

Lord Meghnad Desai

“Let IMF say what it says. Who cares?”

Lord Meghan Desai needs no introduction as an eminent economist, a Professor Emeritus at LSE and one who has both a distanciation and a considerable familiarity with our economic and socio-political set-up. He shares with us his contribution and the guiding philosophy behind the creation and the functioning of the MIC as the institution's Chairman. The MIC, as we know, has come under fire locally for a lack of transparency and, as has been widely reported, been the object of strong IMF/WB concerns. He addresses those concerns head-on. **Read on.**

*** What economic guidance or philosophy did you bring to the table when you were called upon to chair the MIC as a creation of the central bank?**

I had a conversation with the Governor of the Bank of Mauritius in March last year soon after his appointment, and he queried about how the Bank could help in the special circumstances of the pandemic which was in its early days. I was at that time following what was happening in the US and the UK where they were trying to bail out companies which had lost business and had set up a job retention (furlough) scheme, which granted paid leave of absence to employees.

I suggested that we could do the same thing for Mauritius so that affected companies and jobs could be saved by drawing from the foreign exchange reserves of the BoM rather than remain lying in US Treasury Bills with yields at very low levels. That's how he agreed to discuss the matter with his board, and ultimately the BoM went on to set up the Mauritius Investment Corporation (MIC). Thereafter we had a board of management meeting, with myself chairing it, and very quickly

an Investment Committee was set up to evaluate applications from distressed companies.

The idea was that rather than grant the furlough, we would instead lend the money to any corporation that applied for assistance. I must say we were very well served by the Investment Committee, which carried extensive due diligence exercises and investigations into different aspects of the business of the applicants. In return, the companies would give us bonds, which we took the commitment not to sell on the market but to hold them as a kind of collateral. The bonds will of course be cashed after five years, the time that it would take for the companies to recover their losses and kept their workers employed throughout. The MIC's mandate also allows it to channel funds for building the future capacity of

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Mauritius, and we could ourselves take the initiative to do that in case nobody responded positively. That's for the future, but for me the priority then was to address the immediate concerns of affected companies so that we could in the same breath save livelihoods.

I don't know what the vibes in Mauritius regarding the MIC are, but I can tell you that we put in a lot of hard work; we examined 100 applications from corporations of various sizes, out of which 60 have been looked into more carefully. At the same time we had to build capacity within the MIC, hold board meetings, some 31 of which I chaired at a distance. We have had a very cooperative and helpful board with two representatives of the government, the two deputy-governors of the Bank of Mauritius and two people from business. It is always difficult for me personally to chair a meeting at a distance, but I think we all did quite well.

I have to clarify one thing in response to a comment published in the local press about the bonds we had created and that it was not the most profitable way to go about it. My point is that we have not gone into this for profit making; we are not a private equity company, and we are here to do what profits the Mauritian economy, not what profits the MIC. I have said it again and again

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that our primary focus should be the Mauritius economy of care and love.

Yes, you can buy land and set up all sorts of future-oriented projects, but bringing immediate relief to the Mauritian economy was the most important thing to do. I think we have succeeded to do that during the last one year since its inception

*** I referred to the MIC earlier as a creation of the BoM, which is not to the liking of the IMF. They have recommended to the authorities in their 2021 Article IV Consultations that the central bank should relinquish ownership of the MIC. Were you comfortable, as an economist, with that state of affairs?**

I have never for most of my life liked what the IMF says, and I can also add that I have not during those long years taken it seriously. They have always remained several kilometres behind the scene, and they have been changing their stance on so many things. Tough luck for them if they said what they are reported to have said. The money is transparently invested by the BoM in the MIC, and audit will be kept on that. As long as it benefits the people of Mauritius, who cares what the IMF says?

The IMF logic is still the old logic... that somehow central bank interfering in the private economy will lead to corruption and inflation...

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'We have not gone into the MIC for profit making; we are here to do what profits the Mauritian economy, not what profits the MIC'

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The world has changed, and since the onset of the pandemic, governments and central banks across the world have had to do all sorts of things. We used to look very carefully at the debt-to-GDP ratio at one time; American and the UK's debt-to-GDP ratio have gone through the roof. You would not have seen earlier governments introduce things like furlough, but these are extraordinary circumstances which require extraordinary responses. As long as the money is spent judiciously and on the main purpose for which it was designed -- save the jobs, save the affected companies, give them some breathing space -- I am not particularly concerned with the IMF...

