Special Editorial

GROWTH, DEVELOPMENT AND EQUITY: INDIA'S TRYST WITH ECONOMIC REFORMS

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ABSTRACT

India took a definitive step towards market reforms in 1991 by dismantling the License-Permit Quota (LPQ) Raj. This brought in significant spurt in Gross Domestic Product (GDP) growth rates, exports, Foreign Exchange (FE) reserves and reduced percentage people Below Poverty Line (BPL) considerably. However, the human development story, in terms of Infant Mortality Rate (IMR), Maternal Mortality Rate (MMR), malnutrition of children, mean year of schooling have been quite dismal. The picture on containing income inequality is also quite disappointing in the urban segment as it shows an upward trajectory. The paper makes a strong case for opting for balanced growth where right priority is accorded to merit goods like quality primary education and health as public remit. A balanced growth strategy between economic infrastructure and social overheads would be the right cocktail for India's policy makers. The recommendations include introducing General Anti-Avoidance Rule (GAAR) at the earliest to pre-empt illegal parking of funds in tax havens, privatisation of Public Sector Banks (PSB) to promote better financial intermediation. It also supports strongly the case for introducing a Universal Basic Income (UBI) scheme, in lieu of plethora of subsidies to guarantee a minimum standard of living for every Indian citizen. It draws comparison with China, whose growth and development story have walked hand, in hand after liberalization in the 1980s.

INTRODUCTION

Our Constitution makers tried to strike a fine balance between individual liberty with Socio, Economic and Political Justice for all its citizens, 67 years back. Article 325 provides universal adult franchise; thereby ensuring political justice to all its citizens. Social justice has, however, eluded India as it is inextricably linked with a moribund the caste system, where your social position is determined by accident of birth. It is only through economic justice that there can be vertical mobility in the social ladder. Prof. M.N. Srinivas in his seminal concept "Sanskritization" brought out how improvement in economic status can be a potent factor in facilitating social vertical mobility in India. However, the real game changer for social justice can be through promotion of economic justice through state intervention. Accordingly the Directive Principle of State Policy while reiterating the commitment of socio economic justice provides for provisions like early childhood care, raising level of nutrition, promoting economic interests of SC/ST, maternity relief, special provisions for women etc. The Right to Education (2009) has been the most talismanic moment to promote economic justice, as access to education could be the "swiftest elevator to modern Indian power". Article 38(2) specifically calls upon the state to minimize acute inequality of income. In this backdrop we examine the various ideological alternatives that the fledgling democracy after independence had, to promote economic justice, the path they chose. It takes a panoramic view of the impact of major economic reforms which were introduced in 1990 and in particular, disconnect between India's journey through the trajectory growth & human development and our abject failure to bring down inequality. It also compares experience of China, which adapted the economic liberalisation path, a decade earlier than India's, with India in various growth and development parameters.

India after Independence

After independence India had the choice of adopting the British model of capitalism canvassed by Adam Smith, communism as practiced in Russia through state planning or the liberal ideas of Keynes which promoted a welfare state. It was Adam Smith who said that "Private pursuit of self interest would lead, as if by an invisible hand, to the well being of all". For Smith the critical impetus for wealth creation would be free market and division of labour. For Karl Mark the primordial concern was equity, as exploitation of labour was the rampant in post industrial revolution western society. A socialist state would be a catalyst for bringing down income inequality and "Das Kapital" documented the innards of exploitation, prognosticating how "capitalism contains the seeds of its own destruction". In sharp contrast John Maynard Keynes, writing in the backdrop of the great depression of the 1930's, was a strong votary for the state to generate employment through massive public investment. The New Deal Policy of Franklin D. Roosevelt encapsulated these ideas.

