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Bharatiya Divas**

*Engaging the Diaspora: the way forward*

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# India: The Role of the Diaspora

by

**Jagdish Bhagwati**





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*This is the text of the inaugural Oration delivered to the 2010 Pravasi Bharatiya Divas Conference on January 8th in New Delhi. The author is University Professor, Economics and Law, at Columbia University and Senior Fellow in International Economics at the Council on Foreign Relations. He is the recipient of the Bharatiya Samman Award and the Padma Vibhushan.*





Minister Vyalari Ravi, and the many Indians Abroad and at Home who are assembled here:

When Minister Ravi asked me to give this Oration today, I felt deeply honoured. The honour is obvious: the audience I address is extremely distinguished and accomplished and several among you could have been in my place today. But there was also the lurking fear that whatever I could say might be thoroughly obvious to you. Fortunately, however, Professors have the conceit that they can always say something new, at least adding a different nuance.

I have decided to talk to you today about a familiar subject that is of the utmost concern to you and to our hosts at this Pravasi Conference. I will consider the role of the diaspora in India's ongoing march to world-class status and, equally importantly, in the still incomplete and associated task of alleviating the poverty that all our great leaders like Mahatma Gandhi and Pandit Nehru ceaselessly wrote about and were concerned with.

### **A Personal Anecdote**

Let me begin, however, with a personal anecdote which involves my longstanding friend the Prime Minister with whom I overlapped when we were both in Cambridge in the mid-1950s studying for the Economics Tripos. It underlines dramatically why the diaspora has a critical role to play in India's present and future.

Recall that the Indian policy framework had degenerated into an unproductive, even counterproductive, set of policy choices that had produced the abysmal growth rate of approximately 3.5 % per annum over nearly a quarter of a century. With an average population growth at 2 % per annum, that translated into a per capita growth of roughly 1.5% per annum! We Indians, with our ability to do compound arithmetic in our heads, can readily see that, compared to the growth rate at 7-8 % per annum which countries in East Asia had registered (and which our reforms have led to since the reforms began in earnest in 1991), we had lost growth by roughly 4% percentage points annually and that our income level would have been 2.5 times larger than in 2010 if only we had registered this higher growth throughout the last 45 years rather than only after the 1991 reforms. We would have been at the center of world attention far more dramatically, and indeed sooner.

The slow growth of the Indian economy had also undermined the assault on poverty that had been our central objective since planning began in 1951. It is only



commonsense that a stagnant economy cannot pull people out from poverty through job creation, even though a growing economy may still not create enough jobs. So, when we failed to grow, we also failed to make a serious dent on poverty. It is not that, as some economists who belatedly turned to talking about poverty have argued from self-serving ignorance, we were wedded to growth and did not pay attention to poverty. Growth was in fact regarded correctly by us at the time as the principal way to make a sustained impact on poverty. The problem was that our pre-reform policies had failed to generate the growth.

While the external payments crisis in 1991 was the occasion for changes that would systematically begin to discard the policy framework that had failed to increase growth and to diminish poverty, the fact that we did not lapse back into it after we had surmounted the immediate crisis underscores the fact that thoughtful Indians had finally understood that we just could not go on the way we had, that change was necessary.

It is important to understand that our reforms were driven by our own realization that we could not go on the way we had earlier. This was also true of the Soviet Union where Mr. Gorbachev had decided that they could also not go on the way they had: their model, very similar to our pre-reforms model on the economic front, characterized by inward-looking policies on trade and inflow of foreign direct investment, and by knee-jerk intervention everywhere, had also been disastrous. This was also true of Chinese reforms that led to China's dramatic acceleration of growth and massive impact on Chinese poverty. It is nonsensical to argue that these reforms were a result of the so-called Washington Consensus. When these three massive countries shifted to the "liberal" reforms, they could not have cared what "Washington", whether the US Administration or the Bretton Woods institutions, thought. If Washington had sunk into the Atlantic Ocean, the three countries would still have abandoned their old ways.

Needless to say, the ceaseless writings of economists such as me, going back to the 1960s, had made an impact. In the end, our arguments had prevailed against the anti-reform orthodoxy among the economists, including our most eminent ones.

