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An Uncertain Glory
India and Its Contradictions

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of the opposition, since governments, especially one made up of a coalition such as the present government in New Delhi, have to respond to the priorities set by political pressures and public demands, which can take widely diverse forms and which all compete for governmental attention and resources. Cultivating democratic engagement can be a harder task than convincing a handful of political leaders of the need for a policy change. On the other hand, if a norm of this kind is democratically established, it is less subject to the fragility to which all authoritarian decisions remain vulnerable. In order to match China in health coverage and surpass it in resilience, India has to make much greater use of the democratic system than it already has. The same can be said for the priority of basic education for all.

In dealing with India's multitude of problems, there may well be a temptation – but not a serious reason – for India to give up or reduce its long commitment to democracy, for which so many people have fought and out of which so much good has already come to the country. It is deeply disappointing that more use has not been made of the opportunities offered by a political democracy and a free society to solve the problems that so many Indians continue to face. What is important to recognize is that the success of a democracy depends ultimately on the vigour of its practice, and that will be one of the main points of focus in this book.

Ambedkar's invitation to 'educate, agitate and organize' (which we quoted earlier) is possible in a democracy in a way that is not in the absence of one. But, as Ambedkar also argued, organization and agitation have to be based on good and informed reasoning. The first item in his call – 'educate' – is important here. As will be clear as the book proceeds, we are much inspired by Ambedkar's vision of informed and reasoned public engagement. The important task is not so much to find a 'new India', but to contribute to making one.

Integrating Growth and Development

In June of 2012, one of us was asked by two journalists to comment on economic growth in two different parts of the world. One of the journalists, from Paris, asked for a reaction to 'the wonderful fact' that the Eurozone had zero economic growth in the first quarter of 2012 (stopping the fall in GDP of the region in the preceding quarter); the other, from New Delhi, was seeking a response to 'the dismal growth figures' for India – 'only 6.2%' expansion over the preceding year. While the 'good news of zero growth' in the Eurozone was being loudly applauded in Europe, the Indian media was busy worrying about the 'alarming' slowness of economic growth in India – declining from the previous rates of 8 or 9 per cent per year to a figure a few percentage points lower. 'Dismal' is clearly a relative concept.

The moderating of economic growth, if we may call it that, has been a spectacular feature of the world economy in the recent past, and it certainly has not left India untouched, adding to the internal problems within the country which have also contributed to the slowdown. During 2011–12 (the last complete year as we finish this book), India remained the second fastest in terms of economic growth among all the large economies in the world (approximately equalled by Indonesia), trailing only a little behind the leader of the pack – China – which had also experienced a decline in its growth rate. India and Indonesia were followed in the growth league by Japan, Mexico, Russia and South Korea, among the other large economies of the world (Europe, not surprisingly, is at the other end of the scale, with the United States only a little higher). Growth in Brazil, a star performer in the economic field at one time (and more recently in other fields, on which more in the next chapter), has now fallen to 0.8 per cent.¹

Still, there are good grounds for taking the slowdown of Indian economic growth to be a cause for concern. Even though 'dismal' is hardly an apt description, it is right to think afresh about what can be done over time to remedy this comparative sluggishness. Economic growth is indeed important, not for itself, but for what it allows a country to do with the resources that are generated, expanding both individual incomes and the public revenue that can be used to meet social commitments. Had European countries gone for growth rather than ill-timed austerity at the height of a recession, the public revenue so generated would have helped them to put their public finances in order without massively compromising the great European commitment to provide essential public services, which has been an inspiration for other parts of the world – from Singapore to Brazil. India, like Europe, carries a sizeable deficit, but it has resolutely – and we believe rightly – not fallen for the siren call of immediate austerity, thereby keeping its economy expanding fast and its financial standing relatively high.² In the long run, of course, India's public finances need fixing, which it should be able to do, making use of the financial freedom that high growth yields. What is, however, important to recognize is that in India public services call for far-reaching expansion (as will be presently discussed), and it is also critical to raise the individual incomes of the poor.

From both perspectives, maintaining a high-growth economy is an important objective, along with ensuring good use of the public revenue generated by economic growth. It is also essential, of course, to pay attention to the character of the growth process, including its equity and sustainability; we shall return to this presently.

A SHORT HISTORY OF FAST GROWTH

How long a history of fast economic growth does India have? India is, in fact, a new entrant on the sprinting field. Pablo Picasso once remarked, 'One starts to get young at the age of sixty.' Something rather like that seems to have been happening to the Indian economy in recent years. There are many more signs of life in the Indian economy today than could be seen when political independence was

granted to the ancient land in 1947, after which its straitlaced economy moved at a resiliently slow pace – about 3.5 per cent per year – for nearly three decades. It was sometimes called 'the Hindu rate of growth', even though Hinduism had nothing to do with it – public policy had.^{*} The feebleness of the economic pace was in sharp contrast to the speed with which political change took place in the newly established republic: overnight India became what the movement for independence had fought for, that is, a democracy – the first poor country in the world to be a full-scale democracy. It soon emerged to be a really functioning democracy.

As was noted in the last chapter, since Indian GDP preceding independence was mainly stagnant and sometimes declining, even economic growth of 3.5 per cent per annum in the decades immediately following independence was, in fact, a big leap upwards. But the fact remains that 3.5 per cent per year (translating, at that time, into something like 1.5 per cent per year in per capita terms) is painfully slow for the purpose of rapid development and poverty reduction. The modesty of Indian economic growth, which lasted from the 1950s through the 1970s, gave way to considerable quickening in the 1980s, with a higher rate of expansion at 5 per cent per year. And then, following the economic reforms of the early 1990s (led by Manmohan Singh, then Finance Minister and now Prime Minister of India), the economy settled down to faster progress, establishing a new norm of rapid growth, very near the top of the world league. The robustness of high growth in India is undoubtedly connected with the economic reforms of the 1990s, which have built a solid foundation for continuing economic growth. After hovering between 5 and 6 per cent, the growth rate took a further hike upwards to 7 per cent and then further up, even crossing 9 per cent for several years (between 2005 and 2008). Given India's long-standing income poverty, a phase of fast economic growth was certainly needed, and despite the recent slowdown (which still leaves India as the second fastest-growing large

^{*} The seeming constancy of the growth rate (at around 3.5 per cent annually) during these three decades applies only when the growth rates are considered by decade. Taken yearly, it did vary a great deal, and it was also a little higher in the first half of these three decades than in the second half, especially if the growth rates are considered in per capita terms (see also Table 2.1).

economy in the world), India clearly has made huge progress in this respect.