Pandit Jawaharlal Nehru had a distinct predilection for the Soviet economic model of state planning and heavy industry was considered as the temples of modern India. Prof. P.C. Mahalanobis provided the architecture for industrialisation through massive public sector intervention and foreign borrowing. Sadly the public sector undertaking, nationalisation of banks and coal mines that followed, ensured that India the "animal spirits" of the private sector was hardly roused. And India remained struck at what is popularly called the "Hindu rate of growth" of 3.5%. 1990 became a watershed moment, when a combination of high inflation, low foreign exchange reserves, and unacceptably high level of fiscal deficit forced India to seek the help of International Monetary Fund which imposed conditionalities such as devaluation the rupee by 22%, reducing import tariff from 130% to 30%, containing subsidy. In his famous budget speech Dr. Manmohan Singh in 1991 quoted Victor Hugo "No one can stop an idea whose time has come", to underlining that economic liberalisation in India was not a matter of choice but a preferred path for India's future economic journey. Twenty seven years thereafter it's time to take stock of the multi-dimension impact of these market reforms on growth, development and inequality in India.

First Generation Reforms (1991-2000)

The baby steps at reforms aimed at promoting industrial activities, boosting exports and encouraging foreign direct investment into our country. De-licensing of industry and abolition of Monopolies & Restrictive Trade Practices (MRTP) limit were the main stimulants for the private sector industries. In case of public sector, disinvestment became the big ticket reform, where the Public Sector Undertakings (PSUs) were becoming a drag on the economy. On the external sector, significant custom duty reduction, and having a managed float system became our predominant policy mosaic. Foreign Exchange Regulation Act (FERA) was replaced with Foreign Exchange Management Act (FEMA), with foreign currency limit violation being subject to fines rather than being criminally culpable. The foreign Direct Investment (FDI) norms were significantly liberalised to encourage technology transfer and long term foreign collaboration with OEMs.

Second Generation Reforms (2001-2014)

The earlier reforms where steps to align India with the conditionalities of International Monetary Fund (IMF). The next generation reforms were aimed at taking advantage of globalisation which was sweeping across the developing countries and had been one of the major reasons for the growth of emerging market economies of East Asia tigers. The reforms during this period were essentially to dismantle the administered price mechanism for scarce commodities like cement, sugar, fertilizer, drugs and petroleum. The public sector undertaking were categorised as Maharatnas and Miniratnas to facilitate international tie-ups, joint ventures and green field investment. On the legal side the reforms in the Company Act 1956 was essentially to bring in Corporate Social Responsibility to the centre stage. The Information Technology Act 2000 was another significant addition to ensure that the digital interface conforms to the agreed protocols and deviances suitably penalised. Post US economic financial crisis a committee chaired by Justice Srikrishna gave far reaching recommendations for bringing up an independent public debt management authority in lieu of Reserve Bank of India (RBI), merging Securities & Exchange Board of India (SEBI) with FMC, and provide the consumers with greater protection for the financial products.

One of its significant recommendations was to supplant repo rate determination by the RBI Governor with a broad based monetary policy committee which has since been put in place. While public debt management continues to be done by RBI, the Financial Sector Legislative Reforms Commission (FSLRC) is a welcome initiative to sensitize policy makers with the cross currents of fiscal instability.

Reforms Post 2014

The most significant reform post 2014 has been to replace a Centralised Planning Commission devolving nearly 30% of government expenditure to both centrally sponsored and state sponsored schemes by a mechanism called Niti Aayog. This is a bottom top development approach and looks at planning from the grass-root village level which can be aggregated progressively at higher level. It's an advisory body instead of allocating plan fund and will provide directional and strategic inputs to the centre and the states. The other significant reform has been the Goods and Services Tax which is a major indirect tax return to promote the concept of One India, One Market. This should eventually do away with the price distortion than exists between different states for many commodities; and thereby boost our economic activity and GDP by 1 – 1.5%.

Overall Impact of Reforms

As would be seen from the figure below, the growth rate has increased from a very low 1% (1990) to about 7% now, and the share of service sector has significantly increased and that of agricultural sector slumping. The reforms have also reduced the percent below poverty line significantly; and we have a comfortable FE reserves to take care of 7 months' import requirements as against 7 days in 1990.

