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People in Economics

Change Architect

Prakash Loungani profiles veteran Indian policymaker **Montek Singh Ahluwalia**

IN 1991, India stood on the brink. Export earnings were no longer enough to pay for imports, triggering a full-blown balance of payments crisis. Countries caught in such turmoil often endure years of weak growth. India escaped that fate.

Two men were central to India's escape: Manmohan Singh, the finance minister, and Montek Singh Ahluwalia, a veteran policymaker known to all as Montek. Rather than treat the crisis solely as a disaster to be managed, they used it as an opportunity to remake the economy. Their long-term aim was to loosen the grip of the state's socialist-era controls, encourage private enterprise and foreign investment, and open India to global trade. But with foreign exchange reserves depleted, India first had to avert default. The country turned to the IMF for support and, in one of the crisis's most enduring images, shipped part of its gold reserves abroad to raise cash.

Montek recalls one final drama. As the truck carrying India's gold reserves rumbled toward the airport, it got a flat tire. Policymakers listened anxiously to radio reports, unsure whether the shipment would arrive in time. "Fortunately, they were able to change the tire and the precious cargo was soon on its way to London," Montek told *Finance & Development* in an interview.

Even before that crisis, Montek had sketched out a more ambitious vision for India's future. In 1990 he produced a blueprint for transforming India from a heavily regulated command-and-control economy into a globally integrated market economy. Leaked anonymously, the document quickly became known as "Project M." As the journalist Swaminathan Aiyar observed, only one policymaker combined the experience and intellectual confidence to have written it.

Many of the reforms enacted after the 1991 crisis bore Project M's imprint. Montek later described them as a "decisive shift away from the control mindset," though he noted that progress was necessarily gradual in a democracy. "There is a good case for gradualism," he

Many of the reforms that put India on a higher growth path can be traced to Montek Singh Ahluwalia's vision for a more open economy.

reflected, "but I think we should have moved much faster."

Martin Wolf of the *Financial Times* described Project M as the blueprint for reforms that "shifted India onto a higher growth path." When *TIME* magazine profiled India's most influential figures in 2007, it referred to Montek as the government's "brain," noting that his fingerprints were visible across virtually every major reform initiative. Four years later, India awarded him the Padma Vibhushan, the country's second-highest civilian honor, in recognition of his contribution to public policy.

Montek was never India's most famous reformer nor its most powerful politician. Yet for much of the period during which India transformed itself from a tightly controlled economy into one of the world's fastest-growing major economies, he was involved in almost every important moment—usually behind the scenes and nearly always making the case for change.

"Economic reform is a team effort," says economist Surjit Bhalla, "but it was Montek's persistence and vision that helped us pull it off."

Anne Krueger, a US economist, remembers working with Montek during the reform period. "He is one of the best economists I know who's also been one of the best bureaucrats," she says. Many economists understood what needed to be done but were easily defeated by daunting political obstacles. Montek, by contrast, had a sense of what was possible and could deflect opposition. "He persuaded rather than annoyed," she says.

A scholar's path

Born in Rawalpindi, in what is now Pakistan, in 1943, Montek grew up in a modest household: His father was a government accounts clerk and his mother a homemaker. The family later moved to Delhi, where he spent most of his life.

Education was the family's obsession. His father shunned financial speculation to ensure that money was always available for his children's schooling. When Montek skipped a grade after excelling in class, his father worried that it might leave gaps in his knowledge. He attended some of the missed lessons himself, taking notes for his son. Years later, he turned down a major promotion because it would have required the family to leave Delhi and risk disrupting the children's education.

The investment paid off. Through talent and hard work, Montek won admission to St. Stephen's College, one of India's most prestigious institutions. Strong results there earned him a Rhodes Scholarship—one of only two awarded to Indians that year—and a place at Oxford. Going to Oxford was his first trip abroad. Rather than fly, he traveled by ship through the Suez Canal to Italy, crossed the Alps by train, and reached England by ferry—a journey that took about 10 days. He graduated with a "congratulatory first," a rare accolade. Beyond the classroom, he immersed himself in Oxford Union debates, sharpening skills of argument and persuasion that would later help him build support for economic reform.

Out into the world

Montek had little interest in a lucrative private sector career. His ambition was to shape policy in India. Yet when the World Bank came calling in 1968, he accepted. It was a sensible detour. Studying how different countries designed economic policy—and why some flourished while others faltered—would provide useful training for a future policymaker.

As a World Bank Young Professional, Montek was dispatched in quick succession to Peru, Ethiopia, Indonesia, North Yemen, Yugoslavia, Turkey, and Malaysia. The experience gave him a firsthand view of development's many paths and pitfalls. It also introduced him to Isher Judge, then a summer intern at the IMF, who would become his wife and an economist of considerable distinction in her own right, later leading one of India's foremost think tanks.

Montek chose the World Bank's executive dining room for their first date. According to Isher, it was not the venue but his wit and conversational ease that impressed. Those qualities, she would later joke, were gradually worn down by decades in the Indian bureaucracy.