The need for rapid growth is far from over, since India, after two decades of rapid growth, is still one of the poorest countries in the world. Indeed, as will be discussed in the next chapter, India's real income per head is still lower than that of most countries outside sub-Saharan Africa. The picture is even worse if we focus on the quality of life of the underprivileged part of the Indian population, hundreds of millions of whom continue to lack the essential requirements of satisfactory living, from nutritious food to health care, decent work conditions, and warm clothes in the winter. Growth alone is unlikely to end these problems, at least not within a reasonable time frame, but it is certainly much easier to remedy such deficiencies in a growing economy. India's potential for high economic growth is certainly a major asset for the country's development, and efforts to enhance its performance must remain an important priority, along with making sure that growth is used to improve people's living standards.

THE PAST AND THE PRESENT

How did India get to be so poor, indeed one of the poorest countries in the world? The irony is that one does not have to invoke some mythical golden age from an imagined past to think of a time when India was not – nor taken to be – poorer than most other countries. Indeed, far from it. Adam Smith thought that India in general, particularly Bengal, was one of the most prosperous regions on the globe, and he devoted some time in *The Wealth of Nations* (1776) to explaining the roots of India's comparative prosperity, which he attributed mostly to its flourishing system of trade, utilizing its navigable rivers. There were indeed long-established trading connections, stretching back nearly two thousand years, within the land and beyond it. Among other accounts, we have the interesting description of the trade-based prosperity of the region presented by Claudius Ptolemy, the pioneering geographer of the second century AD, who wrote about parts of the Indian economy in some detail, and identified

a number of towns and cities that were engaged in thriving commerce within the country and were also active in trade with other countries. Pliny the Elder too provided descriptions of the open and flourishing economy of this region.³

When the East India Company initiated, through the battle of Plassey in Bengal in 1757, what would gradually become Britain's vast Indian empire, the region was famous for its industrial exports, particularly of textiles of various kinds. Even though Adam Smith noted that Bengal was 'the province of Indostan, which commonly exports the greatest quantity of rice', he went on to say that it 'has always been more remarkable for the exportation of a great variety of manufactures, than for that of its grain'.⁴ Upstream from the settlements of the East India Company on the Ganges, there were other trading centres where merchants from Portugal, the Netherlands, France, Denmark, Prussia and other European nations were busily involved, among other channels of commerce, with exporting Indian manufactures to Europe and elsewhere. The competitiveness and quality of Indian exports was a cause of concern for native European manufacturers, and in Britain in particular, before the establishment of British rule in India, there were several acts of Parliament prohibiting the wearing of Indian textile products.

Did the Indian workers in industrial establishments enjoy a living standard commensurate with India's formidable reputation as a star exporter? It is hard to settle an issue of this kind given the paucity of data and the complexity of comparisons between living standards. But comparisons of wage rates and prices seem to indicate that the real wages of Indian labour – and of course of skilled artisans – in economically active regions were not lower, indeed sometimes higher, than those then enjoyed by the corresponding occupation groups in many European countries. For example, Prasanna Parthasarathi's comparison of real wages in the mid-eighteenth century, in terms of grain equivalent, indicates that weaving wages varied between 40 and 140 pounds of grain per week in Britain, but the corresponding wages of Indian weavers were between 55 and 135 pounds of grain per week in Bengal, and between 65 and 160 pounds of grain per week in South India.⁵

Just as it is unnecessary to invent some imaginary golden age to

acknowledge the relative prosperity of pre-colonial India, one does not have to be an aggressive nationalist to recount the rapid decline of the relative position of the Indian economy during the British Raj. Adam Smith attributed the beginning of the economic decline of the British domain in India to 'some injudicious restraints imposed by the servants of the East India Company', to which he attributed even the Bengal famine of 1770.⁶ The decline continued throughout the nineteenth century, along with many other changes taking place in British India (including some that were very positive, such as the development of a modern press, and the sharing of the new scientific knowledge emanating from the European Enlightenment). Economic descent and decline were quite relentless right into the first half of the twentieth century.

Indeed, in long periods during the epochal British rule the per capita real income of India actually *declined*. When there was growth, it was so moderate that falling behind other countries was not a hard feat. S. Sivasubramanian's detailed study of 'the national income of India in the twentieth century' places the annual growth rate of India's per capita income at about 0.1 per cent between 1900-1 and 1946-7. Growth was positive (though barely so) in this period because the dismal – and here we do mean 'dismal' – GDP growth of 0.9 per cent was counterbalanced by a low population growth rate (0.8 per cent), reflecting the high mortality rates that characterized British India.⁷ And this was occurring over the centuries in which the changes initiated by the Industrial Revolution were elevating real incomes and transforming living standards in Europe and America, and even of some parts of Asia and Latin America.

GROWTH SINCE INDEPENDENCE

Given this history, it is not hard to understand why the post-independence growth rate of 3.5 per cent or so per annum seemed like a positive change (see Table 2.1). And yet, the economic policies of the early post-independence period did not succeed either in accelerating the growth rate or in bringing about a major transformation of people's living conditions. In fact, available evidence suggests that

Table 2.1
Growth Rates of GDP by Sector, at Constant Prices

	Primary sector	Secondary sector	Tertiary sector	GDP ^a
1900-1 to 1946-7	0.4	1.5	1.7	0.9 (0.1)
1950-1 to 1960-1	2.8	6.1	4.1	3.7 (1.8)
1960-1 to 1970-1	2.1	5.4	4.4	3.4 (1.2)
1970-1 to 1980-1	2.0	4.2	4.5	3.4 (1.2)
1980-1 to 1990-1	3.5	5.5	6.6	5.2 (3.0)
1990-1 to 2000-1	3.3	6.2	7.5	5.9 (4.0)
2000-1 to 2010-11	3.2	8.5	8.9	7.6 (6.0)

^a In brackets, growth rate of per capita GDP (calculated by subtracting population growth rate from GDP growth rate).