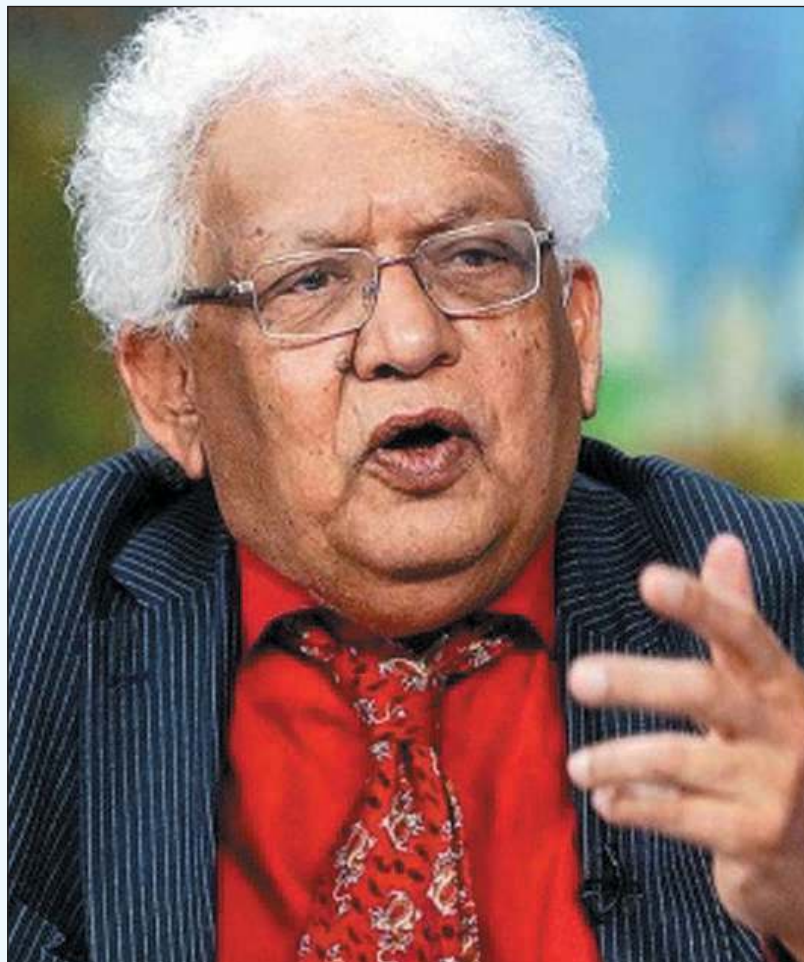
* You would also be aware that the IMF has been quite critical of the central bank's transfers to the government, and it called in polite terms for reform of the BOM law to "pre-empt further transfers to the government, in line with international best practices". It also recommended that the "financing of the MIC should be provided through the budgetary process".

If they want to shut the MIC down, they can do that. We have done what we had to do; we have provided assistance to 60 companies during the last one year. Let IMF say what it says. Who cares? The pandemic was so unexpected and so unusual, and the normal IMF-Washington Consensus' budget deficit cutting and penny-pinching policies would not have been appropriate; no country in the world has done that because it is inappropriate.

The pandemic has made us think about policy solutions in an unorthodox way, and that's why I have been very proud to be part of the MIC experiment. Mauritius has been one of the first countries to adopt a radical proposal like MIC. The proof of the pudding is in the eating: companies have been saved, jobs have been saved.

Mauritius is a very politically sensitive country, and I am sure that the opposition parties are keeping a keen eye on the MIC. Anyway, whatever we were doing were perfectly straightforward, transparent and effective. We did this for the people of Mauritius when it was urgent to assist the affected companies and the workers. That's the bottom line.

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“The pandemic will probably be around for some more time before normality is restored. I think that things will remain abnormal for another one year or two. The Mauritian economy may need help a bit longer because the pandemic is not over; it will also remain fragile because of its dependency on tourism mainly from the Western countries...”

* As chairman of the MIC, you made sure that proper safeguards and conditionalities were in place to ensure that public money is used judiciously and channelled towards the public interest, right?

Of course, we had very good procedures and an investment committee which did its job very efficiently. All the papers relating to the applications and their examination by the Investment Committee are there, and I am sure that the MIC will make them available for public consultation at some stage.

In an open economy like Mauritius, we have to be very careful about the cross-ownership of companies from outside into Mauritius. We were also very careful that the money we lent to the companies were not being used to pay shareholder dividends or to help a fellow company in the network of companies. We were very insistent that they had to go for immediate financing of the jobs.

* From an economic perspective, wouldn't it be more efficient to provide support only to the business sectors that really need it, and based on the longer-term importance of these sectors to the people and the national economy?

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We relied on people applying for assistance, and as long as they were financially sound companies and likely to behave efficiently and honestly, we could expect that the money will come back to us. We had to be careful that as far as possible we should not waste any money of the Mauritian people when we do this lending. Time will tell, but I think that we will get all the money back.

We have had to reject some applications because we could not see what was there for the Mauritian economy. We have not been careless and it will be shown that we have acted as a responsible board. I am very confident that what we have done so far has been very good and sound.

* What is your reading on the economic situation down here?

I did not really have the time to follow carefully how the Mauritian economy has been doing, but I do ask questions and I am told that it is recovering. We do not know at this stage if there will be a third or fourth round of coronavirus. The pandemic will probably be around for some more time before normality is restored.

I think that things will remain abnormal for another one year or two. The Mauritian economy may need help a bit longer because the pandemic is not over; it will also remain fragile because of its dependency on tourism mainly from the Western countries.

