you are counting the credits. But deep down could be a whole lot of debits in our hearts which may or may not have been expressed in a reasonably... I mean no autobiographies is as candid in it has to be within the limits of respecting various norms. But the fact remains that yes, we each one, both of us, we had our moments of success, we have also had our moments of great failures and great woes which are best not recounted.

Rakesh Mohan: I was going to say, since you mentioned this, now you have to tell us your great woe, one example and something that ...

N K Singh: I have taken the first shot. Now Venu it is your turn.

Y V Reddy: I didn't get the question.

N K Singh: The question is quintessential.

Rakesh Mohan: So, this is the same vein as when Venu was asked what you would have done at the time of demonetisation if you were the governor of reserve bank. His answer was I would have checked into a hospital. And he is at advantage since he had various issues 50 years of his life, he can always check into a hospital at the drop of a hat. I had asked what the secret of your success is. But NK turned it around that you are only looking at positive things. But each of us has something we would dearly liked to have done but we couldn't do in our careers in policy or administration. So just maybe one example and if two then it is even better. What you would have loved to have done but couldn't do.

Y V Reddy: To be very frank I didn't have any purpose in life when I started the life. I took it and just went along. If you say whether I did very bad things, no. Very good things, no. I think it was a life which was led more by the circumstances than by anything else. So, I can't say. Though I didn't object to your saying success. But fundamentally what is success. I think it is only philosophically you have to look at it.

Rakesh Mohan: See the reserve bank what you would have liked to have done which your governor governors didn't allow you to do.

Y V Reddy: Rakesh, you tell me. You were twice over deputy governor with me. With an interval in the government.

Rakesh Mohan: I was sent on deputation to the government from Yes bank. I came straight back. N K. Is this too naughty a question? But you raised it. There are somethings I would have liked to have done but couldn't do. Any regrets?

N K Singh: Maybe sometimes I ask myself the question that what I did much later towards the end namely spent six years in parliament, should I have followed some of my other colleagues and perhaps moved in the political direction earlier than I did. Because to some extent I did all that after the period of the civil service was over. That is a question which sometimes I keep thinking about. That is always something to which I cannot find a remedial action much later as Venu says life has moved on and we have tried to cope up with the challenges. But also enjoyed the great opportunities which life has provided very frankly.

Rakesh Mohan: In your book you have written a lot about your experiences as a member of parliament actually. So, you would say that was a pretty enriching and interesting experience.

N K Singh: I would definitely say so Rakesh, for those civil servants it is one thing to very closely watch the proceedings of what is going on from the visitor's gallery or from the official gallery where many of us who are here have often been there in giving or sending notes of possible answers to ministers or to whoever is responding. But it is a totally different feeling when you are in the house. I will give you a classic example. When I was speaking in the very early days and that time the finance minister was Chidambaram. So, in my asking some of the questions two colleagues of mine came to me. Stop being so deferential. He is only a colleague of yours. Please get out of that mind set. He is no different than you are. He is that side and you are sitting this side. So, you have all the time lived your life in a totally different ecosystem. So that is a quantum change of being in the house, a member of the house and watching the proceedings very closely and that was kind of an experience which I would never have had, had I not been privileged to really serve as a member of the house for six years. One of the jokes that much later... you know this famous lawyer Salve. Salve's father which many of us know N K P Salve was not only a member of parliament but was a minister for very long. So, he told his son that isn't it interesting that when I was a chairman of the public accounts committee N K was appearing as a witness as the revenue secretary. And now, N K is the member of the public accounts committee and is summoning the revenue secretary to answer questions. So, there is quite a different kind of a thing virtually in the same generation which I experienced. So, you asked the question of parliament. Yes. It was a very, very enriching, qualitatively different experience and that therefore sums up to what I said among the regrets. Often, I ask myself would it have been better if I had moved in the political direction much earlier than I ultimately did. Some of my senior colleagues have done that as we known one or two examples who have taken the decision much earlier.

Rakesh Mohan: Venu, would you say you have a regret like that that you didn't go to parliament or even run for the Lok Sabha from being the son of the soil in Andhra?

