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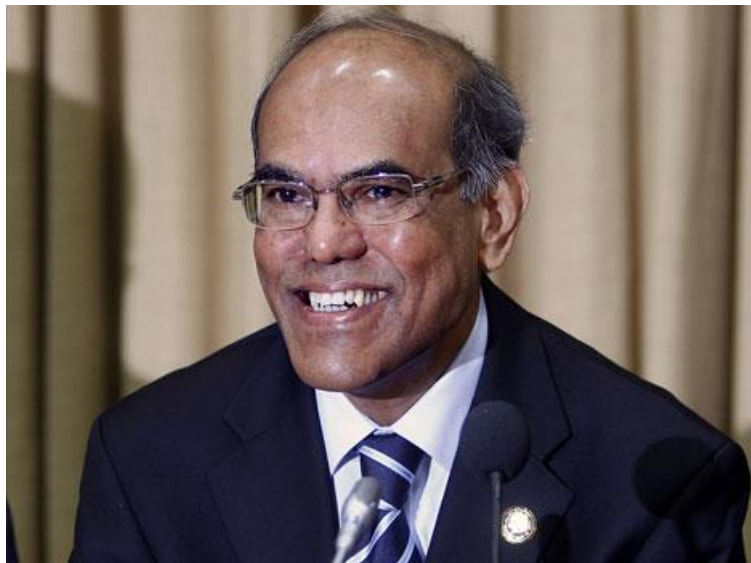
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## **Duvvuri Subbarao**

Governor of the Reserve Bank of India

"India in a Globalized World: Some Policy Dilemmas"

August 28, 2012



### **Subbarao Explains Why India's Economic Rise Will Continue in the Post-Crisis Era**

A standing-room-only crowd packed Lewis Auditorium in Cornell's Goldwin Smith Hall on August 28<sup>th</sup> to hear Dr. Duvvuri Subbarao, Governor of the Reserve Bank of India, give a talk entitled "India in a Globalized World: Some Policy Dilemmas." The talk was given as part of the Einaudi Center's Foreign Policy Distinguished Speaker Series.

Subbarao began his talk by claiming that he knew the answer to the most important question, when the global economic crisis would be over. Since the crisis began when he started his term as Governor and since people in India associated the crisis with him, he joked that the crisis would conclude when his current three-year term was up in 2013.

Subbarao proposed to examine the macroeconomic situation facing India's economy. "All emerging economies were impacted by the crisis, but India's was impacted less than many others," he said. Whereas in 2008-2009 India had room for moderate growth, today's high oil prices and inflation constrain growth. India is now more vulnerable to conditions in the global economy than during a previous "Demographic Sweet Spot" at the beginning of the growth period in 1991 where both exports and savings were high and there was more political support for a policy response, he said.

Subbarao went on to examine three dilemmas faced by the Reserve Bank of India. The first dilemma was how India could manage growth-inflation dynamics. Through slowing of investment, moderation of consumption, and deterioration of net exports, India's growth has declined in the post-crisis period. Wholesale Price Index (WPI) and core inflation have started moderating since December 2011. Increases in food, commodity and oil prices, coupled with demand pressures and India's fiscal deficit, have contributed to this inflation. Although actions by the Reserve Bank of India have succeeded in lowering the rate of inflation, Subbarao said it is still above "acceptable" levels.

The second dilemma addressed by Subbarao was how to manage short term tradeoffs that benefit the domestic economy without damaging the long term sustainability of the external sector. He identified the main challenges to growth of the external sector as the high level of current account deficits (CAD), the type of flows financing the CAD, and the exchange rate volatility. "The 1991 reforms were by far the most extensive reforms in the external sector," he said. "20 years thereafter, the external sector has been robust. In fact, the external sector has been the buffer against all other macroeconomic pressures." Slowing exports and risk aversion among investors in global markets have caused a decline in CAD. Ideally, the Reserve Bank of India wants capital flows that are equal to the CAD, Subbarao said, but their variability makes them too much or too little. This validates what he described as, "Subbarao's Law of Capital Flows: You never get capital flows in the exact quantity and/or at the precise time you want them."

The third and final dilemma discussed by Subbarao was how best to manage what he described as, "The political economy of fiscal consolidation." A fiscal deficit is problematic to the health of India's economy because it crowds out the private sector and threatens debt sustainability, while the growing interest burden reduces discretionary public expenditure and exacerbates inflation if the economy is operating at full capacity. Much of India's fiscal deficit is structural, and the fact that much of it goes to subsidies presents a significant political challenge to reducing this deficit.