The World Bank itself was changing under Robert McNamara. Growth remained central to its mission, but the institution increasingly turned its attention to poverty and inequality. A new division was created to advance that agenda and, at just 28, Montek was appointed its first chief—the youngest division chief in the institution's history at the time. The experience left a lasting mark. Throughout his later career, he argued that growth had to be inclusive. He often recalled a saying that growth should be like rain, nourishing the valleys below, not like snow, resting only on the mountaintops.

In government

Montek returned to India in 1979 and embarked on the phase of his career that would define his reputation. He joined the Ministry of Finance, determined, as he later wrote, to "influence policymaking from the inside."

Yet he understood that returning from Washington carried its own challenges. "In a place like India, when you come in from the outside you have to spend some time fitting in." Even so, he remained convinced that change was best achieved from within. Years later, when Raghuram Rajan, then the IMF's chief economist, was considering how best to serve his homeland, Montek offered simple advice: "The best thing you can do to help is to come back and work in India."

That same belief in working patiently within the system also shaped Montek's approach to reform.

In 1980, Indira Gandhi returned as prime minister and began cautiously moving India away from the more rigid aspects of the socialist model inherited from her father. Industrial controls were eased, competition was encouraged, and a greater role was carved out for the private sector. The changes were modest, but they marked the start of a long shift in thinking. Montek later described much of this period as "reform by stealth"—incremental changes that gradually loosened the command-and-control system without openly repudiating it. Rajan describes him as a "reform opportunist" in the

best sense of the term, adept at finding politically feasible openings for change and getting "the camel's nose under the tent," or doing something that starts the reform process and letting it gather its own momentum.

For Montek, reform by stealth was not just a slogan but a practical program. One priority was reducing the bureaucratic obstacles facing businesses. He often illustrated the problem with the experience of Infosys, then a fledgling technology firm. After applying for permission to import a computer, the company endured such a lengthy approval process that a superior and cheaper model became available before the license was granted. To import the new machine, however, it would have had to begin the process again from scratch. It was precisely this sort of absurdity that reformers such as Montek sought to eliminate. He also played a role in making the exchange rate regime more flexible and drew on his World Bank experience during negotiations with the IMF over India's 1981–84 program.

His influence grew further after Rajiv Gandhi became prime minister in 1985. Montek relished the opportunity to work for a leader who was, as he put it, "almost the same age" as himself, technologically minded, enthusiastic about the private sector, and determined to prepare India for the 21st century. By then Montek had moved to the Prime Minister's Office, where his access—and the chances of his ideas being implemented—increased considerably. He later recalled Rajiv personally introducing cabinet ministers to spreadsheet software such as Lotus 1-2-3, then at the frontier of office technology.

Telecommunications became one of the new government's signature reforms. Rajiv argued that telephones should not be a luxury reserved for the wealthy. At the time, India had just 4 million telephone lines for a population of about 800 million. The gradual opening of the sector to private participation, in place of a state monopoly, helped lay the foundation for the communications revolution that followed.

Other reforms were slower to bear fruit. Fiscal reform, an issue Montek championed throughout his career, began in earnest during this period but would remain a work in progress for decades. More broadly, the changes of the 1980s helped ease many structural constraints, yet they were not sufficient to avert the balance of payments crisis of 1991.

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Independent evaluation

By 2001, with India on a higher growth trajectory and the reform process firmly underway, Montek accepted an offer to establish the IMF's Independent Evaluation Office (IEO). The IMF created the IEO to provide an objective assessment of the institution's performance after its handling of the Asian financial crisis came under scrutiny.

Montek proved an inspired founding director. The IEO tackled difficult subjects, produced analytically rigorous reports, and, crucially, found ways to translate recommendations into action. The economist Krueger, then IMF first deputy managing director, says it's astonishing that Montek was able to come to such a complex organization—with its fair share of thin-skinned officials—and set up an evaluation office without causing widespread offense. "He combined discretion and diplomacy," she says.

Montek and Krueger were regular golfing buddies. The Bretton Woods club imposes a four-hour limit per round. Krueger remembers waiting anxiously for Montek to arrive so they could tee off. "He never once was late, and he never once was early. His demeanor was always calm and possessed. It was just-in-time delivery, I suppose."

The long view

In 2004, Montek's mentor, Manmohan Singh, unexpectedly became prime minister. Singh persuaded him to return to public service as deputy chairman of the planning commission, a position with cabinet rank. In the years that followed, India recorded some of the fastest growth in its modern history, with annual expansion briefly exceeding 9 percent.

Since stepping away from official roles in 2014, Montek has continued to shape discussion of the country's economic future. In his assessment, growth over the past decade has been "reasonably good," though he argues that even faster expansion will be needed to achieve the government's ambition of attaining advanced-economy status. He is encouraged by what he sees as growing dynamism in several states, where experimentation and competition are driving reform from below.

The challenge today, he argues, is to sustain rapid growth while creating enough high-quality jobs and ensuring that prosperity is broadly shared. On that score, he remains cautious. "Evidence on this is not conclusive," he says, "but there are many who feel the growth we are seeing is K-shaped." If so, the gains from growth are accruing disproportionately to the rich. Such an outcome, he warns, risks undermining public support for markets by associating capitalism with cronyism rather than opportunity. He is also exploring the policy implications of managing climate change.

For Montek, the question is more than an economic one. As the father of two children and grandfather of five, he has a personal stake in whether India can sustain the growth story he helped to build. F&D

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