

The Indian Economy
Since
Independence

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Beware the Jabberwock, my son!
The jaws that bite, the claws that catch!
Beware the Jubjub bird, and shun
The frumious Bandersnatch

Lewis Carroll

Mudh Mudh Ke Na Dekh, Mudh Mudh Ke
Zindagi Ke Safar Main Tu Akela Hi Nahin Hai

Well known Hindi Song

The Indian Economy Since Independence¹

Introduction

Sixty years, from the perspective of an individual's life span, is a long time. From the perspective of a nation's history—especially if that nation is India—it is but a brief moment in time. But in history, much can happen in such brief moments. In 1857, when for a very brief span of time, the British lost control of Delhi, all that the soldiers revolting could think of was to request the last Moghul Emperor, Bahadur Shah Zafar, to lead them. Without him they were lost. Exactly 90 years later, in 1947, India awoke to light and freedom, and chose to become a democracy based on universal suffrage. No one thought of an Emperor! *This is indeed a dramatic change in a short span.* Have the last 60 years, [in which India has been an 'unnatural' nation, to use Ram Guha's term in his wide ranging examination of India After Gandhi] seen equally dramatic change in the economy? Today, I can only ask that question. After all, we are talking about times we have lived in. Where can the objectivity of distance come from?

If one goes by the newspapers, one word may suffice to describe the state of the Indian economy today: 'optimistic' for one school and 'sold-out' to another. There seems to be no middle ground: It is either India Shining or India Crying! It is in the nature of economic debate that the same country for the same time period, from the same data sources, can be described in such diametrically opposite ways. One school, [and there are differences within the schools too]—the pro-reformers of today—are represented by economists like Suresh Tendulkar, Jagdish Bhagwati and T.N. Srinivasan. The other school—the anti-reformers—is represented by economists like Amit Bhaduri, Prabhat Patnaik, and Amiya Bagchi. They are all distinguished scholars, and state their own positions clearly. In this swordplay of giants, the citizen must be dazed!

I will endeavour today to explore different dimensions of our economic trajectory since 1947, in desperate brevity, to *provoke* some debate that will collectively enhance our understanding of India's economic journey. My

1 I am grateful to the Director of Bangalore International Centre, Pranob Dasgupta, for this kind invitation and also his guidance in the choice of themes to be discussed. I have profited from discussions with Anil Vaish, S.L. Rao, Ram Guha, N.C.B Nath, K.S.Krishnaswamy, Sukhpal Singh, Praveen Jha and Yamini Mishra. It has led to debate on the listserv of the IIMB76 class. All errors, of fact and opinion, are to be credited to Harry Potter for the failure of magic in the muggle world.

presentation is based on my reading of this vast literature, and is in no way original research. It is not comprehensive; many important issues are not touched upon. It is meant only to initiate a debate here, not to defend a specific point of view. It is *my* overview of the Indian economy's progress over 60 years, based on stylised facts, and I hope it will produce, [as Robert Solow once said of Joan Robinson's response to his work] a pearl out of the listeners' sheer irritation.

Where Are We Now?

Economists usually start with the growth rate of the economy—how has its national income per year increased? Here there is agreement: Between 1900 and 1950, the Indian economy stagnated—the growth rate was below 1% per year. From 1950 to about 1980, we grew at the so called 'Hindu rate of growth' of 3.5%. From 1980 to the early 1990s the annual growth rate accelerated to about 5%. In the late 1990s, the government was hoping to achieve an annual 8% growth rate in the Ninth Plan. From 2002 or so, growth seems to have averaged 8% or more. Is this the 'neohindu' rate of growth? The *trend* seems to have changed to a higher level. Global observers are talking of the 'India Growth Story'! Given that we are talking about per capita growth at a time when our population grew from around 350 millions in 1950 to over 1000 million today, this *is* a significant achievement. This potential is what Naipaul described in his India: A Million Mutinies Now in 1990. Writers may see things before economists!

Growth is important, but *growth alone* is not. How are the fruits of growth shared? Here there is considerable disagreement. One school believes that growth will 'trickle down' if there is enough of it. The other argues that growth never trickles down: policies of redistribution are essential. On what those are, there are considerable differences.

One measure of how the fruits of growth are shared is the trend in inequality. Where inequality is concerned, Surjit Bhalla [Business Standard, July 7, 2007] argues: that '[t]he pattern of real inequality in India is as follows: a large decline in inequality between 1951 and 1983, and then a flattening. For the high-growth period 1983-2005, the pattern is a V shaped one—a small 5 per cent decline in inequality between 1983 and 1994, and a corresponding equal increase over the next decade. The inequality change for the entire post-1980 high growth period: zilch, actually 1.8 per cent." Given the common impression that, in

recent years at least, inequality has increased, this is a counter intuitive finding. [I suspect many economists will disagree with Bhalla: Utsa Patnaik, using a different methodology, claims 87% are poor.] But this claim is not inconsistent with the agreement among economists that the poverty ratio has declined in the last 20 years—even if the quantum of decline is not agreed upon and the methodology is increasingly coming under cloud. Also, at any given level of inequality, there can be various distributions that differ in the extent of variation around the mean. In other words, even at the same level of inequality, there can be situations where the rich, for example, have become richer. This is the glorious wonder of statistics! But we can agree that, whether it is 350 millions below the poverty line or 250 millions, *it just too many*. We need to act on this.