Sources: Sivasubramanian (2000), Table 7.3, for the pre-independence period. The post-independence growth rates were calculated (by semi-log regression) from data on GDP at constant 2004-5 prices presented in Government of India (2012a), Tables A3 and A5, Sivasubramanian (2000), Table 9.3, presents similar figures for the early post-independence period based on an earlier GDP series, at constant 1948-9 prices.

there was virtually no reduction of poverty, especially rural poverty, in India for most of the three decades that followed the launch of the First Five Year Plan in 1951.⁸

This was certainly a major failure, and we have to ask what exactly went wrong in the initial period of Indian post-independence planning.⁹ The point is sometimes made that India's problems arose from its 'socialist' planning. Interpretations of 'socialism' are, of course, many and various, but if that diagnosis is meant to suggest that India was following the kind of planning model that characterized the Soviet Union and other Communist countries, that would reflect a huge confusion. One thing that Communist countries – from the USSR and pre-reform China to Vietnam or Cuba – were committed to achieving, despite all the political indoctrination and dogmatism, was to ensure free and universal school education without delay. Indeed, when Rabindranath Tagore went to the Soviet Union in 1930, he already noticed the rapid progress that was being made in schooling

the population, even in 'distant' Soviet Asia: 'In stepping on the soil of Russia, the first thing that caught my eye was that in education, at any rate, the peasant and the working classes have made such enormous progress in these few years that nothing comparable has happened even to our highest classes in the course of the last hundred and fifty years.'⁸ Did 'socialist' India go that way? The answer is that it did nothing of the sort, so that three decades of planning brought about very little advancement in the schooling opportunities of Indian children.

In fact, the first Five Year Plan, initiated in 1951 – even though symptomatic to the need for university education which it strongly supported – argued against regular schooling at the elementary level, favouring instead a so-called 'basic education' system, built on the hugely romantic and rather eccentric idea that children should learn through self-financing handicraft.[†] It went on to say that 'the tendency to open new primary schools should not be encouraged and, as far as possible, resources should be concentrated on basic education and the improvement and remodeling of existing primary schools on basic lines'.¹⁰ Not surprisingly, the idea of replacing proper schooling by so-called 'basic education' failed to resonate with the public. This did not, however, prevent the second Five Year Plan (initiated in 1956) from reasserting that 'the whole of elementary education has to be reoriented on basic lines'. Over time, the government had to yield to the public's demand for a proper schooling system, but the conceptual confusion over what schools should do added a further regressive force to the under-allocation of public money to make the country literate and numerate.

In this respect, Indian planners were at the opposite pole from planners in all the Communist countries – whether in Moscow and Beijing

* Rabindranath Tagore, *Letters from Russia* (1931, English translation 1960), p. 108. The English version of Tagore's letters was banned by the British Raj soon after its publication – a ban that would not be lifted until after Indian independence.

† The 'basic education' project was inspired by Mahatma Gandhi's pedagogic ideas. In his own words: 'The core of my suggestion is that handicrafts are to be taught, not merely for productive work, but for developing the intellect of the pupils.' He argued that teaching reading and writing to children before handicrafts hampers their intellectual growth'. See Gandhi (1937a, 1937b).

(even in the pre-reform period) or in Havana and Ho Chi Minh City.* They all valued universal standard school education, which was seen as a fundamental socialist commitment (clearly stated in the Communist Manifesto), and none of them allowed large proportions of children to remain out of school for decades on end (despite the mess they created in some other fields of economic policy in the name of socialism, not to mention the suppression of civil and political liberties). To see the huge neglect of school education in India's planning in that period as having resulted from its 'socialist' planning would be to miss altogether the indigenous nature of this Indian folly. It was indeed a home-grown folly, to a great extent reflecting an upper-class – and upper-caste – bias against the education of the masses.

It is also worth noting in passing that even India's economic planning in the early post-independence period was not particularly 'socialist', and it was certainly not Soviet-style planning as is sometimes suggested. India was attempting the sort of state-led development strategy that was also being pursued, in various forms, by many other countries around that time, with varying outcomes, and had also been used earlier in many European countries. Most of the economy (with the main exception of what were seen as 'essential services' such as railways, power and water) was firmly in the private sector, and while the government did intervene in many ways, there was no sweeping nationalization of industries, let alone major land reforms.¹¹ This is not to say that the planning of that period was a success – it was not. But the nature of the folly or eccentricity involved cannot be diagnosed simplistically as 'socialist'.

The early economic planning failed more completely in terms of social infrastructure and tertiary industries than it did in the fields of primary and secondary production. In fact, the growth rates of the primary and secondary sectors (roughly, agriculture and manufacturing respectively) were slightly *higher* in the 15 years that followed the launch of the first Five Year Plan in 1951 than in the 15 years that

* Interestingly, they were also ignoring the advice of economists of a very different persuasion, such as Milton Friedman, who submitted an enlightening memorandum to the government of India in 1955 where he emphatically argued that Indian planning was giving too much importance to physical capital and grossly neglecting 'human capital' (Friedman, 1955).

followed the launch of economic reforms in 1991.¹² The growth rate of the tertiary sector was slower in the first period, as was that of GDP – but the GDP growth rate of around 4 per cent per year in that early period reflected some real overall progress, particularly in what classical economists used to call ‘material production’. The growth could, of course, have been much faster with a more sensible economic strategy, as it was, for instance, in East Asia at that time, but the common notion that planning had brought the Indian economy to a halt in the Nehruvian period is no easier to substantiate than the belief that he pursued some kind of ‘socialist’ economic policy.

The period of sustained moderate growth came to an abrupt end in the mid-1960s (more precisely, in 1965–7), when India was hit by the worst successive droughts in the twentieth century, just after fighting a costly war with Pakistan in 1965. Agricultural production crashed, and GDP growth turned negative, as it often did at that time in drought years. Further calamities were not far off: another war with Pakistan in 1971, and another spell of devastating droughts in 1971–3. During this troubled ten-year period, from 1965–6 to 1974–5, per capita GDP stagnated and per capita agricultural production declined.

This was also a period of significant change in the politics of economic policy. Nehru, who died in May 1964, had been Prime Minister for 17 years more or less unchallenged – the Congress Party had no significant rival, nor did he. But his daughter, Indira Gandhi (Prime Minister from 1966 to 1977, her first term), had to fight fierce political battles both within and outside the party, battles in which economic policies increasingly came to play an instrumental role.¹³ For instance, the nationalization of commercial banks in 1969, chosen clearly for political reasons (whether or not it could have been justified on other grounds), placed a huge apparatus of patronage at governmental command. Similarly, import quotas and industrial licences were freely used for the purpose of ‘rewarding supporters, punishing opponents and winning over the uncertain’.¹⁴ Things came to a point where, as Bimal Jalan puts it, ‘even the most inconsequential economic activity required specific government approval’.^{*} This

* Bimal Jalan (2012), p. 282. As the author notes, in this period, ‘politics was the primary driver of Indira Gandhi’s economics’ (p. 283).

had disastrous effects, including stifling economic initiatives as well as encouraging corruption and abuse of power. Whether all this was the natural – and logical – outcome of the dirigiste framework put in place from Nehru’s time, or an avoidable corruption of Nehruvian policies that had been reasonably effective earlier (despite the blindness about school education), is a matter of judgement. The fact remains that the economy, and the people, paid a heavy price for this transformation.

