# GROWTH AND POVERTY
## The Great Debate

Edited by: Pradeep S Mehta • Bipul Chatterjee

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Pradeep S Mehta
Bipul Chatterjee

25 years
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# Acknowledgement

Jagdish Bhagwati, Professor of Economics and Law, Columbia University lucidly analysed the relationship between growth and poverty reduction in his lecture to the Indian Parliament on the 2nd of December, 2010. This triggered a very intense debate organised under the aegis of CUTS International. This collection of views on growth-poverty linkages of a number of eminent scholars from India and abroad makes a rich contribution towards understanding many important and contemporary issues of economic development.

We express our gratitude to Professor Bhagwati and Shri T K Vishwanathan, Secretary General, Lok Sabha for granting us permission for the reproduction of this Lecture and to all eminent scholars/commentators for taking part in this debate. Our thanks are also due to Shri K Vijaykrishnan, Joint Secretary, Lok Sabha Secretariat; Brooks World Poverty Institute, University of Manchester; and Journal of International Affairs, Columbia University.

Words alone cannot convey our gratitude to those who have contributed in every big and small way to this volume.

We gratefully acknowledge the assistance of Joseph George, Madhuri Vasnani and Mukesh Tyagi.

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Pradeep S Mehta
Bipul Chatterjee

# Reflections

There is a case for land reforms that make the conversion of land into industrial use less fraught; there is a case wide-ranging educational reform which makes it easier for the poor to access quality education; and there is a case for revamping primary healthcare to make it much more functional.

***Abhijit Banerjee***
*Department of Economics*
*Massachsetts Institute of Technology, USA*

When I began hearing about the "East Asian miracle economies", my reaction was: "miracle? what miracle?". It was then (80s) I started looking more closely at India. I found myself more struck by how Indian policy makers managed to screw things up than how East Asians concocted an alleged miracle. So while India has achieved the status of a major global economic power and it has recorded among the world's highest growth rates, it is still by some distance the country in the G20 with the worst scores in the Human Development Index (HDI).

***Jean-Pierre Lehmann***
*Emeritus Professor of International Political Economy & Founding Director, The Evian Group at IMD, Lausanne, Switzerland*

I believe that the differences between Sen and Bhagwati are less substantive than what is popularly made out to be. On a variety of important policy matters, they use different languages but say very similar things. My only worry is that even on this Sen and Bhagwati will agree that I am wrong.

***Kaushik Basu***
*Chief Economic Adviser, Ministry of Finance*
*Government of India*

Obviously, higher incomes are a necessary condition for better state-funded welfare, better jobs and so forth. This is simply not debatable. Indeed, only in India, do serious intellectuals dream of debating these issues.

***Martin Wolf***
*Chief Economics Commentator, Financial Times*

Growth is important not merely to generate the resources for anti-poverty interventions and human development but essentially, it is growth that should provide sustainable and productive employment opportunities to the poor. If our growth has not produced sufficient jobs, the fault does not lie with growth but with our policies which have anti-labour bias. Employment intensive growth requires us to question our policies creating structural rigidities. Examples include the need to rethink on our labour laws and equally important, whether we should continue to prevent foreign investment in activities such as retail trade.

***M Govind Rao***
*Director, National Institute of Public Finance and Policy, India*

There is no way of reducing rural poverty in India without reducing the number of people actively engaged in farming, and providing alternative employment opportunities for the rest of the rural population. Since you do not want all these people to flock to the already overcrowded cities, you need to create new jobs in the country side.

***Geza Feketekuty***
*Special Adviser to the President, Overseas Private Investment Corporation, USA*

Kerala has the highest rank in Human Sector Development in India. Girls' education has imparted a unique dignity to women. Thanks to its investment in education and health, it has the lowest mortality rate, and one of the highest sex ratio.

***G S Bhalla***
*Professor Emeritus, Centre for the Study of Regional Development, India*

Should not those interested in poverty alleviation focus on growth of what the poor need – remunerative and stable work, food, 'minimum needs' etc (ala Malcolm Adiseshaiah, Vakil and others)? That is, focus on the pro-poor composition of growth? For instance, the extraordinary growth in cars compared to that in public transport, bicycles cannot by any stretch of imagination be said to be pro-poor.