Economic progress must be reflected in human wellbeing. Unfortunately, other indicators of human development *are not* so positive; a matter of national shame. India ranks very low in the comity of nations on the Human Development Index brought out by the UNDP. There is still much malnutrition among children [3 in 5 are malnourished]. Education levels are abysmal [the pass rate for the 10th standard is around 50%]. The increases reported in literacy levels are just that; *literacy, not education*. It is from education that people get skills they can use to make a living. Health facilities are collapsing. Maternal mortality rates in much of the country are high. In urban India, housing shortages are the rule. Gender differences remain. Jobs for the many that have only their hands to offer are scarce while there is a shortage of skilled persons across sectors—a serious matter in a young nation like India. With climate change becoming a global concern, issues of sustainability of the growth path chosen are coming to the forefront.

This is the broad picture. What is behind these patterns? To this I now turn.

Agriculture

Agriculture in 1947 was traditional. 70% of the population contributed over 50% of national income. In these 60 years, it has changed fundamentally. Today, 20% of the national income is from agriculture, but it still supports 50% odd of the population. The Green Revolution of the late 1960s brought in the “new technology”—new seeds, fertilizers, credit, aimed at the progressive farmer. Parts of the country—Punjab, Haryana, western UP, coastal Andhra etc saw dramatic increases in output. India more or less eliminated its dependence on

food imports by the end of the 1970s. Cash crops like sugar became important in several states when irrigation became available. But there has been no such boom in other food crops. Millets like ragi and jowar, which the poor eat, await a green revolution. Meanwhile soil has been degraded in Punjab and elsewhere; this is the flip side of the Green Revolution, and today needs to be addressed.

Increased dependence on the market by small farmers investing in *commercial* crops like cotton has also led to much distress—farmer's suicides are much in the news. Their ability to take risks is small and must be strengthened. Attempts to deal with this distress are being made. Whether they will be successful remains to be seen. There is no doubt that a new approach to agriculture, consistent with trends in the World Trade Organisation, has to be found. And this is an urgent matter.

One of the important items on the agenda at Independence was land reform. Zamindari was abolished. This made a difference in states like Bihar. But it was not until the late 1970s and early 1980s that the process was taken further in states like West Bengal. That this step in West Bengal was the right one is borne out by the dramatic increase in agricultural output later in the 1980s. But the process was not taken to its logical conclusion of land to the tiller in most states. India still has a very large number of landless labourers. Land reform has been spoken of as a failure. Yet, if one compares India with Pakistan, where no such [limited] initiative took place, perhaps the effort would be given a kinder interpretation. Feudal exploitative forces in India *have been weakened*. This does not mean that there is no more to be done. The current crisis of agriculture—it has grown at about 1% in the 2000s—needs attention.

There has been remarkable success in the 'white revolution'—milk production, which is ancillary to agriculture. Based on the success of the co-operative movement in Anand in Gujarat, technology, organisation and marketing together have led to India becoming one of the largest producers of milk in the world, in a system based on small producers, but taking advantage of economies of scale innovatively. This is in part a success of marketing, with Amul becoming one of the best known of Indian brands. But it is also an organisational innovation of managing risk. This experience holds lessons for other non farm sectors too, and holds promise for the future.

Water is a scarce resource, and it has been at the centre of inter-state conflict, as well as public action. Water is intrinsically tied up with agriculture.

Water intensive crops like sugar have become more important, and the centre of political activity. A judicious water policy, honestly implemented, will be critical to wellbeing in agriculture. We are still some way from this.

If agriculture can grow at about 4%, it will give a fillip to growth. This is an urgent issue and there is no simple Green Revolution strategy now. It is agriculture, where the poor and underemployed are located, rather than specific crops, that merits a subsidy. But that solution must link the choice of crops grown with health; it must economise on energy use; and it must be ecologically sustainable. It is a challenge we must live up to. The government has indeed been concerned with this question in the WTO negotiations, where the interests of poor farmers have been articulated clearly. But much has to be done domestically. Unless we deal with our agriculture and our rural countryside, it will be a brake on the economy.

Industry

Manufacturing has increased significantly since Independence. There was little by way of industry in 1947. There has been some sporadic industrial development in the war years, to support the British war effort. Two steel plants—both in the private sector—and one in our own state—a railway system, some textile plants in Bombay, tea in Kolkata and small enclaves of industry in Baroda and Mysore, were what the country started with in 1947.

The Second Five Year Plan, around which there was general agreement, began a thrust for public investment in industry, and in a short span of years, capacity was built up in machine tools, heavy electricals, power equipment, electronics, chemicals and fertilisers, telephones and many more areas. As an aside, perhaps I can note the fact that Bangalore can truly be described as the Mahalanobis city, as HMT, ITI, HAL, BEL etc were all located here. The industrialisation of India was the industrialisation of Bangalore. And engineers from Mysore, from the earlier phase of what perhaps can be called 'Princely Industrialization' under Visvesvaraya and Mirza Ismail before the Second World War, were those who built the public sector plants across India—Sindri Fertilisers and many more. This is perhaps an appropriate moment to reflect on this contribution of Old Mysore to India's modern industrialisation.

With the Third plan, for a host of reasons, industrial growth slowed down. Not least was the bureaucratic grid lock through the licensing system which led to a

new term being introduced in economics—'rent seeking behaviour'. Economists were worried then about 'inflationary recession'. After the late 1960s, public sector growth based on new investments slowed down. Such growth as took place was on the basis of nationalisations—coal for 'better management', banking, to 'ruralise' it, etc. The public sector grew, but by transfer from the private sector. Not all of it was viable; coal and textiles were in a disastrous condition when taken over. The base for public sector inefficiency and losses was set.