The outlook improved in the 1980s, when India experienced its second phase of growth acceleration, helped by a major recovery in the agricultural sector. The so-called Hindu rate of growth (whatever that meant) became a thing of the past, with the steady growth of the GDP rising to around 5 per cent per year in this decade. Further, this was also a period when growth was relatively balanced and equitable. The Green Revolution, launched after the 1965–7 droughts to reduce dependence on foreign aid, but delayed by further droughts in the early 1970s, began to show results: yields shot up by about 30 per cent in the 1980s (compared with barely 10 per cent in the 1970s), and the agricultural sector grew faster than ever before – at more than 3 per cent per year. Also, significantly for poverty reduction, agricultural wages grew at an unprecedented rate of about 5 per cent per year in real terms.¹⁵ And for the first time in decades, there was a sustained decline in poverty, in urban as well as rural areas.¹⁶

The 1980s, however, were also a period of growing fiscal deficits, trade deficits and foreign debt. These imbalances turned into a major crisis in 1990, partly due to rising oil prices and the disruption of remittances from the Persian Gulf. India ran out of foreign exchange reserves, to the extent of having to pawn gold to the Bank of England to avoid defaulting on its sovereign debt. A structural adjustment programme followed, initially (in 1991–3) on a tight leash from the International Monetary Fund, and thereafter, on the Indian government’s own terms: an anticipated follow-up loan was turned down as it was felt that ‘the IMF’s demands on fiscal prudence were more than India could deliver’.¹⁷

With the IMF at bay, shock treatment (for instance, across-the-board cuts in public expenditure including social spending) gave way to more gradual economic reforms. In terms of economic growth, the

results were certainly impressive. While the growth rate of GDP was not much higher in the 1990s as a whole than in the 1980s (see Table 2.1 on p. 23), it picked up after the phase of economic stabilization (ending in 1993), and rose substantially in the years that followed. The impact of the reforms on economic growth in these years was certainly a significant achievement.

The process of economic reform has been quite slow. Some reforms, such as greater openness to international trade and the relaxation of internal controls, happened relatively early. Others occurred much later. And some are still being debated, including the privatization of particular public enterprises, extensive labour reforms, the permissibility of foreign direct investment in specific sectors, to give only a few examples. This gradualism is often seen as irritating by the champions of economic reform, but it is to be expected in a democratic system – many of these reforms, even when appropriate, require informed public debate. Unfortunately, the discussions often proceed along very conventional lines related to the commentators' general 'pro-market' or 'anti-market' predispositions, when the resolution of particular policy issues demands a specific, case-by-case assessment of arguments in favour and against. Most importantly, the case for specific reforms must ultimately be judged not just by their impact on economic growth, but also – indeed principally – by their effects on people's lives. We would argue that one of the main problems with the economic reforms of the 1990s lies not so much in what they tried to do (indeed with much success) as in what they did not even attempt to achieve, extending in the process some of the deeper biases of the pre-reform period. In recent years, there has also been growing recognition of the need for wide-ranging reforms of a different kind – aimed for instance at eradicating corruption, restoring accountability in the public sector, fostering social equity, and improving the effectiveness of administrative, judicial and legislative processes. These wider programmes are not usually seen as being closely linked with economic reform, but ultimately both are part of a larger need to revitalize the country's economic and social institutions and ensure that they contribute more to the improvement of people's lives. These concerns – and the problems they pose, the opportunities they offer – will be taken up in the chapters to follow.

GROWTH OF WHAT?

India's record of rapid economic growth in recent decades, particularly in the last ten years or so, has tended to cause some understandable excitement. The living standards of the 'middle classes' (which tends to mean the top 20 per cent or so of the population by income) have improved well beyond what was expected – or could be anticipated – in the previous decades. But the story is more complex for many others such as the rickshaw puller, domestic worker or brick-kiln labourer. For them, and other underprivileged groups, the reform period has not been so exciting. It is not that their lives have not improved at all, but the pace of change has been excruciatingly slow and has barely altered their abysmal living conditions.

To illustrate, according to National Sample Survey data average per capita expenditure in rural areas rose at the exceedingly low rate of about 1 per cent *per year* between 1993–4 and 2009–10, and even in urban areas, average per capita expenditure grew at only 2 per cent *per year* in this period.¹⁸ The corresponding growth rates of per capita expenditure for poor households in both areas would have been even lower, since there was growing inequality of per capita expenditures in that period.¹⁹ Similarly, there has been a major slowdown in the growth of real agricultural wages in the post-reform period: from about 5 per cent *per year* in the 1980s to 2 per cent or so in the 1990s and virtually zero in the early 2000s (see also Table 2.2). It is only after 2006, when the National Rural Employment Guarantee Act (NREGA) came into force, that the growth of real agricultural wages picked up again, especially for women.²⁰

The growth of real wages in other parts of the economy has also been relatively slow, especially for casual or (so-called) 'unskilled' workers. The contrast with China in this respect is really striking. According to comparable international data from the International Labour Organization, real wages in manufacturing in China grew at an astonishing 12 per cent *per year* or so in the first decade of this century, compared with about 2.5 per cent *per year* in India.²¹ There is some possibility of exaggeration in the official Chinese figures, but many independent studies corroborate the fact that real wages in China have been rising rapidly over the last twenty or thirty years (see Figure 2.1).²² In India, by contrast,

Table 2.2

Estimates of the Growth Rate of Real Agricultural Wages

Reference period	Estimated growth rate of real agricultural wages	
	Men	Women
1983-4 to 1987-8	5.1	-
1987-8 to 1993-94	2.7	-
1993-4 to 1999-2000	1.3	-
2000-1 to 2005-6	0.1	-0.05
2005-6 to 2010-11	2.7	3.7