Subbarao then moved on to a topic he didn't really want to discuss but that everyone wanted to hear about; comparisons between the economies of India and China. Whereas China's economy is a demand constraint economy, he explained, India's economy is constrained by supply. China needs to develop domestic demand, but India needs to build its export sector. China needs to shift its balance from investment to consumption, and India vice-versa. Outside their doubledigit growth rates occurring at the same time, Subbarao said, most comparisons between the two economies weren't really valid.

Subbarao concluded his talk with the contention that India's growth story was still credible. "India has such poverty that we need to grow at ten percent per year for the next 15 years just to catch up," he said. However, he cautioned, "India's growth is not inevitable, and both the public and private sectors need to do all the right things to achieve it."

After summarizing his prepared remarks, Subbarao responded to questions from the floor. One audience member asked Subbarao to explain why India's economy was now growing at such a higher rate than during its colonial period and the first 40 years after independence. He answered that the

colonial period has been characterized as having had a “Hindu rate of growth,” with a fatalistic acceptance that economic growth is preordained and that nothing the administration did would improve it. India then hit what he called a “Demographic sweet spot” in which productivity grew concurrently with a decline in population growth, which made per capita income rise. The benefit of this growth has gone to lower income groups and has improved both their standard of living and has fueled domestic demand.

A student in the audience asked, “How much should the central bank intervene against unemployment?” Subbarao answered that unemployment is notoriously hard to measure in India since agriculture represents 15 percent of the GDP but 60 percent of the population is employed in the agricultural sector. He continued to say that the challenge is to find jobs for those in India’s current demographic “bubble” so they can create a demographic “dividend.” With a rise in agricultural productivity leading to less employment in the agricultural sector, he said, the service sector won’t be able to absorb this additional labor so India must create manufacturing jobs for its current rate of growth to continue.

Professor Frederik Logevall, Director of the Einaudi Center, then exercised his “moderator’s privilege” to ask Subbarao to give the “pessimistic conclusion” to the topic of his talk. Subbarao answered that even with a decline in the growth of the global economy, the domestic ingredients are intact for India’s growth story to continue.

Dr. Duvvuri Subbarao assumed office as the twenty-second Governor of the Reserve Bank of India in September 2008. Prior to this appointment, Subbarao served as Finance Secretary to the Government of India from April 2007 to September 2008 and as Secretary to the Prime Minister's Economic Advisory Council from March 2005 to March 2007.

As a member of the Indian Administrative Service (IAS), Subbarao has been a career civil servant. Over the years of 1974-98, he worked in various positions in the state Government of Andhra Pradesh and in Government of India.

Subbarao was a Lead Economist in the World Bank (1999 - 2004), where his responsibilities involved advising developing countries on public finance management. He also task managed a flagship study on decentralization across major East Asian countries which was acknowledged as innovative policy work.

Subbarao received BSc (Hons) in Physics from the Indian Institute of Technology, Kharagpur and MSc in Physics from the Indian Institute of Technology, Kanpur. He also has an MS in Economics from the Ohio State University (1978) and was a Humphrey Fellow studying public finance at MIT during 1982-83. He earned his PhD in Economics from Andhra University for his thesis on "Fiscal Reforms at the Sub-national Level" (1998).

Subbarao came into the Reserve Bank just a week before the global financial crisis erupted in full in mid-September 2008. He led the Reserve Bank's effort to mitigate the impact of the crisis on India and was actively engaged in the G-20 effort to coordinate an international response to the crisis. The challenges ahead for the Reserve Bank, as he sees them, are to bring inflation down, support the growth momentum of the Indian economy, take financial sector reforms forward and deepen financial inclusion.

Subbarao maintains a strong commitment to academic pursuits, and has written and lectured extensively on issues in macroeconomic management, public finance and decentralization.

[CornellCast Video](#)

## **Timothy Snyder**

Housum Professor of History at Yale University

"Thinking the Twentieth Century"

October 1, 2012



## **Timothy Snyder to Reflect on the 20th Century in Upcoming Talk**

Timothy Snyder, Housum Professor of History at Yale University, will be giving a talk entitled "Thinking the Twentieth Century" on Monday, October 1st at 4:30PM in Lewis Auditorium, Goldwin Smith Hall, as part of the Einaudi Center's Foreign Policy Distinguished Speaker Series.