The next phase across India was a growth of what then was called small scale industry, often as ancillaries to big units. Who has not heard of Aligarh locks, Agra shoes, or Tirupur hosiery? This took place in many parts of the country, but the overall level of investments, for a large country, was not enough to push growth. This was the time when a new term entered the economist's lexicon: industrial sickness. Large amounts of bank funds were locked up in sick units. Terminologically, it is private sector units that were 'sick'; public sector units were 'inefficient'! This perhaps reflects an ideological underpinning of thought.

The next major thrust for industry came from the software boom, in which *namma Bengaluru* played—and continues to play—a major role. The software firms that were happy with simple "Y2K" work reinvented themselves as pioneers in Business Processes Re engineering, and bid for work successfully in the global market. Bengaluru, with its Indian Institute of Science, engineering and medical colleges built over the past century, and public sector R and D institutions, had the resources which provided the foundation for this industry. It is not for nothing that all the big multinationals have set up branches here.

These companies were helped during this time by the gradual depreciation of the rupee—from around Rs 32 to US\$ 1 to around Rs 48 at one time. This made our services relatively cheaper to foreigners. Call centres offering simple services have boomed and provided the urban young [especially women] with jobs. But India has not become a giant call centre: many companies have moved up the value chain. There is no need to fear simple wage arbitrage! In fact, the problem is one of a likely shortage of higher level skills to keep this growth momentum going.

Now, with a change in financial markets, the rupee has begun to appreciate. This will pose challenges to the IT sector. This should be counter balanced by the advantage to other sectors. The oil import bill for example, will find relief from

the rising rupee. Imports will be cheaper for those who import components and this means lower costs. As the country functions in a global market, this is something that the economy has to learn to deal with. An industry that grew on global demand must be strong enough to cope with global pressures without asking for sops; it is no longer an infant industry.

One aspect of Globalisation has been the shift of work and jobs from the West—mainly the US—to Bangalore led to a new word being added to the English vocabulary—Bangalored. [We had an efficient salesman called John Kerry who marketed this brand for us in the last US Presidential election]. This outsourcing process is now happily spreading to other parts of the country. Hyderabad, Pune, Chennai, Kolkata, Thiruvananthapuram² are all now important IT locales. This is how it should be. India can hardly be called an IT superpower if all that expertise rested in only one city. It is not Bangalore vs Hyderabad as the newspapers present it. It is Bangalore and all the others together that will make India an IT superpower. Scale is important. I hope many more centres, for the sake of the country, give Bangalore a run for its money!

Indian industry, especially the private sector, had become soft after the 1970s. The protected environment of the licence raj gave it no incentive to modernise. I want to emphasise that this is not my critique of Nehruvian policy, as for example is argued by Gurcharn Das or Shashi Tharoor. This is an unfortunate consequence of that policy that was not corrected in time, in spite of warning from the likes of Ravi Hazari. This circumstance changed after 1991, when the current round of reforms, especially *Liberalisation*, by which I understand loosening the strangulating grip of the bureaucracy on industry, began. Many of us were worried that Indian industry could not face competition and would disappear over time. We feared *Deindustrialisation*! Happily we have been proved wrong. After an initial period of discomfort in the mid 1990s, Indian industry has responded magnificently to the challenge of global competition. In a range of sectors—automobile components, pharmaceuticals, steel, aluminium, garments, mobile telephony, earth moving equipment, cement, space—Indian firms have established themselves and taken advantage of the opportunities provided by Globalisation. If the stock market is booming today, it is in part due to the competitiveness of our industry. But this has also brought in increased volatility; what we get is a package!

² I do not expect the English language to be further enriched with words like Thiruvananthapuramed! That privilege belongs to Bengaluru alone!

There is discussion in business circles that infrastructure has become a bottleneck and could constrain growth. Perhaps. But this is often the way an economy progresses. Albert Hirshman wrote about 'unbalanced growth': bottlenecks that provide opportunities. A shortage, in a market, if responded to, can provide a base for further growth. The response to these bottlenecks—the Golden Quadrilateral, the investment in public transportation, the sense of urgency in power and water, all indicate that necessary action is on the agenda. But this has to be done in a manner in which 'losers' [especially of land and livelihoods] are compensated properly—something not done in the past. Now that there is a 'demand' for infrastructure, it seems that a supply may be forthcoming. It is a complex process. We have to wait and see.

Services: Economic and Social

Economic services have increased their share in the national income, now accounting for more than half. This sector is a mixed bag, including all that cannot be classified under the other two. It includes a bewildering variety of activities and technologies—from rag picking to software consultancy. In part this increase in the sectoral share reflects the growth of information based services that our large companies provide across the world. But it also reflects the cost/price advantage of education/knowledge intensive services that India can provide. There has been considerable investment in higher education in India. Apart from the IITs and IIMs, India today has more than 200 universities. The system is creaking from such rapid growth.

Students from these institutions, while a small part of the labour force, are still numerous enough to provide a base for skill intensive activities. Legal outsourcing, hospitality, tourism and hospital care are examples. These are growing areas, and can be expected to grow further in the coming years. The Apollo Hospitals, Wockhardts, Manipals and many more will continue to take advantage of the cost advantages, and so this sector will grow. There will be challenges of maintaining this advantage—skilled personnel will need to be continuously available. I think the challenge will be met. Whether services can act as an engine of growth for the economy is another matter. We have to wait and see.