Source: The pre-2000 figures are from Himanshu (2005), based on data presented in *Agricultural Wages in India* series (see also Drèze and Sen, 2002, Table A.5). The post-2000 figures are calculated from Urami (2012), based on the follow-up *Wages Rates in Rural India* series (for further details, see explanatory note in the Statistical Appendix). For similar patterns based on National Sample Survey data, see also Himanshu (1995), Himanshu et al. (2011), and National Sample Survey Office (2012a).

the growth rate of real wages has been much lower than that of per capita GDP over the same period. Consistently with this, there has been a steep decline in the share of wages in value added (see Figure 2.2).²³

These facts may surprise some of those who are used to looking at official poverty estimates to assess how poor people are doing. For instance, according to the Planning Commission, the 'head-count ratio' of rural poverty (the proportion of the rural population below the poverty line) declined from about 50 per cent in 1993-4 to 34 per cent in 2009-10.²⁴ This looks like a big improvement. How does it square with the fact that the growth of real per capita expenditure has been so low? The clue lies in the so-called 'density effect': the fact that many people are just a little below the official poverty line, so that a small increase in per capita expenditure is enough to 'lift' them above the line. And the density effect, in turn, reflects the fact that the official poverty line is abysmally low (we shall return to this in Chapter 7).

The point is well illustrated by calculations presented in a recent paper by Ashok Kotwal, Bharat Ramaswamy and Wilima Wadhwa (2011), based on National Sample Survey data for 1983 and 2004-5.²⁵ Over that period, the head-count ratio (for rural and urban areas

Index of workers' monthly earnings in manufacturing (1981=100)

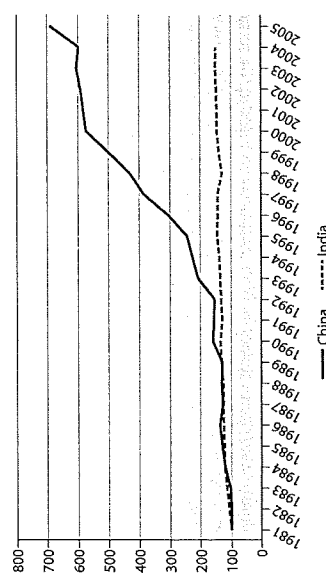


Figure 2.1 Real Wages in China and India, 1981-2005

Sources: Calculated from Tao Yang et al. (2010), Fig. 5(a).

Real wages and share of wages in value added in the manufacturing sector

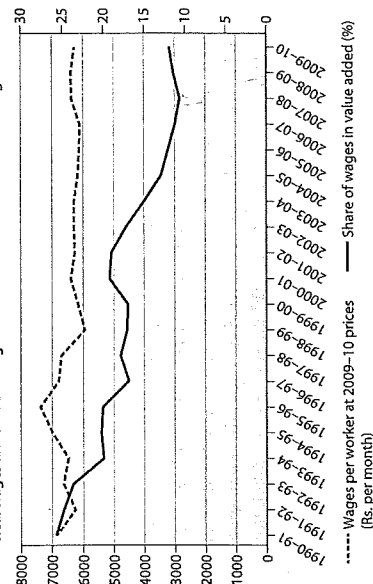


Figure 2.2 Real Wages in Indian Manufacturing, 1990-2010

Source: *Handbook of Statistics on the Indian Economy*, Tables 33 and 40 (Reserve Bank of India, 2012). Money wages have been deflated using the Consumer Price Index for Industrial Workers, from the same source. The left-hand vertical axis applies to real wages, and the right-hand axis to the share of wages in value added.

combined) declined from 45 per cent to 28 per cent based on the official poverty line applicable at that time.²⁶ The authors show that if the poverty line were to be doubled (though still to quite a low cut-off point), the corresponding figures would be 86 per cent in 1983 and 80 per cent in 2004-5. That would look like a very moderate improvement, over more than twenty years, compared with the steep decline based on official poverty lines. More recent work also shows that, no matter where one draws the poverty line, the rate of poverty decline has been much slower in India than in developing countries as a whole in the last twenty years or so, in spite of economic growth being much faster in India.

We shall return, later in this book, to these and related aspects of the lopsided nature of the growth process in India. For now, the main point to note is that questions about the nature and reach of economic progress in India demand much greater attention than they tend to receive. One of these questions is why has economic growth in India led to so little increase in wages and incomes for the poorer sections of the population. It is not difficult to see that this is associated with a failure to generate adequate employment, sometimes described – a little simplistically perhaps – as ‘jobless growth’.²⁷ In sharp contrast with China, where the post-reform economic boom happened first in agriculture and then in manufacturing, India’s rapid economic growth during the last twenty years or so has been driven mainly by ‘services’. This is a very heterogeneous category, but there is growing evidence that a good deal of the growth in services has been heavily concentrated in skill-intensive sectors (such as software development, financial services and other specialized work), rather than more traditional labour-intensive sectors. While this has enabled the more educated section of the labour force to earn much higher wages and salaries, the bulk of the workforce is marooned in agriculture and other sectors (including the ‘informal sector’, which employs more than 90 per cent of India’s labour force) where wages and productivity are – and tend to remain – very low.* Many other factors have also

* A particular issue related to this problem was discussed in our first book on Indian development, published in 1995: ‘even if India were to take over the bulk of the world’s computer software industry, this would still leave its poor, illiterate masses largely untouched. It may be much less glamorous to make simple pocket knives and reliable alarm clocks than to design state-of-the-art computer programmes, but the

contributed to a lack of any participatory character in India’s growth process, but this certainly appears to be an important one.²⁸

Aside from addressing this problem, there is also a powerful need to examine what is going on about the availability – and quality – of public services. In fact the two problems may well be closely related, since the lack of progress in education and health care limits the freedom that people have to enter and flourish in general manufacturing jobs. These links have to be further examined, but it is also important to see the lack of progress in public services as a huge barrier to improving the quality of life of people. Indeed, the sluggish growth of real per capita expenditure is only one aspect of the disappointing progress of people’s living conditions in the last twenty years or so. As we will discuss in Chapter 3, there is also a sharp dissonance between India’s performance measured in terms of incomes, on the one hand, and the progress of living standards, on the other, involving longevity, health security, literacy, educational opportunities, child undernourishment, social status, and so on.