Y V Reddy: No. I never thought of anything like that. Though there are occasional soundings somehow, I don't think they were serious when they asked me to join politics. I didn't think of it seriously at all.

Rakesh Mohan: It would have been wonderful if the two of you have been colleagues in the Rajya Sabha if you had followed your predecessor. Hopefully opposite sides.

N K Singh: Because they all are some of our friends who are very good friends of Venu, very good friends of mine were not part of the civil service establishment. I particularly recall three of them. I recall Late Arjun Sengupta. I recall the time with Dr Bimal Jalan and of course the time with Dr Chakravarthy Rangarajan when both of us during that six-year period of mine. They were all three of them and they distinctly added to the quality of the interventions and the debates on the economic issues. Except Venu, I must tell you Governors will always be governors. So, our good friend Dr Rangarajan was a bit puzzled that why it was that parliament was much less responsive or differential than he experienced in his capacity in multiple other capacities. Because the central hall of parliament is one of the biggest levellers of the world which you can think of. And so, if ever there was an equitable place in one room it could be the central hall of parliament. So, it is a mind-set kind of a thing. Bimal also had been, but Bimal had opted out of the governorship to prefer a nominated membership of the parliament. But they added greatly to the value and the quality of the debates on the economic issues.

Rakesh Mohan: He did that to make way for Venu to come so that he could give a lot of trouble to me as an existing deputing governor.

Y V Reddy: Rangarajan left to be in the parliament within a few months.

Rakesh Mohan: Okay. So, floor is open for questions. Surjit?

Surjit: It is something where I agree with both N K and Venu. This is to do with the presentation or the appearance of a governor in the house of parliament. This is a practice that has worked exceedingly well in the US. Humphrey Hawkins's testimony etc. twice a year. What prevents this from happening in India?

Rakesh Mohan: Is it the parliamentary system, I remember the governor of England also never...

N K Singh: No. I think Venu, you correct me. In our system all matters relating to parliament (or is its central bank?) since in the rules of transactions of business is assigned to the minister for finance. So, the minister for finance speaks for the governor.

Rakesh Mohan: And the UK also as far as I know.

N K Singh: That is the technical position in the Westminster thing. In the presidential thing it may be different, Venu, you can correct me.

Y V Reddy: My impression is that governor appears before the standing committee in the parliament. And much of the work of the parliament on behalf of the parliament is carried out by this standing committee. Now to say that the governor should appear before the parliament directly is not, I think in the normal scheme of things.

Rakesh Mohan: It can't be because only a member of parliament can be in parliament.

N K Singh: Not necessarily. Surjit's question was that how is it that in the US senate hearings, congressional committee hearings, you have the Fed chief. Anup would know this. It is quite common for them to have. But here as Venu says the problem with the standing committee is... and I had therefore suggested at that time as a member... you create another special committee. If you leave it to the standing committee of parliament, the standing committee for finance which is a permanent standing committee is so burdened with the examining the quality of the financial legislations which are the heaviest legislative business of any of the 31 standing committees that there is little or no time to debate. I give something to supplement what Venu says. The last five-year plan which we all know was perhaps the 12th five-year plan. After that there were no five-year plans. I pleaded with the Vice Chairman at that time, this embeds India's five-year economic strategy. Can one day you assign time

for say three hours or four hours for us to discuss this five-year plan? He said it is a very important point, we will assign the time. In my six years I could not get them to debate such issues even once. Take an issue more complex like fiscal policy. I found for instance that on the fiscal issue, Venu can correct me, my own experience was that every time there was a deviation. All that the finance minister had to get up and say... this is irrespective of who the finance minister was... was what would you like? Would you like me to adhere to this particular number, would you like me so many thousand drinking waters, this road, that road, and acclamation they would say we would want that expenditure, public outlay, instead of this adherence to the fiscal rule. So, the whole issue of whether they could be a much greater process of appreciation of issues of macroeconomic management is an issue I think that Surjit has raised and I think that is a very fair point.

Rakesh Mohan: The only point I would say is that purely technically speaking, there is nothing if a parliamentary committee wanted a regular feature to have evidence from the governor, nothing is stopping them. But the governor can't be in parliament in place of the finance minister to answer questions. Right?