This growth of the services has led to major concerns. India is providing 'world class hospital services' to those who can pay while its own citizens have little access to public health and medical services. This is true. And it is a serious

matter. Given the current distribution of resources and power, the market will not solve this problem.

The answer, however, is not to stifle the growth of the private provision of these services to those who can afford to pay, but for the State—and I refer to the national political entity, not the provincial government—to seriously take up its responsibility of making these services available to citizens. *This has been an area of state failure.* The state is a hydra headed demon; some heads very powerful, some very weak. And this is a failure because the *capacity of the state, as it is constituted today*, to provide these services, may be lacking. Many studies have shown that it is not a lack of money that is responsible for poor health services. Building its institutional capacity is important and urgent. I will return to this matter below.

The union government spends less than 1% of its budget on health—and there is evidence that even this is badly spent. This is further evidence of a lack of institutional capacity, in spite of the 73rd and 74th constitutional amendments. *Building this institutional capacity is the great challenge* of the coming years. If we ignore this issue much longer, this lack of institutional capacity in the local level state will begin to act as a brake on the growth sectors. Perceived social inequality is increasing. And the example of countries like Brasil shows that such inequality can have high social costs. We must do something about this immediately. The 'who' and 'how' question, on which there are differences, has to be discussed elsewhere. Here I flag this issue.

If services and manufacturing complement each other, and if we deal with the crisis in agriculture, then the future looks good indeed.

Deficits and Dilemmas

The 'deficit' has become a common term in today's discussions. This is an old favourite. In the 1950s the merits of financing public investment via deficit financing was hotly debated. But that was when the country had a revenue surplus. Things are different now.

The fact is that the *revenue* deficit—the difference between the government's expenditure in a year and its revenues—has been a fact of life for the union government since 1981. It became a political issue after the crisis of 1991. This was due to a combination of circumstances, but it was a crisis waiting to happen.

In 1991 the tipping point was reached, that is all. Can the government continuously live beyond its means?

A *fiscal* deficit in itself need not be 'bad': this is a textbook proposition in economics, *if the reason is the productive use of funds*. If the funds are spent badly, then it is another story. There is the danger of inflation also. Inflation is a cruel tax on the poor. Where one stands in this debate depends on how one identifies the facts.

The crisis of 1991 had many causes. I do not plan to get into that now as it has been sufficiently debated. I do not think the emergency responses of the government then were undesirable, even though at that time I had doubts. Today, however, the debate has taken a different turn, stemming from the passing of the *Fiscal Responsibility And Budget Management Act* by the Parliament, and similar Acts by many states. This Act mandates a gradual elimination of the revenue deficit by 2008-09, and a limitation of the fiscal deficit [the difference between government's total expenditure and its revenues] to around 3% of GDP. [Why worry about the fiscal deficit, and why 3%? This figure has sanctity because the countries of the European Union have for some reason arrived at this figure. There seems to be no economic logic for it. If demand has to be managed, supply constraints must be addressed as well. This number reflects some agreement, no more.] We need not get bogged down by these specific numbers; it is the underlying logic that is important as that would apply to alternate numbers as well.

Some see the FRBMA as an explicit acknowledgment of the state's withdrawal from its responsibilities, especially in the social sector. The government has been cutting tax rates on the revenue side: the rich benefit from this and it limits the role government can play in the economy. It is because of the limitations imposed by the FRBMA that the government is not sufficiently increasing its expenditures on health and education, NREGA, PDS etc that the poor benefit from, is the argument. Otherwise the government could have run larger deficits and met its responsibilities to the poor.

The FRBMA *does not specify* what expenditures are to be cut: it mandates only that government live within its means and sets a time table to reach that goal. There only acceptable level of *revenue deficit* is zero! The problem is that the government has a great deal of unproductive expenditure which it refuses—or cannot—to cut.

There are huge subsidies that a large number of studies show do not reach those they are intended for. An example is the Public Distribution System we have built up over the years which has all kinds of inefficiencies built into it. This is not an argument against some form of food subsidy to those who are poor. It is an assessment that this system works badly and should be replaced by a better one. One option that has been suggested is food coupons. [Retiring government servants benefit from a 'health coupon' in the form of a CGHS card which can be used in any hospital. And this coupon works well.] That coupon system—which is really an income transfer—needs vigorous debate. Another is the huge fertiliser subsidy—this year it is about 50,000 crores—that does not go to the farmer but to the fertiliser factory, providing perverse incentives.

The state has promised free maternity services in rural areas, but studies show that the poor incur significant personal expenditures in a field where services are supposed to be free. In many states, money meant for public health remains unspent. Studies by CBPS in a number of municipalities have shown that the problem is not one of a shortage of money, but of 'unspent balances' [www.cbpsindia.org]. While there is criticism aplenty on the poor quality of these services, suggestions for reform are lacking. There is an exhortation that the State must provide the services. But how does one make the public health system work? More of the same is what is proposed, and it will work as before: badly! Institutional capacity to use funds has to be built up. We have to grab the opportunities opened up by the 73rd and 74th amendments. A lot will depend on how well we do this.

I am not making a plea for a removal of subsidies. We need some *subsidies that reach* the poor. While some merit subsidies must remain and be better targeted, there are many subsidies today that have outlived their usefulness. But we must also beware of perverse policies. Today, the state governments are being told by the union government to levy service tax on hospital expenses. It is bad enough that the state has failed to provide for such services to the citizen. To now charge her a tax on this expense is an insult. Especially as it is well known that for many middle class households—please note that I am not speaking of the poor—one episode of hospitalisation can be disastrous financially. A service tax on education and health is completely wrong. This perverseness on the part of the State is the problem. This is a political matter.