Just to give one example, there has been very little improvement in India’s nutrition indicators during the last twenty years or so. Nutrient intakes (calorie, protein, micronutrients – almost anything except fat) have *decreased*, for reasons that are not altogether clear, but are unlikely to obviate the need for concern.²⁹ Anthropometric indicators, for their part, have improved very slowly. In fact, according to the latest National Family Health Surveys, there was virtually no improvement in children’s weights between 1998-9 and 2005-6, and the incidence of anaemia *increased* in that period. While there is much scope for debate about different ways of measuring undernourishment, what is not in doubt is that India still has a higher proportion of undernourished children than almost any other country in the world, even after thirty years of rapid economic growth. Many countries have been able to achieve big improvements in the health and nutrition status of their respective populations in a shorter time, even with lower rates of economic growth. We shall have more to say on this issue in the chapters to follow.

former gives the Chinese poor a source of income that the latter does not provide – at least not directly – to the Indian poor’ (Drèze and Sen, 1995, p. 39)

DEVELOPMENT, INSTITUTIONS
AND HUMAN CAPABILITY

The relation between growth and development – their differences as well as their complementarity – is central to the theme of this book. While the literature on that distinction is rather limited (even though the approach of 'human development' championed by Mahbub ul Haq and others has drawn attention to the possible dissonance between the two), there is a fast-growing literature on the causation of growth, or of growth and development seen together. Some of these writings are based on extensive empirical research on the comparative experiences of different countries in the world, and are clearly relevant to our study.

One summary finding that has been much supported is the importance of institutions, broadly defined, that secure and encourage economic initiatives and operations.³⁰ The development of growth-friendly institutions can be hindered both by social barriers and by imposed styles of governance. In their book *Why Nations Fail*, Daron Acemoglu and James Robinson illustrate both types of handicap in their brief account of what kept India in check even in the pre-colonial period, but particularly during the period of colonial rule:

In India, institutional drift worked differently and led to the development of a uniquely rigid hereditary caste system that limited the functioning of markets and the allocation of labor across occupations much more severely than the feudal order in medieval Europe. . . . Though Indian merchants did trade throughout the Indian Ocean, and a major textile industry developed, the caste system and Mughal absolutism were serious impediments to the development of inclusive economic institutions in India. By the nineteenth century, things were even less hospitable for industrialization as India became an extractive colony of the English.³¹

Caste has indeed been a major barrier to social progress in India, and not just in the form of a counterproductive division of labour, but more importantly, as Dr Ambedkar argued with great clarity, as a per-

nicious division of human beings into iron-curtained compartments.* Colonialism, for its part, is a barrier that India shared with other economies of Asia and Africa. Japan escaped that fate by going into its shell, and prohibiting the trade-related foothold through which colonialism developed in India, China, Indonesia, Malaysia and elsewhere. Following the Meiji Restoration in 1868, the Japanese leadership, armed with the freedom of action that it had, took a well-considered initiative in fostering economic development. As Acemoglu and Robinson note, unrestrained by colonial rule, Japan was well served by the development of 'more inclusive political institutions and much more inclusive economic institutions'.³²

There is a particularly central role to be played by education, and the formation of knowledge and skills, in the process of economic and social development. In his book, *The Gifts of Athena*, Joel Mokyr has provided a striking analysis of the critical importance of the accumulation of knowledge in transforming pre-modern Western countries into modern economies. Similarly, Elhanan Helpman has discussed the role of institutional change in the accumulation of knowledge in his book called *The Mystery of Economic Growth*, which shows, among other things, why economic growth through increasing total-factor productivity, especially helped by education and expansion of knowledge, need not be a mystery.³³

In Chapter 5 we shall take up this important subject, including how Japan utilized its freedom from colonization to pursue a programme of economic development, giving education a central role in that nationalist programme. The Fundamental Code of Education, issued in 1872 (four years after the Meiji Restoration), expressed a public commitment to make sure that there must be 'no community with an illiterate family, nor a family with an illiterate person'. Kido Takayoshi, one of the leaders of Japanese reform, explained the basic idea: 'Our

* See particularly *The Annihilation of Caste* (Ambedkar, 1936). The stifling effects of the caste system were also well expressed by Rammanohar Lohia, another committed opponent of the caste system: 'Caste restricts opportunity. Restricted opportunity constricts ability. Constricted ability further restricts opportunity. Where caste prevails, opportunity and ability are restricted to ever-narrowing circles of the people.' Quoted in Agrawal (2008), p. 212.

people are no different from the Americans or Europeans of today; it is all a matter of education or lack of education.'

The foundational role of education and other ways of expanding human capability form a solid connection in development thinking, and are also central themes of this book. This does not, of course, undermine the need for proper institutional structures for an economy. However, as Glaeser, La Porta, Lopez-de-Silanes and Shleifer have argued in their sceptical paper, 'Do Institutions Cause Growth?', the development of human capital may be a more worthwhile pursuit – no matter what its instrumental basis is – than the setting up of some pre-specified list of 'necessary' institutions.³⁴ Recognition of the crucial role of institutions has to be distinguished from any formulaic adherence to important institutions identified by historical studies as a blueprint for the future. Intelligent and informed policy analysis has to be responsive to the general need for good institutions, appropriate to particular circumstances, while bearing in mind the foundational connections between economic growth and the expansion of education and human capital.

While the importance of institutions can hardly be denied, the exercise of institutional reform cannot be reduced to fulfilling the demand of a 'checklist' of 'needed' institutions. As Trebilcock and Prado judiciously remark after an extensive review of the empirical literature: 'In sum, while much empirical evidence supports the view that institutions matter for development, we know very little about which institutions matter, and what specific institutional characteristics within classes of institutions matter for development.'³⁵ We shall not proceed with a checklist, but that is not an invitation to ignore what can be broadly called 'the institutional perspective'. Rather, the broadness of connections brought out by empirical work shows the need to assess and scrutinize specific institutional needs in particular circumstances. We shall have more to say on the importance of different kinds of institutions for India as this book proceeds. We have to consider both (1) institutions that are important for growth and development seen together (as in the literature just reviewed), and (2) the specific institutional needs of translating the achievements in growth into the broader perspective of development and flourishing of human beings. The institutional needs of fast economic growth

have to be supplemented by specific instruments and organizations for enhancing the living standards of people.

MUTUAL SUPPORT OF GROWTH AND DEVELOPMENT

The impact of economic growth on the lives of people is partly a matter of income distribution, but it also depends greatly on the use that is made of the public revenue generated by economic expansion. The fact, for example, that China devotes 2.7 per cent of its GDP to government expenditure on health care, compared with India's relatively miserable 1.2 per cent, is directly relevant to the much greater health achievements of China compared with India, including, for instance, its much higher life expectancy (about eight years higher than India's).