N K Singh: Unlike the attorney general. The one constitutional authority who can be called to the house to depose is the attorney general of India,

Rakesh Mohan: And CAG?

N K Singh: No.

Surjit: This was in the context of independence of the central bank. If we do this just this little bit, the finance minister if technically the head and so and so forth, but this will give the appearance of an independent central banker de jure, de facto, it is there. Just this little change can do a lot.

Rakesh Mohan: Another question. Mr Abhishek?

Abhishek: My question is directed to Dr Reddy on two counts. One is regarding the kind of behaviour of RBI recently which has been criticised a lot by several people. That they have been behind the curve and they didn't react to inflation quickly. You must have seen like a lot of media writings coming up. So, do you agree with RBI or you agree with people who were criticising RBI? And the second is do you buy the argument of the government of the day that privatising banks is going to solve a lot of problem going forward? What would you have done if this kind of proposal would have come and I believe something came in like kind of the first UPI government as well? What would have been your reaction about privatising the banks? Because then now arguments being made that all public sector banks except SBI should be privatised.

Y V Reddy: I thought we were discussing the past.

Abhishek: It would be good to know your answer for this.

Rakesh Mohan: I think he has given you the answers.

Abhishek: I will still persist to ask the question.

Y V Reddy: Then it will be consultancy.

Rakesh Mohan: Any questions? Malvika.

Malvika: If you could please share any experience from the training that happens in LBSNAA in Mussoorie and then how much of it comes in handy when you are actually discharging your duties?

Rakesh Mohan: Do you remember your training in the academy?

Audience: They went to Metcalf house.

N K Singh: No, we went to Mussoorie. The transition had taken place.

Rakesh Mohan: Any vignettes from your training which you thought were useful.

Audience: Lots of horse riding.

N K Singh: Venu, were you a good rider?

Y V Reddy: No.

N K Singh: So, by the way I failed which was a tragedy because I had to reappear and Naval Singh was the guy. But one area which held me in good stead. Frankly, economics and other things I had no idea of that. I would be submerged in the issue of the separation of the executive and the judiciary had just begun to take full shape. What I learnt on the subjects in law were proved very handy subsequently to me in my first few assignments. Where a lot of the work was legal work. Particularly on the peace keeping, 144, application of 107 and that sort of stuff. But what did I learn? Basically, the train timings of how to get out of Mussoorie to come to Delhi over the weekends, take that famous express Mussoorie express which is an overnight run from here. The timings of that something we had also perfected in the process.

Y V Reddy: I was a very regular attending all the classes in Mussoorie. It made no difference to our knowledge level.

N K Singh: One thing I want to tell. At that time when both of us were there we had this thing called the foundation day course. Which means for the first four months all other elite services were together. And that was perhaps the first of the last time we might hope to see them. I saw some of them when I was revenue secretary and many of them who were there had become part of the Indian income tax and customs and so on. But those four months were pretty good of foundation course.

Shekar: Fascinating reminiscences and reflections and with the kind of horse power we have on the podium, that could also include you, Rakesh. We are just thinking about the future. You talked a bit about the UK system, the US system of the civil service. Your thoughts on what India needs in the next ten, fifteen or twenty years with the tremendous pace of change that is going on, the heterogeneity we have to deal with, the complexity of the issues that is only increasing. Very useful to get your sense of two or three key priorities that should be emphasised in going forward.

Rakesh Mohan: Thank you Shekar. That was actually my last question.

N K Singh: Well, I think that the first a far more aggressive blending of generalists with specialists or speciality. I think that the fact that it may have had a patchy history or a mixed history or anecdotally you would come to different... should not deter us from far more aggressive policy in getting specialists in place. Not necessarily with the kind of experience that Venu is talking about. But that in my view is one. Second, I think that the link mechanism between the civil service serving in the states and the centre needs to be further deepened because in my view that states benefit and the central government also enormously benefits with the richness of experience which they bring from the states. Third I would say that in respect of the civil services establishment, a far greater role for other services beyond the Indian administrative service. I think for instance as India becomes more and more increasingly interdependent, many of us who have served in missions abroad and I would think that the role of the India's external linkages and the best synergy between our diplomatic service and

economic decision-making process, needs to be in my view deepened. I myself found that telegrams, letters from the embassies abroad receive scant attention from specialised economic ministries. So, as we become inevitably more globally interdependent, strengthening of those interrelationships between other specialised services which we have also with the diplomatic service would improve the overall productivity of the system.