But Prime Minister Manmohan Singh told me that an important part had also been played by the Diaspora. He told me that, when he was spearheading the reforms as the Finance Minister, Prime Minister Narasimha Rao had lent his full support largely because many members of his own family who were abroad had told him that India's policies made no sense and that they had diminished our standing in the world.



Coming from his own family's immediate experience abroad, the message carried great salience and cemented the resolve of the Prime Minister to pull India out of the rut into which it had fallen.

### **The Diaspora as Contributor to Our Reforms**

Indeed, the policymaking elites were finally shocked into the reforms by two factors that acted like a pincer movement against the status quo.

First, these elites increasingly experienced, at first hand when they went abroad, the disjunction between their sense of India's ancient culture and glory and their realization that our foolish economic policies had led to a situation where few took us seriously. The worst kind of psychological situation is where you have a superiority complex and an inferior status!

Second, our Diaspora ceaselessly brought home to these elites the fact that these policies had little rationale; they lived often in countries where our policies would have been laughed out of court. I recall writing an op.ed. in the New York Times when Prime Minister Rajiv Gandhi was coming to the United States and I had mentioned how he represented a force for change and how the licensing system had been softened to allow for product diversification. The Editor asked me what that meant; and I explained how the Indian licensing system had gone so far as to insist on specifying whether one produced knives or forks! The Editor was incredulous: how could anyone think that good planning meant that one could not diversify production without permission? I, a member of the Diaspora, did mention this at the time to several friends in the Indian government, to their chagrin. Indeed, over time, the flood of such stories coming from the Diaspora helped to lay the groundwork for the abolition of the senseless licensing restrictions on capacity creation, product diversification, on import competition, that became part of the liberal reforms.

In the case of Japan, its transformation through major initiatives throughout the Meiji era was accomplished rather by sending gifted Japanese abroad to bring back ideas that were adapted to Japan's culture and needs. In our case, the Diaspora has served that function and our future role remains that of ensuring that we continue to interact with our fellow Indians who have chosen admirably to stay at home rather than to seek their destiny abroad, so as to ensure that India remains wedded to intensifying and broadening the post-1991 reforms which we can take some pride in having brought about.



## **The Diaspora's Achievements Abroad Contribute to India's Image**

But the Diaspora has also contributed to India's achievement of world-class status by its achievements in a variety of fields of science, arts and culture. Noting this growing trend in the United States, I once remarked that we were the next Jews of America: a high-achieving Diaspora that would soon dominate the scene as the Jews, once discriminated against brutally, had managed to do. Today, that forecast has come true.

Not a day goes past when there is not a story in the major media of some notable scientific breakthrough where an Indian is a lead player. Our achievers have also made it in literature, music and films: Salman Rushdie, Zubin Mehta and Mira Nair are household names. In business, the Silicon Valley and Wall Street CEOs like Vikram Pandit are as often Indian as they are Chinese and native Americans. The media also now have stars like Fareed Zakaria and Tunku Varadarajan. Even the leading lesbian activist is Urvashi Vaid. I used to joke that we certainly must have made it to the Mafia, just as the Jewish community had Dutch Schultz, but that we had not yet heard about it.

Just as the Chinese have changed their traditional image as laundry operators in the US, and one thinks instead of major architects like I.M. Pei and stellar musicians like the cellist Yo-yo Ma, we are no longer represented by the Eastern gurus like the free-love-celebrating Rajneesh --- once, when I was in Pune where Rajneesh had an Ashram, the hotel had a poster which said: Disco Dance Tonight: For Sanyasins Only ---and the dimpled Deepak Chopra who has splendid lines like: "You may think I am standing before you; but it is only a bunch of molecules" which make witless middle-aged Americans reach for their purses. These were the dispensers of revenge on the West by the East as brilliantly portrayed in her penetrating essays in Karma Cola by Gita Mehta. No longer are they anything but boutique operators on the fringes, jostling for the America dollars with the Moonies. Today, therefore, in place of snake charmers, we charm the American public with our splendid achievements.

