

Inaugural Address

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Quantitative Approaches to Public Policy –
Conference in Honour of Professor T. Krishna Kumar

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(Session: Honouring T Krishna Kumar, August 10, 2009: 10.30 am to 11.45 am)

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1. I feel privileged to participate in this conference to honour Professor T. Krishna Kumar. The theme of the conference is not only very appropriate for this occasion, but it is also of great significance as development policy making in India is at a crucial juncture. I think the best way that we can honour Professor Krishna Kumar is to express our gratitude for his role so far in developing quantitative approaches to public policy and to urge him to continue to guide the profession in the challenging emerging phase in our development policy making.

2. The emerging phase in development policy making is challenging for two reasons:

a) There is a near collapse in policy making as India's development status seems to be deteriorating rather than improving. If fortnightly aerial photographs of Bangalore Metropolitan Area were available for the last couple of decades and these were analysed, there is a good chance that we will get a negative trend line with a few minor upward waves dying out quickly! I may also mention two other aggregative indicators. The sad news is that Millennium Development Goals (MDGs) of the United Nations (UN), which can also be regarded as Minimal Development Goals!, are not likely to be achieved by the target year—2015. MDG programme is possibly the most ambitious programme so far at the global level which brings together the developed and the developing countries in a joint endeavour to reduce (not eliminate!) hardcore poverty. India is among the defaulters. As a second indicator, I mention a study by Professor Partha Dasgupta of Cambridge University which finds that if a full accounting of costs of development including environmental degradation is done, South Asia is seen as becoming poorer in recent decades! ('World sinks into deeper poverty' BBC News website, June 8 2001)

b) The second reason is that the relationship between the academic and the policymaker is still far from active and friendly partnership. We are moving in that direction helped by efforts of economists like Professor Krishna Kumar. But, I am not too sure that the communication between the two is functionally adequate and that what is communicated to the policy maker is fully understood by him and implemented in reasonable time. Building up partnership between the two needs some important adjustments by academics.

3. Helping policy making with quantitative approaches covers a wide range of tasks. If we use the analogy of river Ganga, development of new econometric models and techniques has its home in the snow-white environment of Gangotri while the locale of interaction with policy maker falls in the highly polluted parts of the river in the plains. As one who had occasions to observe this interaction, I notice serious problems which may not receive as much attention of econometrician as they need. I give three illustrations.

a) I remember an entry level textbook which I used decades back describing econometrics as a doctor who could treat a patient with one disease but not one suffering from multiple complaints. Our data sources are in a sad state with numerous deficiencies recognised in econometrics and, also, those like non-sampling errors falling outside its realm. A recent paper by Himanshu in EPW warns:

“Most unfortunate is that the mass of data on social and economic indicators provided by independent and private agencies to the media is of very doubtful value. These do not appear to be based on any/official/reliable sources, are inconsistent and have been created for years and for geographical units where no such data have ever been known to exist” (Electoral Politics and Manipulation of Statistics, Himanshu, *Economic and Political Weekly*, Vol.XLIV, No.19, May 9-15, 2009). Even official sources like industrial statistics and land records have been called GARBAGE by B.S. Minhas and Jairam Ramesh respectively, the latter is a Union Minister of State in India.

Would sophisticated techniques and methodologies work with such data?

b) Summary measures are indispensable in policy deliberations and media reports reaching wide sections of population. I find that some of the commonest summary measures used in India are capable of being misunderstood and misused. A few illustrations follow:

i) Being an average of three indicators, Human Development Index (HDI) can improve when growth is fast but health and education decline. Can this be called improvement in human development? It is common to interpret HDI variations across countries or over years for a single country like India without paying attention to this aspect of HDI.

ii) Currently (August, 2009), relying on Wholesale Price Index (WPI), India is supposed to be enjoying negative inflation!

At the same time, food prices are increasing sharply and item like pulses have prices beyond the reach of not only the poor but even of middle classes!

iii) As regards Head Count Ratio (HCR), a common citizen can choose from three options. The official estimate of Government of India (GOI) hovers around 20%, estimates by

international experts go up to 50% or higher and Below Poverty Line (BPL) surveys by the States cross even 80%! Is this not chaotic!

The point is that the summary measures which are now an inextricable part of development lingo need careful attention to make them transparent and reliable at the level of policy maker and common citizen who are usually econometrically semi-literate or even illiterate. Such measures have to be simple and still usable. The position is improving but the gap between the academic and the policy maker is likely to remain wide for a long time.

c) The problem of summary measures is a tip of the much larger problem. The academic lives in an orderly world amenable to rigorous analysis and in which patterns of behaviour and interaction among forces are structured and stable enough to permit regulation, control and prediction. But this is largely an abstract and simplified world which breaks down if it tries to capture all the complexities of the real world. The policy maker on the other hand operates in an erratic and nearly ungovernable world. He cannot look much beyond the short term. He compromises at every step as he is painfully aware that what is feasible is often not desirable. It is only when the academic and the policy maker decide to complement each other that opportunities will come for them to collaborate and promote development. This is something like a marriage where the two parties learn gradually to accept each other and turn it into a positive sum game! Nobody can give a readymade programme for such a union.

4. The globalising world is menacingly unstable and unpredictable. Horribly destabilising shocks like 9/11 are neither systematic nor random in nature. They are not Act of God but are acts of a few who are intelligent, committed and capable. They plan their strikes with deliberation as a part of a long-term strategy. 9/11 represents a category of events which may be called non-systematic as they are neither systematic nor random. Globalising world also generates fast changes coming in waves leaving little time to policy maker to adjust. Almost five decades back a special issue of *Econometrica* had a symposium on whether econometrics can predict. There was no consensus! As regards today, I quote from a paper by Professor Kaushik Basu which figured in the symposium on development economics. Commenting on the risks involved in making policy recommendations based on empirical findings, Professor Basu observes “The statistical findings are not useless for prediction but they have to be combined with unscientific intuition for them to be considered useful. We cannot reject the unscientific and claim that our method has predictive power.... Hence, the issue is not between theory and empirics. We need to do both as correctly as we can and then use our intuition to select the ones we want to live by and base our policy recommendations on those and, most importantly, keep our fingers crossed behind our backs, when doing so” (New

Empirical Development Economics, *Economic and Political Weekly*, October 1, 2005). The moral is that helping policy maker with quantitative approaches is in part an art. An art needs to be learnt through prolonged practice and experience. One who takes the fast track may not arrive at all!

5. I conclude my observations with a suggestion that it would be very useful to have periodic meetings of academics with policy makers to review the experience with quantitative approaches and the problems faced by policy makers. Each meeting can focus on a specific policy area like employment security, food security etc. Econometricians often tend to write only for each other. There is a pressing need for writings addressed to policy makers so that we can move towards having a continuing dialogue with them.

6. I hope the proceedings of this conference will be of help in initiating such a dialogue. I have pleasure in inaugurating the conference. I convey my greetings to all the participants and express my sincere thanks to the organisers for giving me this opportunity to chair the session.