One can take another example. Defence expenditure has increased from an already high level. Why is India the largest buyer of arms in the world, at a time when our diplomatic efforts are improving matters? Relations with Pakistan are improving today. Unless there is more information on defence requirements—will an increase of one rupee in defence expenditure result in more than one rupee of security—there is a reason to ask for reductions here that can be diverted to more important uses like schooling. But the silence on this issue is deafening. Surely one who asks about the effectiveness of a defence strategy is not a traitor!

On the other side, it is true that direct tax rates have come down in recent years. There is a strong case for inheritance taxes and some capital gains taxes for both equity and revenue reasons. But it is also true that India had unrealistically high tax rates that only spawned a parallel economy. While there may be scope for higher levels of specific taxes, it is also true that *tax administration has improved* in these years. Tax reform has taken place. The number of tax payers has increased dramatically in recent years. Total tax revenues have exceeded expectations. For the first time in many years, the ratio of direct taxes in total tax revenue has shown an upward move. On the revenue generation side, there has been progress. We should applaud this, and demand more.

There are dangers in the increasingly globalised financial sector. Funds flowing into the stock markets can also flow out quickly, creating, if not a crisis, at least turbulence. Acquisitions based on borrowing represent risk. We have done well so far, but this is an area of eternal vigilance.

It is important to keep deficits under check because of the danger of misuse of funds, and the danger of inflation. But it is also important for the government to accept and meet its responsibilities, especially for the weaker sections of society. The debate has to be about how best this can be done.

Employment and Jobs

The Economic Advisory Council of the Prime Minister has just brought out a report that suggests that there will be full employment in India by 2010. Can we celebrate? I remain sceptical of these projections: at what wage are these people 'employed'?

There has been a shift in the type of work available: from secure government jobs to casual. While available evidence suggests that real income of landless labourers has increased, it is still low. The problem is that demand for unskilled work is limited; and the skills required in the growing economy are in short supply. There is also the unwillingness of many to continue to be manual labourers; they would like better quality jobs, especially as they move up the literacy ladder. Schooling has not given people skills they can sell in the market place. For this, we need a long term solution which links school education with skills. The integrity of the educational system is important. Today, the joke goes, we have engineering graduates, but not engineers. This is true in many skill areas. If this disconnect is true, it will have tragic consequences in the economy.

Equally important is the health status of workers, best looked after through a preventive health programme as part of state provided public health services. Nutrition, the kind of food available, facilities for recreation and exercise, must all be part of such a programme. Workers who are not healthy are unlikely to be productive workers. We have a long way to go.

There are a number of issues where jobs are concerned. One has been the nature of industrial growth. We have opted for technologies that are capital intensive and labour saving, when it should be the other way round. This requires a close interaction between academia, R and D and industry. How do we bring this about? In Bangalore, the work of Amulya Reddy and colleagues with appropriate technology, especially as applied to energy policy, contains pointers. If the focus shifts from market demand to services needed by the poor, if the focus shifts to energy conservation rather than generation alone, then he showed that solutions exist. This requires changes in lifestyles.

The current lifestyle is not sustainable as it cannot meet the needs of all with available resources, and prices out the poor. Old ways are collapsing, and new ones are too expensive. Gandhi's comment that the world has enough for the needs of all but not enough for the greed of all provides a vision for the future. It is an approach that economists who deal with demand, and not need, cannot understand. I am sorry to say that some things are too important to be left to economists.

This is not the place to discuss them. It is enough to suggest that alternatives exist, and can be pursued. These alternatives also have the advantage of being

gender sensitive, ecologically prudent and employment creating. The puzzle is that they have not been vigorously pursued.

India has had a strong labour movement, and the unions have struggled to gain important rights for workers. A number of laws protecting labour interests have been passed. There is a clamour among the supporters of reform for Reform of Labour Laws. These are seen as rigid, as limiting the ability of companies to adjust to changing market conditions, and thus, ultimately, resulting in a slower growth of jobs. This is often asserted without hard evidence. The counter point can also be made that these laws have in no way slowed down industrial growth: after all we today have the highest growth in recent memory.

The limitation of the labour movement is that it has remained limited to the formal organised sector of factory workers. This constitutes a small percentage of the total workforce. Most working people are in the 'informal sector', without any benefits at all. The unions have not managed to represent these interests, and so today have become one more vested interest group. While the strike weapon is a hard won right of the labour movement, it does not follow that it can be indiscriminately used to promote their interests. This is because the conditions in which the strike works no longer obtain. This is not the place for a detailed discussion of this matter. Suffice it to say that fresh thinking is essential. Developments have outstripped theory: lockouts outnumber strikes today. It is only with a fresh approach that I see labour protecting itself in the India of tomorrow.

India in a Global context

One of the issues being debated today in connection with economic policy is the 'independence' of the Indian state in taking decisions. Are the economic policies of the last 15 odd years those that have been imposed on us by the World Bank/IMF whose loans we have taken? Has India been a prisoner to the Washington Consensus of simple minded neoliberal policy reform—balance budgets, get prices right, get the State off people's backs—and all will be well? Are 'conditionalities' being forced on us? The major Left Parties argue so, even while supporting the UPA government; and when out of power, so does the right wing BJP [which followed these policies unashamedly when in office]. This question of 'State autonomy' has been a major issue of debate recently when Kerala took a loan from the ADB. Karnataka, which took Structural Adjustment

Loans from the World Bank in recent years, is considered a 'model' case of such policies being implemented against the interests of the poor.