India's Growth Story

India's growth story during the last 56 years, decade wise, clearly show how the Hindu rate of growth, has been supplanted by 7 – 7.5% growth. Savings as percentage to GDP has doubled and export has nearly increased by five times. The change in thrust from "import substitution" to export promotion, enabling trade policy, creation of Special Economic Zones (SEZs) has contributed most significantly to our export growth.

Table 1: GDP, Saving and Export: Trends

Year	GDP Growth	Savings %	Export as % GDP
1960-80	3.5	17	4.6
1980-90	5.6	19.4	6.1
1990-2001	6.0	24	13
2001-2010	7.8	33	20
2010-2015	7	31	25

Source: Economic Survey 2016-2017

India's Development Story

The real lament is the trend progress in mean years of schooling, high infant and maternal mortality rates and very high total fertility for women (2.4); as against global average of (1.5) for developed countries.

Table 2: Trends of Development in India

Sl. No.	Parameter	1988-89	2014-15
1.	Literacy Rate	51	67
2.	Life Expectancy	51	66
3.	Mean Years of Schooling	3.5	4.4
4.	IMR (1000)	53	44
5.	MMR (1 lakh)	260	200
6.	Total Fertility Rate	2.5	2.4

Source: Economic Survey 2016-2017

India & China: A Comparison

In this backdrop, it will be of interest to compare the growth and development story of India. More so since China they chose the liberalisation both in 1980 and India in 1990.

It's quite clear that China's robust growth is due to significantly high growth rate in agricultural sector and its booming manufacturing hubs. They have performed significantly better in every development parameter, be it schooling, child malnutrition, infant and maternal mortality compared to India.

Table 3: Comparative Growth & Development Trends: India & China

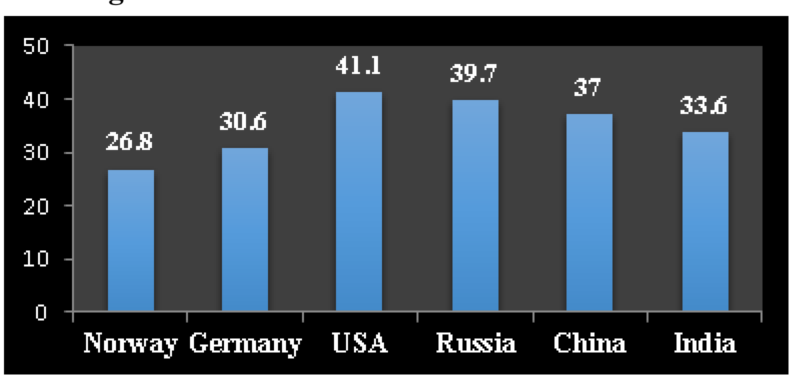
Sl. No.	Parameter	China	India
1.	Real GDP in 1950 in $	448	619
2.	GNI at PPP in 2015 $	12547	5497
3.	Agricultural Growth	6.7	2.5
4.	Manufacturing: Share in GDP	30	16
5.	HDI	0.727	0.608
6.	Mean Years of Schooling	7.5	5.4
7.	IMR (1000)	12.7	52.7
8.	Child Malnutrition	9.4	47.9
9.	MMR (1 lakh)	32	190
10.	% Below Poverty Line ($1.25 per day)	6.3	23.6

Source: An Uncertain Glory: India & its Contradictions: Jean Dreze & Amartya Sen

Income Inequality

Sadly reducing income inequality has not been a strong agenda in most of the developed countries irrespective of their ideology as the following graph would show. Interestingly China has higher gini coefficient than India.

Figure 1: Gini Coefficient of Select Countries



Source: Human Development Report 2015

Trend of Inequality after Liberalization in India

The following table shows trend of income inequality in rural and urban sector in India, post economic liberalisation.

Table 4: Trends of Income Inequality in Rural & Urban Sector

Year	Rural	Urban	Total
1993-94	25.8	31.9	30.1
2004-05	28.1	36.4	34.6
2009-10	28.8	38.4	36.2

Source: National Sample Survey Office Ministry of Statistics & Programme Office

What is more worrying is the rising trend of inequality, particularly in the urban segment of India. The rural sector has been stagnant; and therefore does not exhibit such a trend. Increasing urbanisation and opportunity in the service sector has contributed to the spurt in income inequality in the urban areas in India.