Timothy Snyder received his doctorate from the University of Oxford in 1997, where he was a British Marshall Scholar. Before joining the faculty at Yale in 2001, he held fellowships in Paris and Vienna, and an Academy Scholarship at Harvard. He teaches undergraduate and graduate courses in modern East European political history.

Snyder is the author of five award-winning books, including: *Nationalism, Marxism, and Modern Central Europe: A Biography of Kazimierz Kelles-Krauz* (Harvard Press, 1998); *The Reconstruction of Nations: Poland, Ukraine, Lithuania, Belarus, 1569-1999* (Yale Press, 2003); *Sketches from a Secret War: A Polish Artist's Mission to Liberate Soviet Ukraine* (Yale Press, 2005); *The Red Prince: The Secret Lives of a Habsburg Archduke* (Basic Books, 2008). He is also the co-editor of two books: *Wall Around the West: State Power and Immigration Controls in Europe and North America* (Rowman and Littlefield, 2001) and *Stalin and Europe: War, Terror, Domination* (forthcoming).

In 2010, he published *Bloodlands: Europe Between Hitler and Stalin*, a history of Nazi and Soviet mass killing on the lands between Berlin and Moscow. It has received a number of honors, including the Leipzig Prize for European Understanding and the Ralph Waldo Emerson Award in the Humanities. It was named a book of the year by some dozen publications, has been translated into more than twenty languages, and was a bestseller in four countries.

Most recently he helped Tony Judt to compose a thematic history of political ideas and intellectuals in politics, *Thinking the Twentieth Century*, published by Penguin in February 2012, and the subject of his Foreign Policy lecture.

[CornellCast Video](#)

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### **Charles Kupchan**

Professor of International Affairs, Georgetown University; Whitney H. Shepardson

Senior Fellow, Council on Foreign Relations

"After Pax Americana: No One's World"

February 21, 2013



[CornellCast Video](#)



## **Rajiv Chandrasekaran**

Senior Correspondent and Associate Editor at the Washington Post

"The Surge of Uncertainty: An Examination of America's Strategy in Afghanistan"

April 2, 2013



## **Chandrasekaran Speaks on U.S. Strategy in Afghanistan**

Members of the Cornell community gathered in Lewis Auditorium, Goldwin Smith Hall on April 2<sup>nd</sup> 2013 to hear Rajiv Chandrasekaran, Senior Correspondent and Associate Editor of The Washington Post, give a talk entitled "The Surge to Uncertainty: An Examination of America's Strategy in Afghanistan" as part of the Einaudi Center's Foreign Policy Distinguished Speaker Series. Chandrasekaran's talk ran the gamut from the origins of U.S. aid in Afghanistan to predictions on the eventual outcome of the current conflict, and included many insights he gained during the three years he spent in Afghanistan over the last decade of our "longest and most complicated war".

Chandrasekaran said the Obama administration came into office vowing not to repeat the mistakes of the past in Afghanistan. By pursuing a counterinsurgency strategy known by the acronym of COIN, the U.S. sought to separate the "good" Afghans from the "bad" and to provide basic government services while protecting civilians from the Taliban. The U.S. military thought that the same "surge" approach of providing overwhelming force at the most opportune time to turn the tide in the war that had worked in Iraq would also work in Afghanistan. Vice President Biden, however, feared that although the military objectives were attainable, the civilian mission was less assured of success. In response, President Obama set conditions on the "surge" in Afghanistan, specifying that it could last only 18 to 24 months and would be followed immediately by a drawdown of troops.

Chandrasekaran also discussed the history of foreign intervention in Helmand Province, which he described as a "decades-old experiment in Afghan social engineering". In order to help develop the local agricultural economy, Mohammed Zahir Shah used profits from the fur trade to build a network of canals around the town of Marjah. The local soil, however, was too salty to raise staple crops so the project ultimately failed. In 1961 the newly formed USAID sent teams of experts to develop the Helmand

and Arghandab Valley Authority in what was to become one of its largest initial projects. In 1970 the project was turned over to the U.S. Soil Conservation Service, but time ran out when the Afghan monarchy fell in the communist coup of 1973. According to Chandrasekaran, a lack of understanding of local conditions doomed these efforts to failure.