The other position on this question is that all such funding is but a small percentage of India's total expenditure. All these loans taken together do not add up to more than 3% or so of our GDP. We have expertise to prepare project reports, and a process to 'vet' all projects that go for such funding. Hard negotiations precede any loan. While there may be specific cases where we have erred, it is not right to argue that those who negotiate these loans have sold the country.

It is a fact that loans from the IMF and the World Bank carry what are called 'conditionalities'. Does the existence of these conditionalities mean we have given up our sovereignty? Are all conditionalities bad? Or should we look at what they are, how were they agreed upon, and then form an opinion? We need detailed studies to answer these questions definitively. But a few questions can be raised.

As to the conditionalities themselves, consider this example. In the Structural Adjustment Loan Karnataka took in 2000, the passing of a Freedom of Information Act was a conditionality. It was also a 'trigger' for release of funds. This was way before the Right to Information Act was passed in Delhi. Many would argue that this is something we should have done for ourselves. If the World Bank made this conditionality, then they did us a favour!

But there are counter examples as well. *Parivartan*, using the RTI, has unearthed details of how the World Bank in 2005 pressured the Delhi Jal Board in matters like the selection of consultants. In water supply projects, there is pressure to go in for global tendering using specifications that ensure that Indian firms cannot take part in the bid. An example is the insistence on 24X7 water supply [which is not something we have asked for] which rules out Indian companies. Another is the question of everyone paying for water to ensure the running costs are met. Within such an overall policy, can we not work with a system of cross subsidies? Why not? Access to drinking water is not only a basic need, it is a health issue with positive externalities.

The issue of the autonomy of the nation state is one that will need to be re-examined. In Europe, independent countries are moving towards a European Union in which each constituent state cedes some authority. In accepting a

common currency in the Euro, many countries have given up freedom in matters of money supply. In the World Trade Organisation, in opting for Rule Bound systems, countries are giving up rights that not long ago were held unalienable. Some diminution of state autonomy is inherent in these global processes. India has been an active participant in the WTO negotiations, taking a leading role on behalf of the developing countries. Together with Brasil and South Africa, India has been a powerful—and effective—interlocutor in trade negotiations. This is an assertion of independence, not a demonstration of weakness.

It is also true that conditionalities are not a preserve of the international institutions. If conditionalities are bad, it is bad also for states that get central funding for schemes to live up to conditionalities. It is bad for panchayats that have their hands tied behind their backs by state governments. Sauce for the goose is sauce for the gander. A lot remains to be done internally.

The opposite of these global developments is the increasing importance of federal systems and the increasing role of local governments. Local specialisation is the obverse side of Globalisation. Strengthening such democratic federal systems with strong local governments is imperative in a world of WTOs. And to this, in spite of constitutional amendments, we have not paid enough attention. In my view, this is among the most urgent of reforms due.

The question of conditionalities is a complex one. We need to be on guard. But a blanket rejection of all such loans may not be the right thing to do.

Of Threats And Opportunities

The major threat that I see today is the danger of the state withdrawing irresponsibly from the economy. Maybe this is what the hullabaloo about the reduction of fiscal deficit is all about. The growth of incomes in recent years has led to power being concentrated in the hands of those who have benefited from this growth, and they want more. Look at the demand for sops because of the rising rupee, or the demand to continue tax concessions to the flourishing IT companies. There is perverse behaviour of another kind in the news today. This is the Special Economic Zone policy being hammered out: to create enclaves where Indian laws effectively are put on hold. Labour laws, fought for over years, will not apply. Taxes will be exempted. In effect, they are not part of the Indian union. And worse, they take land away from the rural people. This

pernicious policy is today being implemented everywhere, from Singur in West Bengal to Nandigudi in Karnataka. There is the great possibility of existing firms relocating in these SEZs to take advantage of the benefits. Why such a policy is being so vigorously pursued is something I do not understand: it beyond the understanding of this Dismal Scientist—or perhaps of this Dismal Science!

There is also the danger, in Public-Private Partnerships that the Public part will wither away. It seems the thin end of the wedge. When it comes to the provision of essential services like drinking water etc, the state seems to be ready to give up its constitutional responsibility. In Karnataka, to show how Primary Health Centres can be run, the Karuna Trust took over several in Chamarajanagar district. They have shown how these PHCs can work well. But the effect seems to be, not learning from this experiment, but a hunt for other NGOs which can take away this headache from the government in other places—and with no reduction in personnel and budgets either!

The issue, to me, is not one of pricing services. I see no problem is a rational price system that takes into account the reality of the poor. I see no problem in metering consumption. But the manner in which large projects are being decided upon, with little consultation, bypassing local governments like municipalities, is fraught with risk. The Greater Bangalore Water Supply and Sanitation project is a case in point. There are many others. The state is trying to abdicate its responsibilities. If this happens, the economy will suffer.

I do not know if a discussion on threats can get away without a mention of corruption. This is seen as all pervasive in our country. Let me hasten to note that the private sector has made its contribution in many ways, from reneging on the legitimate rights of workers, to selling adulterated products in times of scarcity [who can forget adulterated edible oils], to even manufacturing spurious drugs for sale in the market and for bringing in what may be called the suitcase culture in areas like real estate. These have to be dealt with as per law by the Executive. The private sector has also contributed to corrupting the executive.