We have also demonstrated that, if only we are given the chance and the opportunity, we can work our way to the top: a possibility that the United States, a land made by immigrants which welcomes immigrants more than any other country, offers us in spades. This too has reinforced the lesson that the Diaspora has offered us directly through instruction: clearly, there was nothing special about India that doomed it to its low growth rate, not its size, not its culture, not its geography, not its history. The problem lay in our choice of wrong policies; when the policies were good, Indians could perform at the most enviable levels, second to none. The Diaspora's astonishing



performance gave us therefore the shot in the arm, the confidence that had been lost by many as we sank into failure until our reforms began.

### **Science and Technology: An Interactive Diaspora**

The role of science in the Diaspora needs to be further highlighted. The Diaspora's scientific achievements, in virtually every field, have not just enhanced India's image in the world. They have also led to a direct and mutually-reinforcing synergy between Indian science abroad and at home. This is most visible of course in India's IT sector and its symbiotic relationship with the Silicon Valley in California.

There was a time, in the 1950 and 1960s, when scientists found the local atmospherics intolerable. There was massive bureaucratic interference and intrusion of the pettiest kind. I recall once going to the Ministry of Finance to get permission to attend a scientific conference. The Deputy Secretary asked me why I had been invited. Irritated, I said: I was, and he was not, because I was someone who knew the subject whereas he did not. I could be insulting because I knew the Secretary in the Finance Ministry and therefore that this petty bureaucrat could not retaliate against me; and I did get the permission. But I remembered later that, when Rajiv Gandhi became the Prime Minister and I happened to meet him after that, he told me that he would make sure that no Vice-Chancellor would have to spend time cooling his heels and waiting for hours for a Joint Secretary in the Ministry of Education to see him. But the reforms came much later, for he died tragically and prematurely.

So, many of us left when an opportunity presented itself. I like to say that whereas many Indians believe in multiple births, we maximize our welfare in the current one like everyone else! Besides, the fear of a "brain drain" is misguided. A "brain" sitting in an uncogent environment can drain away faster than if it goes to a stimulating interference-free environment abroad! And so our scientists took off in multitudes abroad.

But some of the persistent ones stayed on; and as conditions improved with time and enlightened reforms, they flourished as well. You just have to look at the world-class IITs today to see how Indian science grew to respectable heights at home over time as well, following in the giant footsteps of some of the great figures such as Raman and Bose in the hard sciences and Homi Bhabha and Vikram Sarabhai in the applied fields.



And, so now for some time, the Indian scientists abroad and at home have acted like peas in a pod, interacting and stimulating one another's achievements the way scientists do when they talk and work together.

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### **The Diaspora is a Conduit for Values that Promise Egalitarianism; and Moneys and Activism to Promote Social Change in India**

Perhaps the greatest contribution that the Diaspora in the United States has made to India has been, however, not just in our success with increasing the growth rate and reducing our poverty and in the way it has enriched the growth of science in India, but in bringing to India, however slowly, the basic change in attitudes towards egalitarianism and the commitment to social activism that are so manifest in the United States and have been almost absent in India.

On egalitarianism, our society has been notoriously hierarchical, treating those below us with crass indifference while we tend to be obsequious to those above in the pecking order. As an American friend of mine once described a common Indian economist friend of ours: "he licks up and kicks down". A principal reason for such behaviour, of course, is the lack of economic and social mobility that has long obtained in India. If the person below you could instead rise to be above you, prudence alone would dictate that you behave decently towards him. The Vedas talk of the common Atman inside us all but the sociological reality is vastly different. But once they have been part of a truly egalitarian society such as the United States, where even a butcher will talk back at you, it is impossible for Indians to go back to these outrageous ways. It is this shift in values, where each individual must be regarded and treated with dignity and respect, that contributes to the recognition of the exploitation that women and the Dalits, in particular, suffer: after all, you cannot remedy what you do not perceive.

In this regard, I must invoke Dr. Ambedkar, the father of our Constitution and a great Dalit, who studied at Columbia University with the philosopher John Dewey, and in whose name the Government of India has just endowed a Chair in Indian Constitutional Law at the Columbia Law School. He has reminisced about his time at Columbia and how he had experienced social equality there for the first time.