One result of the relatively low allocation to public health care in India is the development of a remarkable reliance of many poor people across the country on private doctors, many of whom have little, if any, medical training. Since health is also a typical case of 'asymmetric information', when – in particular – the patients may know very little about what the ailments are and what medicine is being given and why, the possibility of defrauding the families of patients is very large, in the absence of alternative public health care to which the patients can go for assistance and advice.* We shall return to the problems of health and health care in India in Chapter 6.

India has moved towards reliance on private health care without developing the solid rock of support of basic public health facilities that has been the basis of almost every successful health transition in the history of the world – from Britain to Japan, from China to Brazil, from South Korea to Costa Rica. Even within India, there is some experience, particularly in Kerala in the south-west, of a major expansion of public health services being accomplished before any large-scale surge

* Many empirical studies have revealed cases of severe exploitation of poor patients' ignorance of what they are being given to make them part with badly needed money to receive treatment that they do not end up getting. See e.g. Pratichi Trust (2005) and Das et al. (2012).

of private medical care. The effectiveness of the public route is sometimes missed by the advocates of reliance on private health care who point to the plentiful presence of the private sector in medicine in Kerala today. Kerala's health transition initially proceeded on the solid foundations of universal coverage provided by the state, and only later on, the use of private health care developed fast, particularly for the newly rich people: Kerala experienced a rapid increase in incomes – not unrelated to the development of human capabilities (on which more in the next chapter) – which ultimately supported private health care. There is, in fact, a world of difference between (1) allowing – and even encouraging – the auxiliary facilities of private health care to enrich a reasonably well-functioning state system (as happened in Kerala), and (2) trying to rely on private health care when the state provides very little in terms of health facilities (as in many other states, particularly in north India). There is also a word of caution in the professional economic literature on asymmetric information about trying to make up the gap by subsidizing private health care or private health insurance, since the problem of profit-seeking market transactions with very unequal knowledge of medical conditions is not a matter only of economic poverty.* A similar set of problems arise with Indian educational planning, particularly involving school education (as will be discussed in Chapter 5).

The central point to appreciate here, as has already been emphasized, is that while economic growth is an important tool for enhancing living conditions, its reach and impact depend greatly on what is done with the fruits of growth. The relation between economic growth and the advancement of living standards depends on many factors, including economic and social inequality in general, and no less importantly, on what the government does with the public revenue that is generated by economic growth. The importance of economic growth can be adequately understood only in this broader context. It is necessary to recognize the role of growth in facilitating development in the form

* Two classic papers in economic theory which establish the limitations of private provision of education and health care, because of the 'public goods' characteristic of these provisions and because of asymmetric information in the market economy, are Paul Samuelson (1954) and Kenneth Arrow (1963).

of enhancing human lives and freedoms, but it is also necessary in this context to appreciate how the growth possibilities of a country depend in turn on the advancement of human capabilities (through education, health care and other facilities), in which the state can play a very constructive part.³⁶

When India began undertaking a sustained programme of economic reform in the early 1990s, the country faced two gigantic failures of economic governance. The first was a failure to tap the *constructive role of the market*, particularly in terms of fostering initiative, promoting efficiency, and coordinating complex economic operations. The so-called 'licence Raj' – making it necessary to have governmental permission for private initiatives – made economic enterprise extremely difficult and put it at the mercy of bureaucrats (large and small), thereby powerfully stifling initiative while nurturing corruption considerably. This particular failure has been partially remedied in the post-reform period – the removal of arbitrary controls and greater openness to international trade has helped India to achieve a solid basis for high rates of economic growth. There is more to be done, both in simplifying or removing counterproductive *regulations* (since arbitrary restrictions and bureaucratic power continue to constrain Indian economic expansion) and in ensuring that *regulation* (an essential aspect of any modern economy) is well-aimed, effective, transparent, and not easily amenable to corruption.

However, there was also an urgent need to address another failure – a resounding failure to harness the *constructive role of the state* for growth and development. While there was plenty of government intervention in the pre-reform period, it was mainly of a negative or restrictive kind, neglecting, at the same time, huge fields of activity where constructive public action could have achieved a great deal. There has been a sluggish response to the urgency of remedying India's astonishingly underdeveloped social infrastructure and of building a functioning system of accountability and collaboration for public services. To this can be added the neglect of physical infrastructure (power, water, roads, rails), which required both governmental and private initiatives. Large areas of what economists call 'public goods' have continued to be neglected.

The radical changes in the 1990s did little to remedy the second of

these failures. If things have begun to change here too (though rather slowly), part of the credit for ushering in that change must go to India's democratic politics. There is a growing recognition of the electoral relevance of unfulfilled basic needs of people (related to schools, health care, water supply and accountable administration), and various social movements as well as sections of the media have also been able to bring greater attention to elementary human rights as well as freedom from corruption.

So where does India stand now after all this? The economic growth rate is, of course, agreeably high (even at its current lower level, after having hovered above 8 per cent for five out of six years from 2003-6 onwards), but the sharing of its benefits is still remarkably unequal. Poverty rates have come down, but not close to what could have been achieved had the distributional side (including the provision of essential services) got more attention. Some failures are huge, like widespread undernourishment in general and child undernutrition in particular – India is among the world's worst performers in this respect (even compared with many countries that are considerably poorer in terms of real GDP per head). Another big failure remains the provision of public health care to the bulk of the population. And there is also the continuing scandal of a quarter of the population (including nearly half the women) remaining effectively illiterate in a country with such high-tech achievements in education based on excellent specialized training and practice. A democratic country can hardly want to become part California and part sub-Saharan Africa.

Looking ahead, two major problems facing the Indian economy can be summed up as follows: (1) removing the sharp disparities that divide the country into the privileged and the rest, while continuing to encourage overall economic growth and expansion, and (2) bringing more accountability to the running of the economy, particularly in the delivery of public services and the operation of the public sector. In the next chapter we discuss in comparative terms the huge penalties of large disparities in stifling India's economic and social progress, and in Chapter 4 we address some institutional problems that have been constraining and restraining social and economic change in India, including the problem of accountability, and in that context, the seemingly ubiquitous prevalence of corruption. Both these are

crucial parts of the unfinished agenda of growth and development in India today.