In the public domain, we hear talk of the “criminal-politician” nexus, of the “corrupt bureaucracy” and so on. Academics have called this crony capitalism. There is little doubt that as an institution, the civil services are not what they once were. There is little doubt that unscrupulous persons will try to subvert the public good for personal gain. But if civil servants have given in to

temptation, we must not forget those who converted temptation into opportunity—the politicians. We have had them with us right through these 60 years. Who today remembers the Mundhra scandal or the Kairon capers? That tradition has continued. Recently, however, important individuals have been convicted—a hopeful sign for Rule of Law.

In our democracy, people elect their representatives, who then rule—or is it govern?—in their name. The bureaucracy is just that: government servants, to implement the decisions of the political masters. If corruption is a tree flourishing in Indian soil, then the bureaucracy is the branch, the political class is the trunk. In a system where all deserve credit for the wrong things, it may be dangerous to try and identify what I may call The Original Sinner in corruption. However, since we have political masters, I am afraid that it they who must qualify for the tag of the Original Sinners in corruption. The fact that there may be a few honest politicians does not negate this argument. The solution, apart from a moral regeneration, is also the design of appropriate institutions. In getting rid of the tree of corruption, we have to cut the branches, but we have to cure the root—our society. How we do this is the question. Part of the answer is from institutional economics—get the institutional design right. Another part is in electoral reform. And there must be others, for this is a complex issue.

There is also an opportunity here. The 73rd and 74th amendments have created a new tier of the State—local governments. These are elected executive councils which now have a constitutional responsibility for local level planning in what matters—drinking water, schools, health centres and the like. This requires an extensive restructuring of the state government departments; the 'line command' way of working must change. These local governments exist, but there are weaknesses in the working of the system. One can see this negatively as an assault on the poor through local corruption, or positively as an opportunity to Do Things Right. How we manage this transition to the effective working of a multi-level state in the coming years will determine, to a large extent, if we can sustain the good things that have happened in the past and move on to better times. There will certainly be mistakes made. We will have to learn and improve as we go along. For it is this that will be the foundation for the growth we have been talking about.

By Way Of Conclusion

The Indian economy has recorded zig zag progress in many sectors in the last 60 years. There are also spectacular failures, such as the inadequate spread of education or the lack of genuine access to good health facilities. Discrimination continues temporally, spatially, by caste and by gender. There is the scourge of terrorism—internal disturbances, of naxalism and so on that affect large parts of the country. These are manifestations of serious problems that need to be imaginatively addressed.

The progress made is welcome, but the country needs to do a great deal more. In looking at the overall picture, it is important to accept that we have not done all that badly. There have been winners and losers. Losers often have not got promised benefits. Movements have come up to fight for their rights. The distortions exist, but these are political issues to be fought, and solved, politically. In 60 years, I would argue the overall balance is positive.

The debate on the options before India today suggest a choice between what are called 'neoliberal' and 'left/nationalist' policies. For the neoliberals, the state today is still far too active; for the left/nationalist, it is not active enough when it comes to the 'poor'.

What India has done does not fit easily into either bag: there is a bit of both. India's has been a unique path of economic development—internally decided in a democratic framework, constantly debated between different ideologies and interest groups, and increasingly engaging with the world. The ultimate result is uniquely Indian. India has achieved a respectable growth rate in the 2000s. India has reduced poverty. It took a long while to reach this growth rate; and it has not reduced poverty sufficiently. The benefits of growth have not been evenly distributed, but there is an articulated concern on this score. There is great regional disparity. Some metros like Bangalore have experienced growth they cannot adjust to; other areas have not seen economic activity. India's is a story of movement from an unacceptable starting point—one of poverty, ignorance, helplessness, to a goal variously defined by different groups. Sometimes one vision dominates, sometimes another. Elections provide the base for such changes. A dramatic one was in 1977, when the emergency regime of Indira Gandhi was thrown out by the people. The people knew what they did not want; it takes time for them to find what they do. That is the process we are in. It is a trajectory to a goalpost that shifts. Analyses based on defined goalposts

throw up deficiencies. The deficiencies may be real, but they are, if recent historical experience is a guide, unlikely to be permanent. One must remember that 60 eventful years—and eventful they have been—are but a short blip in a nation's history. The experience since independence suggests that we can get it right. I remain an optimist in this matter.

Afterword: Of Cabbages and Kings

Today is India's 60th Independence Day and we are reflecting on the economic journey of the country in these years. We are here in Bengaluru and Karnataka. Is there a place for some thoughts on where Karnataka is in this journey? As these subjects are normally discussed: No. But we are a free people, and there is always time for Cabbages and Kings. And so Princely Mysore and modern Karnataka need not be brushed aside.

Karnataka, and *namma Bengaluru*, have already been mentioned. Perhaps a few random thoughts would do no damage to this lecture.

What I find fascinating about my adopted state—I was born in Andhra Pradesh and grew up in Delhi—is that it mirrors India in essential ways. I consider myself a Karnatakian and an Indian. I am also a Stephanian, an economist, and an itinerant lecturer. Here one can be all these without being a Kannadiga, which is a linguistic identity. I am sure there are many like me here in the Bangalore International Centre.

If the key characteristic of India is diversity, then so is it with Karnataka. In a country where a state's identity is based in language, Karnataka has a Kannada speaking 'majority', in the same way as India has a Hindi speaking 'majority'—a large number that is nevertheless less than 50% of the population. Those who speak other languages together number more than 50%. The mother tongue of many in the north is Marathi. In the West we have Tulu and Konkani. In the south, Tamil is widely spoken. In the East Telugu is spoken by considerable

numbers of people. Urdu has a large number of speakers across the state. All are born Karnatakans.