On giving of oneself to the community, let me not undersell the great amount of good that our fathers and grandfathers did to advance the public good. Indeed, in my own family, my brother the former Chief Justice of India, has advanced Public Interest Litigation and fought for Legal Aid for the poor and the underprivileged. And my wife's father, after taking a Cambridge degree in English Literature, gave his working life at a minuscule salary to the Servants of India Society and was active in eradicating the evil of dowry and of bride burning in his community. There are surely countless examples of quiet philanthropy of this kind in India.

But where we have fallen short is in the young people's willingness to work for the public good. Here, we have an abundance of it in the United States where NGOs thrive, Peace Corps attracts several recruits, Teach America has oversubscribed applications, and virtually every student is "into some cause". The young in the Indian Diaspora are now an important conduit for spreading this social orientation to the young in India: fortunately, social values can prevail over indifference and apathy.

But my account would be incomplete if I did not mention the outpouring of funds and effort in India by many not so fortunate as to come from successful families and go to Colleges. A fortunate few in the Diaspora advertise brazenly their contributions to NGO activity in India from moneys earned from their successful enterprises, and some others from windfall incomes such as from Awards. They need to remember Gandhiji's favourite bhajan, which says that "Vaishnav Jana to Tene Kahiye, Je Peed Parayi Jane Re; Para Dukhe Upakar Kare Toye Mana Abhimana na Ane Re" that clearly implies that helping the needy is a task that a true Vaishnav does without seeking the approbation that giving can attract.

So, far more worthy is the sacrifice of the many in the Diaspora who struggle to save and who give without any publicity and fanfare. I can illustrate this no better than by recounting the 2000 story by Celia Dugger, the former New York Times correspondent in India, of the taxi driver, Om Dutt Sharma, who worked 12 to 15 hours daily for 20 years, denying his family any indulgence whatsoever, so he could start with an initial contingent of 180 girls the Ram Kali School for Girls in 1997 with a commitment to provide \$2,500 a year in Doobher Kishanpur. This was a moving account of a family's sacrifice to bring good to their village and to the girls whose education they saw intuitively as an important source of empowerment. The Sharmas were unknowns and had spent a lifetime dedicated to the public good; and were it not for Celia Dugger's accidental discovery and lovely account of what they had done, they would have



remained happy in their obscurity, doing God's work. When I and my wife, Professor Padma Desai, read this moving story, we decided to donate a small sum of money to celebrate the Sharmas at Columbia University at a large reception, to say our thanks to them for their dedication; and it was heart-warming to see their surprise and their joy that we, the educated elite, were honouring them, a taxi driver whose wife was a nurse.

### **Remittances and Trickle-up Economics**

But while incomes flow back to India from the common folks such as the Sharmas and from the well-to-do and affluent members of the Indian Diaspora to advance social causes, I should add that the contribution of the non-affluent Sharmas to Indian well-being comes also when they simply remit funds to their families back home.

There is a broad asymmetry between the low-income, often unskilled, immigrants and the well-off, often skilled, immigrants in their remittance patterns.

The former typically come from poorer families so the one who goes abroad is expected to send moneys home to support his parents and siblings. By contrast, the latter often come from well-to-do families who do not need to send moneys home to their families. Both groups try to bring their siblings to the US; but the emphasis differs since the poorer immigrants try to bring their family members simply to work whereas the better-off immigrants typically finance the education in the US of the family members they seek to bring to the US.

The remittances home, even when sent to families, have turned out to be an important element of the benefits from Globalization for the developing countries, and indeed for India where they were as large as \$ 41 billion in 2007-08, having risen twenty-fold in less than just two decades. The key advantage of the remittances is that they accrue to the people rather than, like most foreign aid, to the governments. It is well-known that, in many countries, foreign aid leaks into non-developmental uses, which include political graft and corruption, though the Indian experience has been better. Africans have now increasingly come to condemn foreign aid inflows as a key source of the failure to develop, though the reaction is at time too extreme.