In describing the most recent U.S. involvement in the Helmand Province, Chandrasekaran laid out several preconditions for success and pointed out how these conditions were not met. First, the Afghan government needed to be willing participants in the operation. Afghan President Hamid Karzai never really supported the operation fully, since he had felt betrayed by a lack of NATO support when he had tried to rein in powerful warlords in the north of the country. Karzai also didn't believe that the counterinsurgency strategy would be successful. Second, Pakistan had to be willing to crack down on the insurgency. Instead, the Pakistani Inter Services Intelligence (ISI), which had been providing support to the Taliban "at arm's length" in 2009 shifted to policy of more direct and active support in providing arms, cash and intelligence to the Taliban.

Additionally, the U.S. government had to be fully committed to working with the Afghan army and willing to supply civilians with all of their material needs during the offensive. The U.S. ultimately failed in this endeavor, with an aura of operational distrust preventing full cooperation with the Afghan army and no "boots on the ground" on the part of the U.S. State Department to provide civilian aid, and certainly none of the small scale, long-term approach advocated by many of their more experienced staff.

Chandrasekaran contended that in Afghanistan, strategic disconnect had led to operational failure. "Kandahar is the spiritual capital of the Pashtun insurgency," he said. The military "surge", however focused on Helmand province where only one percent of the Afghan population lives. Furthermore, he said, The U.S. Marines wanted their own area of operations instead of sharing operations with the U.S. and Canadian armies. In Chandrasekaran's opinion, the Marines also squandered the tactical advantage of surprise in the first wave of their assault by announcing their intentions to occupy the area.

The U.S. State Department was also supposed to provide its own civilian component to the "surge". However, their "surge" arrived almost a year after the military operation, and most personnel involved in it stayed in Kabul without ever setting foot in Helmand province. Aid was provided via contractors rather than subject matter experts, hindering its effectiveness. Chandrasekaran felt that too much monetary aid was provided too soon for it to be absorbed, rather than building local institutions from the ground up in a sustainable way. Interagency infighting in Washington and on the ground in Afghanistan prevented much headway from being made in negotiations with the Taliban.

As to whether or not the 'surge' was a smart strategy, Chandrasekaran summarized, "the foreseeable future will be messy and chaotic, but most Americans will see it as good enough." He also cautioned that the U.S. shouldn't miss the most important lesson from the conflict in Afghanistan. "For years we Americans had dwelt upon the shortcomings of Afghans. Instead, we should have focused on our own." Chandrasekaran concluded.

## **Eric Alterman**

Professor of English and Journalism at Brooklyn College and CUNY Graduate School of Journalism

"The Search for a Liberal Foreign Policy"

April 22, 2013



## **Eric Alterman to Discuss the Search for a Liberal Foreign Policy**

Eric Alterman, Distinguished Professor of English and Journalism at Brooklyn College and the CUNY Graduate School of Journalism and columnist for The Nation, will give a talk entitled "The Search for a Liberal Foreign Policy" on Monday, April 22nd, 2013 at 4:30PM in Lewis Auditorium, Goldwin Smith Hall, as part of the Einaudi Center's Foreign Policy Distinguished Speaker Series.

Eric Alterman is a Distinguished Professor of English and Journalism at Brooklyn College and CUNY Graduate School of Journalism, "The Liberal Media" columnist for The Nation, and a regular contributor to The Daily Beast, and a Senior Fellow at the Center for American Progress, the Nation Institute and the World Policy Institute.

Alterman is the author of nine books, including most recently *The Cause: The Fight for American Liberalism from Franklin Roosevelt to Barack Obama* (2012, co-author), *Kabuki Democracy: The System vs. Barack Obama* (2011), *Why We're Liberals: A Handbook for Restoring America's Most Important Ideals* (2008, 2009), and the national bestsellers *What Liberal Media? The Truth About Bias and the News* (2003, 2004), and *The Book on Bush: How George W. (Mis)leads America* (2004, co-author). The others include: *When Presidents Lie: A History of Official Deception and its Consequences* (2004, 2005). His *Sound & Fury: The Making of the Punditocracy* (1992, 1993, 2000), won the 1992 George Orwell Award and his *It Ain't No Sin to be Glad You're Alive: The Promise of Bruce Springsteen* (1999, 2001), won the 1999 Stephen Crane Literary Award.

Alterman was termed "the most honest and incisive media critic writing today" in the *National Catholic Reporter*, and author of "the smartest and funniest political journal out there," in the *San Francisco Chronicle*. In recent years, he has also been a columnist for: *Worth*, *Rolling Stone*, *Mother Jones*,



Moment, The Forward, and The Sunday Express (London), MSNBC-TV and MSNBC.com, and a history consultant to HBO Films. He has also been the winner of the George Orwell Award, the Jack London Literary Prize and the Mirror Award for media criticism.