* How long do you think it will take for some sort of normality to be restored?

First of all, we never expected a multiple round of infection. Early on we were saying that the recovery will be V-shaped, after an initial fall in output, and the economy will bounce back. I am in India currently, and I can tell you that the Indian economy has not bounced back as people had expected; some sectors are weak, some are strong.

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The global economy has not bounced back. The US has spent large amounts of money, and more has been earmarked in the Biden budget; everybody is hoping that America will bounce back very quickly, but even that will also take six to nine months.

This has been the most unusual economic shock we have ever had; economists have no tools with this unique situation and completely different from what Keynesian policies are supposed to solve. And that's because both demand and supply have collapsed, and that's very much unlike what we have ever seen before.

I would cautiously guess that there might be two more waves of infection; we are in the middle of the second surge in India; in the UK, the third surge is starting, and in the US they are very confident that they have moved beyond the second wave of infection thanks to the mass vaccination.

We do not know if there is any limit to which this virus can mutate; we are already into Delta, and some scientists are saying we may go up to Lambda... I would say that it's possible we would have recovered by the end of 2022.

As far as Mauritius is concerned, the bread and butter is foreign tourists, but that bread and butter can bring infections. That is the dilemma we all face: any kind of proximity either in demand or supply is dangerous, and so we'll all have to be careful for a long time. Then there is the conflict between saving lives and saving livelihoods, and every government has to take that decision the way they see it.

*** What do you make of Singapore's change in its policy towards the Covid pandemic; it will prepare its population to deal with Covid-19 as part of their daily lives...**

East Asian countries were very successful in handling the pandemic when it first hit that part of the world - Taiwan, South Korea, Singapore, and Japan did a good job fighting the first wave of the pandemic. It has to do with the size of these countries, their level of education and especially with their culture which makes them generally very responsible citizens.

On the other hand, you'll see that most European countries have made mistakes, so have the US and Canada; it has been disastrous in Latin America. I do not think any country has found the correct approach in terms of timing, vaccination and in the treatment of vulnerable, poorer citizens who always get hit when the

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economy goes down.

We all have been learning as we go along fighting the new waves of the pandemic. Even the scientists have been surprised by the course of the pandemic, because they were not prepared for some of the things that have happened, like with regard to herd immunity.

Again, and again, the UK got it wrong either by having the lockdown too late or lifting it up too early. The forthcoming lockdown lifting on July 19 may also prove to be a mistake. It's also difficult to manage the psychology of the people who may not want to obey the rules of lockdown even if they know there are risks, but they are also fed up with the isolation, leading in numerous cases to mental health problems, domestic violence...

Governments have had a limited time scope for imposing, and by and large even the best scientists have not been able to say exactly how long the lockdowns should last. People used to blame economists' differing views all the time, but at the end of the day what all this means is that there has been so much uncertainty prevailing since the onset of the pandemic, and this is likely to last for quite some time.

In my view, our priority should be directed towards saving lives and, secondly, mitigating the impact of the pandemic on the economy. I do not think that economic damage can be reversed merely by lifting lockdowns; that may prove to be very costly. Governments will therefore have to go on injecting money into the economy while the infection is still there.

As far as I know, Mauritius has not hit the headlines for having had a disastrous coronavirus experience, or for having done as well as the East Asian countries. But

it has not done badly though. The economic impact has been cushioned by things like the MIC. The fact that Mauritius is a middle-income prosperous country and well run by and large will help it ride out of the pandemic relatively well. How soon this will happen... I wouldn't know.

*** Public debt has become as elsewhere a big issue in Mauritius, and saving lives as well as mitigating the impacts of the pandemic will require large amounts of money for the government...**

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In the richer countries, they have decided that they will not consider the availability of money as a constraint; they will print money if they have to, because ultimately it will all come back when the economy recovers. It's a complete reversal of the economic thinking of the 1990s and even in first decade of 21st century. The US and Europe have said that 'we will clean up the mess as and when we have to'. Right now, they are spending money to save lives; that money is going to the people, it is not disappearing from the economy, and the remarkable thing is that financial markets have still not raised their interest rates.

We should therefore not worry about money, we should worry about saving lives and as many livelihoods as possible. Take the MIC, for example. The money that went into its creation was lying in the foreign exchange reserves, and used primarily to buy US Treasury Bills to earn 1.25% as interest. Isn't it better to spend that money on the lives and livelihoods of people? That's what governments are for - to look after the people; governments are not elected to keep currency at high levels.

On the other hand, when the pandemic is over or will have been contained, there will be simultaneous global recovery. Now we are finding how much interdependent we really are; what happens to Mauritius depends on what happens to European, Australian, Chinese, Indian and other tourists. We therefore have to devise policies which take into account the global context in which we conduct our economic activities.

The speed with which the coronavirus infection travelled from Wuhan to Italy and thereafter to the UK and all over the place was due to the reality of the global world, cheap travel and communications. That's the kind of new world we live in, and that is why we have to be aware of what's happening everywhere else to be able to deal with major problems as and when they crop up in any part of the world.