Y V Reddy: Somehow my feeling is that such fundamental changes have started. Whether it is technology, institutions, globally as well as within the country. It is hazardous to guess that some incremental changes can help. I think it is a phenomenal type of things that are happening. So, I think the whole level of understanding, institutions and technology is going to be very different. So, I would be lot more careful in analysing this rather than and trying to cope. So, I find it difficult to build more on the past. With all humility I find it already difficult to understand even the way in which the government in India functions. We left the government about ten years back. We find it is very often difficult. So, I would say very important but we are not much to go by terms of our experience that in all humility that is what I would say.

Rakesh Mohan: Just one corollary to the question Shekhar asked. A specific one actually. Is that with the increasing urbanisation and increasing number of large cities, whenever the next census is done, we will probably have seventy or sixty-one million plus cities. Just in the same connection going forward even though the 73rd and 74th amendments of the constitutions were passed 1988 or whatever that was. There has been no strengthening of local government. And with these large cities, getting larger and larger, you still have the same administrative system. Would you care to comment on this particular issue in terms of the governance of the country in the future?

Y V Reddy: My point is very simple. If at that time Mr Rajiv Gandhi was really serious about strengthening the local bodies, he could have made the congress ruled states have a legislature. Was the congress party itself was serious? My point is any party which is serious, there is no need for constitutional amendments. Those states in which congress was ruling could have demonstrated strengthening. So, I find it very odd, everybody talks but actually when it comes to action including the political parties... so why? It doesn't require anything more than whichever party is committed to improving urban areas the concerned state governments can strengthen. So, I think we have to look beyond that the political economy that is driving this situation.

N K Singh: Both Venu and I have been chairman of the successive finance commissions and therefore both of us interacted with the third tier of government in a significant way. My experience is not very different that nobody wants to part with power if given a chance. So the states would like greater autonomy. The states would like more power. The central government would not want to part with it. Thereafter the three Fs Power function functionaries which is the transfer from the states to the third tier is central to the objective of that constitutional amendment. But the mixed example of setting up state finance commissions to give an example, which is the constitutionally mandated one, is an unfortunate case where the state governments do not wish to really part with the powers, responsibilities and so on which was embedded in that. But the result, I don't know about you Venu, Ajay and I faced this moral hazard, that finance commissions are not obliged to give money to the third tier. But we decided to do so just like you because we felt if we don't but rely on what the state governments are expected to do, we would further these third tier to shrivel in a very significant way. So, the basic thing is that is the spirit and the objective of that constitutional amendment, is it the intention to really ensure that the spirit is observed in its actual implementation.

Rakesh Mohan: Thank you. You can congratulate me for going only seven minutes over time unlike the papers I usually write. So just last words from you as messages to the youngsters who will be here much longer than us in this world and in India.

Y V Reddy: What can I say? I have such lovely affectionate friends I think all these subjects are incidental discussions. I think be good human beings and having good positive happy relations with all should be the most important thing. What you say is not important. How you make others feel is important. Thank you.

N K Singh: I would say that going back to something that Venu was saying that the rapid, unbelievable, unimaginable pace of technology which is rapidly transforming every aspect of our life from agriculture, from pedagogy, from relationships, from the way in which we meet, we interact, is obliterating one important aspect which I greatly value. The importance of durable long term personal relationships. I feel that notwithstanding what technology changes, the need to nurture build that personal relationship is what will really give life quality in a world of so much evolving uncertainties.

Rakesh Mohan: On those words we give a standing ovation. I just want to say that this has been a real privilege. An honour to have both of you here apart from affection and friendship which is what we ended up with, that is what is valuable in our lives. Venu didn't like me when I first joined the reserve bank. But he found the error of his ways. But it took him a year actually to figure that out. Thank you very much. I can't say anything more than really grateful to have taken this opportunity.