SUSTAINABLE DEVELOPMENT

One other issue that must be part of the concern of Indian economic development is that of making the process sustainable. Sustainability is not a new subject. The security of human lives has always to some degree been understood to depend on the strength and resilience of the natural world we inhabit. However, the so-called 'human predicament', including our mortality and our fragility, has typically been understood as the plight of the individual, a condition frequently contrasted with the strength and durability of humanity as a collective entity; indeed, throughout history people have tended to take for granted the robustness of nature, and a secure place for us in it. The frailty of individual lives (including their ultimate cessation) has typically been seen as an individual predicament that did not apply to mankind in general. In recent decades, all over the world, these perceptions have dramatically changed, and indeed it is hard to think of a subject that generates as much concern today among reflective people everywhere as the serious vulnerability of the environment in which we live. People are deeply worried about how human lives can continue to prosper, even perhaps continue at all in the form that we know them, if the depletion of our environment continues as fast as it is right now.

In India, we have huge reasons to be worried about our treatment of the environment and its implications for the lives people can lead in this increasingly polluted and environmentally devastated country. Indeed, the acceleration of economic growth in recent decades has coincided with unprecedented environmental plunder. Groundwater has been extracted with abandon, leading to a sharp fall in water tables in many areas. Majestic rivers have been reduced to a trickle, or to sewage drains. Mining activities (often illegal) have spread with few safeguards, destroying forests and displacing communities. Air pollution has risen so far that India is now rated as the most polluted among 132 countries for which comparable data are available.³⁷

⁴² India's 'natural wealth' is estimated to have shrunk by about 6 per cent in value terms (more than 30 per cent on a per capita basis) between 1990 and 2008.³⁸ And all this might be no more than just a harbinger of things to come: many types of environmental damage are likely to accelerate in the near future, with, for instance, hundreds of dams being planned on the Ganges river and its tributaries alone.³⁹

The basic challenge of environmental sustainability has been sidelined in the single-minded concentration on the current growth rate of the GDP, which seems to get the lion's share of attention in the media and even in policy discussions about how India should pursue growth and development. And this lack of attention to the environment seems to have grown sharply in recent years. As Ramachandra Guha notes:

After economic liberalization ... environmental safeguards have been systematically dismantled. The ministry of environment and forests has cleared destructive projects with abandon. Penalties on errant industries are virtually never enforced. Although by law every new project has to have an Environmental Impact Assessment (EIA), these, as the then environment minister Jairam Ramesh candidly admitted in March 2011, are a 'bit of a joke', since 'under the system we have today, the person who is putting up the project prepares the report'.⁴⁰

This devastation is often seen as a symptom of the conflict between 'environment' and 'development'. But this interpretation is thoroughly misleading. If development is about enhancing human freedoms and the quality of life – an important understanding for which we have argued – then the quality of the environment is bound to be part of what we want to preserve and promote. In fact, this broader view of development can help not only to integrate development and environmental concerns but also to achieve a better understanding of our environmental challenges, in terms of the quality and freedom of human lives – today and in the future.⁴¹

It is important to understand that caring about the environment need not undermine the commitment to development and the removal of poverty and deprivation. In the broader perspective of seeing devel-

opment in terms of promoting substantive human freedom, fighting poverty and being responsible about the environment cannot but be closely linked. Development is not merely the enhancement of inanimate objects of convenience, such as a rise in the GDP (or in personal incomes); nor is it some general transformation of the world around us, such as industrialization, or technological advance, or social modernization. Development is, ultimately, the progress of human freedom and capability to lead the kind of lives that people have reason to value.

If we are ready to recognize the need for seeing the world in this broader perspective, it becomes immediately clear that development cannot be divorced from ecological and environmental concerns. For example, since we value the freedom to lead a pollution-free life, the preservation of a pollution-free atmosphere must be an important part of the objectives of development. Especially for poorer people, who tend to spend a much higher proportion of their daily lives in the open – sometimes even sleeping on the streets – the quality of air is a critically important influence on the level of deprivation of their lives. Similarly, if substantial parts of India – not to mention the Maldives or large sections of Bangladesh – were to be submerged by a rising ocean (as seems very possible if global warming continues further), the people who would suffer most would be the poorer people in the affected regions, with very little access to alternative opportunities of a viable economic and social living. Indeed, as Nicholas Stern has argued, the risks of climate change may affect the lives of people across the world in very diverse ways, making the exacerbation of inequity one of the primary concerns about the consequences of unchecked climatic developments.⁴²

If development is about the expansion of freedom, it has to embrace the removal of poverty as well as paying attention to ecology as integral parts of a unified concern, aimed ultimately at the security and advancement of human freedom. Indeed, important components of human freedoms – and crucial ingredients of our quality of life – are thoroughly dependent on the integrity of the environment, involving the air we breathe, the water we drink, and the epidemiological surroundings in which we live. The opportunity to live the kind of lives

that people value – and have reason to value – depends among other things on the nature and robustness of the environment. In this sense, development has to be environment-inclusive, and the belief that development and environment are on a collision course cannot sit comfortably with the recognition of the manifest interdependence and complementarity between the two.

3

India in Comparative Perspective

'The first thing I ever learned about India,' Anand Girdharadas notes in his excellent book *India Calling*, 'was that my parents had chosen to leave it.' My parents had left India in the 1970s, when the West seemed paved with possibility and India seemed paved with potholes. And now, a quarter century after my father first arrived as a student in America, I was flying east to make a new beginning in the land they had left.²¹ That perspective of a rapidly changing India, re-establishing itself on the world stage, is both engaging and exciting. It is not only that the ancient – and dilapidated – land, traditionally short of opportunities for young men and women, is humming with new and exciting things to do in business and professional lives, but also that the country is full of new energy in the creative fields of literature, music, films, science, engineering, and other areas of intellectual and artistic pursuits. India is certainly calling, with much to offer.

Life can indeed be exciting in the rapidly reshaping India, and the picture of a new and dramatically changed India is both accurate and important. And yet, as was discussed in the earlier chapters, the majority of Indian people have been left behind in the enhancement of living standards. Many of the new freedoms and fresh opportunities can be enjoyed only by a minority of Indians – a very large number of people but still only a minority. In comparing India with the rest of the world to see how India is doing, the results depend greatly on which sections of the Indian population we look at.

Comparisons of India with other countries are often made for the purpose of checking where the country fits in the international 'league'. The focus, quite often, is on India's 'rank' (for example, in terms of GDP per capita). That is not a bad way to proceed, and the