What is remarkable here is that many of these language groups are bi or multi-lingual. It has nothing to do with literacy; it is an attitude to life. It is not just Kannada, but it is Kannada+. The ordinary people reach out to the world outside. The proof lies in the richness of Kannada literature. Many who spoke other languages at home have enriched Kannada literature. This is fundamental cosmopolitanism: something to cherish and nurture.

Karnataka has got many things right. It has a tradition of civil service that rivals that of British India. It has a history of industrialisation that India has learned from. Visvesvaraya was a member of Nehru's Committee on Planning in the 1930s. It has pioneered positive discrimination. Its educational institutions have provided a base for the nascent knowledge economy. There is much to be proud of.

If, however, we think of Karnataka's development indicators, *without Bangalore, Dakshin Kannada and Udupi*, then we get a startling picture of backwardness. These three are statistical outliers, pushing the average values upwards. Whether it is agriculture, industry, education, or health Karnataka shows values like the Hindi heartland of Bihar and Jharkhand. Madhya Pradesh and Rajasthan have shown progress over the 1990s, and improved themselves. The truth is: Karnataka is a very backward state that has somehow come to be seen as an advanced progressive one. Its political leadership has not even come to grips with this backwardness, in spite of easily available data and information.

There are some things in which Karnataka is unique—and lucky. The ratio of people per hectare of land is favourable when compared to its neighbours. While most of the state is arid, the soil is good enough, there are relatively few landless labourers, and at this level of population, it provides a minimum level of subsistence. Nature has been kind: the state does not experience regular and periodic earthquakes, cyclones, etc. Over the years a style of life has developed in which people are content with their lot, and who seek fulfilment in other ways—spirituality, theatre and so on. Karnatakans are not 'economic men' [and women].

Karnataka can grow in one of two ways. Bangalore and the few others can move ahead, and this will, for a while, move the averages upwards—at the cost of

increasing the distance between those who are participants in this growth and those who are not. Or it can take the harder path of dealing with the backward parts of the state, investing in them for all round development for at least a decade, and then reap the fruits of growth as the lowest values rise and thus push up the state average.

There is no evidence that political leaders have grasped the nature of the policy choice. It is the same as that which faces India. Only, in India as a whole, this choice is being debated seriously. The coming years will be crucial for Karnataka.

In another dimension, Karnataka suffers a deprivation. A good part of the state—Old Mysore—was not in the forefront of the freedom struggle. There is no memorial here to a Congress Session as in Belgavi. That movement schooled a generation of politicians—from Nehru to Prakasam, Maulana Abul Kalam Azad to Jayaprakash Narayan, Rajagopalachari to B.C Roy, Sardar Patel to Govind Ballabh Pant. There is no one from here in this illustrious list. Thus, the state began its political life in India without someone schooled in the freedom struggle to give it political leadership. This vacuum was filled in the early days by the civil service of Old Mysore, a benevolent bureaucracy. Politicians here have not had that great advantage, and those who came into electoral politics had no glorious role models from the past. As a result, Karnataka has missed statesmen and had to get along with politicians.

And in recent years, the models they have had have not been of the noble kind. Thus while Karnataka has produced a Prime Minister, it has no politician today who is Prime Ministerial. I had spoken of Original Sinners earlier. Ours in this state had no national movement pedigree. They did not know any better. I am sorry to be blunt on a day of celebration. But can we have a better day than this to face up to this reality and wonder about a new path?

An example may help illustrate this point. Karnataka in the mid 1980s pioneered a devolution of power to local governments that has justly won praise from around the globe. The contribution of Abdul Nasir Sab, and the then Chief Minister Ramakrishna Hegde [with inputs from distinguished civil servants in the Mysore tradition], has been fundamental. But the politicians of Karnataka could not see beyond their nose, and within 5 years had managed to demolish it thoroughly. In place of the grand vision of Nasir Sab, came politics of the

pettiest kind. Karnataka is yet to recover from this step backwards. Other states have learned from Karnataka and moved on.

The state has great disparities like India. Bangalore today is a true neighbourhood of San Francisco, but it is remote from Chamrajanagar which is only a 100 kilometres away. The recent IT migrants to Bengaluru have still not got used to the fact the 'natives' here speak, not American as in San Francisco, but Kannada; and they resent speaking—having to speak even a little—Kannada. They expect the local people to speak their language. Here is a case of cosmopolitanism of the people being turned against them by the brash and the newly moneyed! And so long as these arrogant immigrants see the world this way, there is a base for trouble in the city.

Karnataka has disputes with its neighbours in the sharing of water. It has quarrels with Maharashtra, with Andhra and with Tamil Nadu. The processes in India that lead to such disputes work in magnified fashion in Karnataka. Short term, narrow political—by which I mean electoral—opportunities outweigh longer term wisdom. And intolerance is rising, as the reaction to Girish Karnad's comment that the Cauvery Tribunal decision be respected showed. The politician's reaction to this award has been singularly lacking in statesmanlike quality. Thus, there is a need for caution for us citizens here. Where statesmanship will come from I do not know. It may be outside influence, but that we will have to see.

In spite of all this, Karnataka is a great place to be. The people will eventually find their statesmen. The last 60 years then, for Karnataka is a historical blip from which it will emerge stronger. This, for me as a Karnatakan, is not a conclusion based on data. It has become an article of faith, and so beyond debate!