By contrast, the remittances go directly to the poor families. This leads to the trickle-up phenomenon and is a more potent source of growth. Many acute observers, who are not necessarily on the right, also argue that the Kerala model of development, which is much celebrated by the left, would have run out of steam but that the State was rescued



by the remittances that came in from export of many semi-skilled and some unskilled workers to the Middle East. Since the left often decries Globalization, it is ironic that it is Globalization (on the dimension of International Migration) that may have saved their favourite model of development from collapse.

### **Integrating Further the Diaspora with India**

In conclusion, let me just mention that the Diaspora, which contributes so much to Indian well-being in the ways I have sketched, can be integrated profitably even more fully with India. Indeed, the start of the Pravasi Bharatiya Divas, and the extension of greater rights to people of Indian Origin, are among the measures of the Indian governments which we must applaud.

But I might add that the Diaspora must think, not merely in terms of improving their rights, but also of extending their obligations. Thus, while we get PIO cards, which fall short of true citizenship, we do need to move forward towards proper dual citizenship, the way many countries have done. It is time for us to recognize that, in the modern world, where people move from one jurisdiction to another while retaining loyalty to both, it makes sense to offer dual citizenship. This is a lesson we can learn from many countries, and indeed from the United States which permits dual citizenship. Having the full rights of citizenship would bring the Diaspora closer to the kind of loyalty and identification of their interests with those of India much closer. Alongside, we must also open up ways in which the Diaspora's right to vote is also made possible. There are several ways in which this can be done: e.g. by providing a limited number of seats in the Lok Sabha which all NRIs can vote for as a bloc; or by allowing NRIs to register to vote in the States from which they originate.

But alongside these improved rights, we in the Diaspora also need to recognize obligations. Does it make sense for us, for instance, not to accept any tax obligations while we seek, and often get, many of the same privileges and benefits that go to Indians working and living at home? I have therefore long proposed that, just as the United States does, citizenship and its benefits must be associated with the tax obligations that go with citizenship. Just as the "small" Tobin tax on capital flows is associated with the name of Professor James Tobin, there is also therefore a Bhagwati Tax which is to be collected, as a "small" surcharge on the taxable income of Indian citizens working/living abroad. Mind you, this is a tax to be paid, not by the country which we go to, but by us ourselves, as our own contribution to the revenues and welfare of the country from which we came and whose citizenship we continue to hold.



Many abroad object, saying that they do not derive the benefits that resident Indians do from the Indian government. But no progressive Indian will ever agree to the principle that taxes must be balanced by benefits: the rich should have to pay more, to help the poor. And we abroad are indeed generally better off; and, once exemptions kick in for the Sharmas of the Diaspora, the tax incidence would indeed be on persons such as me and all of you assembled here today. Yet another objection is that we abroad already help India in ways that I have sketched above, so why should we be taxed also? You might as well ask: if Tatas and Birlas undertake Corporate Social Responsibility, as they indeed do, why should they additionally pay taxes? Even those who voluntarily do public good should not be able to escape their tax obligations which cannot be a matter of choice for the taxpayers.

Long ago, on seeing the negative reactions from many in the Indian Diaspora, including my fellow “progressive” economist Amartya Sen who decried the idea of the Bhagwati Tax, I had given up any hope that the idea would gain ground. It is interesting therefore that the idea has now been revived and there has been important new work, especially by Professor Mihir Desai of the Harvard Business School and his associates including Professor Devesh Kapoor now at University of Pennsylvania, supporting the idea of the Bhagwati Tax.

I urge therefore Minister Vyalar Ravi to set up a new Committee to update the work of the Sanghvi Committee which reported in 2004 on the Indian Diaspora, to examine again the Rights and Obligations of the Indian Diaspora in light of new developments and possibilities (such as the improved international coordination between different jurisdictions, as in the case of the hitherto secret and sacrosanct Swiss accounts of US nationals, which makes it possible for India to seek coordination that would make it a lot easier to enforce tax obligations by India against its citizens in the US and elsewhere).

There are indeed many other ways in which the rights and obligations of the Diaspora, so as to better integrate it with India’s progress, can be fruitfully explored by such a Committee. A candidate for such examination, for instance, would be the demand by NRIs to be able to have their children access the IIT admissions. There are here many opportunities: we merely need to seize them.