Millennium Development Goals

189 nations made a pledge in 2000 to free people from extreme poverty and multiple deprivations. This pledge is encapsulated in eight MDG goals to be achieved by 2015.

Table 5: Millennium Development Goals

	Goals	India's Achievement
	Goal 1: Eradicate Extreme Hunger and Poverty	23.6% (BPL)
	Goal 2: Achieve Universal Primary Education	Achieved
	Goal 3: Promote Gender Equality and Empower Women	Achieved
	Goal 4: Reduce Child Mortality by $2/3^{rd}$	$1/3^{rd}$
	Goal 5: Improve Maternal Health by $3/4^{th}$	$1/3^{rd}$

Source: UN Millennium Project Goals & Human Development Report 2015

It would seen from the above that while Right to Education and Sarva Shiksha Abhiyan (SSA) as a flagship programme has ensured universal access to education, cutting across gender, our progress in terms of child mortality and improvement of maternal health is far short of MDG targets. Prof. Jean Dreze has brought out how poor allocation of Rs.2700 crore in 2017-18 budget for maternity benefit is far short of the promise to give Rs.6000/- to every pregnant women in the informal sector.

The Rural Distress

Close to 60% live in India's villages and more than 50% depend on agriculture for their livelihood. The percentage contribution of agriculture to GDP has declined from 45% (1947) to 16% now; clearly reflecting disguised employment, low productivity and farmer distress. The following table will highlight the concerns.

Reforms Awaited

The major reforms awaited are in financial intermediation like banking, where the PSBs are saddled with 9% of gross non-performing assets (NPA). There is a strong case for privatising the nationalised banks, as it would ensure whittling down of priority sector lending and make banking more profitable and resilient. General Anti-Avoidance Rule (GARR) is long awaited, as this could cut down on malpractices like "round tripping" and parking of illegal money in tax havens. A Direct Tax Code, keeping the IT Act 1961 would make India's direct tax provisions in sync with best global practices.

But the real paradigm shift could be if we can bring in Universal of Basic Income Scheme to usher a just society, where every individual is guaranteed a minimum income. This idea has been mooted in our recent Economic Survey, which has assessed that the cost of UBI would be a little over 1% of all existing subsidies which is around 5% of the GDP. This will cut down all leakages and pre-empt non targeted beneficiaries. It will ensure that every Indian has the right to live with dignity, which is part of "Right to Life" as per the UN Human Rights Declaration in which India is a signatory.

For manufacturing to really kick-start, the labour laws would need to be streamlined to provide flexibility in production while protecting interests of the labourers. While the Rajasthan government has taken a pioneering step in this regard, the other states are yet to replicate such best practices. The National Manufacturing Zone (NMZ) vision by the Krishnamurthy Committee needs to see the light of the day. To succeed India needs to have better Centre-State synergy beyond the rhetoric of cooperative federalism.

The Road Ahead

The foregoing clearly reveal disconnect between India's growth record and human development initiatives, post economic liberalisation. India has not achieved the two crucial targets of reducing child mortality by 2/3rd and maternal health by 3/4th, as mandated by the millennium development goals (2000-2015). Child malnutrition continues to remind an unacceptably high level of 48%. India's real challenge would be how to achieve balanced growth of different sectors, particularly a balance between economic infrastructure and social overheads. Quality primary education and reasonable health care at affordable cost, as merit goods, must be the predominant remit of the state. The present tendency to abdicate this responsibility to the private sector with their oppressive commercial orientation, runs contrary to the concept of welfare state. Universal Basic Income, as a concept, must receive serious public attention and debate, as it would guarantee 312 million, who live below poverty line, a chance to live a life of dignity which is guaranteed as a fundamental right. As Jeffrey Sachs rightly observes "Our greatest illusion is that a healthy society can be built on mindless pursuit of wealth". Growth and development can go hand in hand, as China has shown, post their liberalisation in the 1980s.

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