A former Adjunct Professor of Journalism at NYU and Columbia, Alterman received his B.A. in History and Government from Cornell, his M.A. in International Relations from Yale, and his Ph.D. in US History from Stanford.

## **Eric Alterman Speaks on “The Search for a Liberal Foreign Policy”**

Members of the Cornell community gathered on Monday, April 22nd 2013 in Lewis Auditorium, Goldwin Smith Hall to hear Eric Alterman, Distinguished Professor of English and Journalism at Brooklyn College and the CUNY Graduate School of Journalism and columnist for The Nation give a talk entitled “The Search for a Liberal Foreign Policy.” The talk was given as part of the Einaudi Center's Foreign Policy Distinguished Speaker Series.

After an introduction from Einaudi Center Director Fredrik Logevall, Alterman shared some personal notes about his time at Cornell and extolled the quality of education he received here. During his Ithaca years Alterman fed his journalistic ambitions as a columnist for the Cornell Daily Sun and had the opportunity to write his honors thesis with renowned Cornell historian Walter LaFeber. Alterman was unable to decide between academia and journalism, and these two interests would form the axis of his career as a scholar and journalist who looks to “people driven history” to provide paradigms to explain contemporary foreign policy.

Alterman contends that there has not been a strong tradition of liberal foreign policy after Franklin Delano Roosevelt because liberals make foreign policy in anticipation of public reaction and to head off any strong conservative critique rather than focusing on finding a solution to the issue itself. This causes foreign policy problems to “metastasize” because no one is paying attention to the root of the problem, but public perception of how we’ve reacted to it. Debate on foreign policy is driven by anticipating attacks that will be leveled on a proposed policy rather than how suitable it is for solving the problem at hand. By focusing on three well known examples from the Cold War Alterman showed how his model applied to liberal foreign policy in a number of historical contexts.

The first example Alterman discussed was the origins of the Cold War after the Yalta conference. Truman didn’t know what FDR had agreed to at Yalta, and the U. S. State Department had lost their copy of the agreement. At a meeting before the arrival of Soviet Minister of Foreign Affairs Molotov, Truman sided with civilian leadership led by Averell Harriman who urged him to “get tough on communists.” The U.S. broke the Yalta agreements by inviting Argentina, a former axis combatant, to join the newly formed U.N. Shortly thereafter, Senator Joseph McCarthy gave his famous “Enemies from Within” speech in Wheeling, West Virginia that questioned the loyalty of the State Department under Secretary Dean Acheson and which culminated in communist witch-hunts throughout the 1950s. After the Soviets successfully tested an atomic bomb, China became communist, and the American public witnessed the spectacle of the Alger Hiss trial, “Yalta became a metaphor for why Democrats couldn’t be trusted with Foreign Policy,” Alterman said.

Next, Alterman discussed the Kennedy administration’s response to the Cuban Missile Crisis. Even though Kennedy had sought a diplomatic settlement with the Soviets, he needed to appear tough and unyielding in the public eye and willing to use the military as a policy tool. “Even before the Bay of Pigs, there had been a drumbeat for war against the Cubans,” Alterman said. Behind closed doors Kennedy

had been against escalating the crisis, but he took public credit for his brinksmanship by claiming “Adelai wanted a Munich,” instead of admitting that he had wanted the same diplomatic solution as Secretary of State Stephenson.

The third historical example Alterman discussed was President Johnson’s decision to go to war in Vietnam. In a conversation with Johnson, Senate Armed Services Committee Chair Richard Russell warned that the war would be, “The biggest damned mess on earth, and we will be in quicksand up to our ears.” Johnson, however, worried that he would be impeached if he didn’t go to war. Even though there was minimal political risk behind pursuing a settlement as Eisenhower had in Laos, Johnson ultimately decided to go to war because of his fear of being seen as weak and “soft on communism.”

Alterman concluded that how liberals address foreign policy is conditioned by what they think the political right will have to say about their response. Alterman demonstrated through his three examples how this tendency has roots in Cold War period and what described as “the inability of our political culture to deal with complex issues.” To Alterman, the foreign policy of the Obama Administration is essentially a continuation of the Bush administration’s policies, and recent nominees for defense and foreign policy posts have been made with the goal of garnering conservative support. He argued that this offers continuing evidence that his Cold War paradigm was equally applicable to the current liberal administration.

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