***Arif Waqif***
*Professor and Founder-Dean (Retd)*
*University of Hyderabad, India*

Governments tax, and have taxed for centuries, primarily to redistribute. The question is on the efficiency of this redistribution. As far back as 1985, Prime Minister Rajiv Gandhi stated that only 15 percent of expenditures meant for the poor has reached them.

***Surjit S Bhalla***
*Managing Director, Oxus Research and Investment, India*

I think the danger in the approach of Prof Bhagwati to economics lies in the possibility of making the subject so mechanical and esoteric that it loses touch with the realities of human existence beyond the figures and percentages it churns out to 'prove' what our real life experience cannot relate with!

***Leonard Ugbajah***
*Acting Executive Director*
*Centre for Trade and Economic Regulation, Nigeria*

In order to get rid of poverty, India has to create new and productive non-agricultural jobs, control rural population growth and raise productivity in agriculture, and stimulate transition out of agriculture. This involves a number of policy areas, including those related to health, education and infrastructure.

***Arne Melchior***
*Senior Research Fellow, NUPI*

Amartya Sen, the Nobel Laureate economist, issued a stark warning to New Delhi about how "stupid" it was to aspire to double-digit economic growth without addressing the chronic undernourishment of tens of millions of Indians. Jagdish Bhagwati, another highly respected economist and a Professor at Columbia University in New York, stirred up debate by arguing that rising incomes were felt widely across the country and were not bypassing the poor.

***James Lamont***
*South Asia Bureau Chief, Financial Times*

GNP growth can, of course, be very helpful in advancing living standards and in battling poverty (one would have to be quite foolish not to see that), but there is little case for confusing: (1) the important role of economic growth as means for achieving good things; and (2) growth of inanimate objects of convenience being taken to be an end in itself. One does not have to "rubbish" economic growth – and I did not do anything like that – to recognise that it is not our ultimate objective, but a very useful means to achieve things that we ultimately value, including a better quality of life.

***Amartya Sen***
*Professor of Economics and Philosophy at Harvard University USA*

Most disturbing of all, however, are Sen's diagnosis of and prescription for healthcare. He lashes out against premature privatisation of basic healthcare, arguing that with the patients knowing very little about what the doctors (or supposed doctors) are giving them, the possibility of fraud and deceit is very large. While examples are helpful, policy formulation must be based on representative data and studies. On this score, Sen's case is quite weak. After decades of effort and expenditure, the performance of public healthcare has been dismal.

***Arvind Panagariya***
*Professor of Economics, Columbia University, USA*

Rapid GDP growth has financed, not hindered, rapid growth of social spending. The Economic Survey (2009-10) says gross central revenues more than doubled in 2004-05 and 2009-10, from P3.04 lakh crore to 6.41 lakh crore. This helped finance the social spending boom.

***Swaminathan S. Anklesaria Aiyar***
*Consulting Editor, The Economic Times*

# Abbreviations

| | |
|---|---|
| ASEAN | Association of South East Asian Nations |
| BJP | Bhartiya Janta Party |
| BPL | Below Poverty Line |
| CAG | Comptroller and Auditor General |
| CUTS | Consumer Unity & Trust Society |
| FDI | Foreign Direct Investment |
| FT | Financial Times |
| GDP | Gross Domestic Product |
| GM | Genetically Modified |
| GNP | Gross National Product |
| HDI | Human Development Index |
| ILO | International Labour Organisation |
| IPL | Indian Premier League |
| IPS | Indian Police Service |
| J&K | Jammu and Kashmir |
| MDG | Millennium Development Goal |
| MIT | Massachsetts Institute of Technology |
| MPI | Multidimensional Poverty Index |
| NAC | National Advisory Council |
| NANTs | National Association of Nigerian Traders |
| NCAER | National Council for Applied Economic Research |
| NGO | Non-governmental Organisation |
| NREGA | National Rural Employment Guarantee Act |
| NSDL | National Science Digital Library |
| NSS | National Sample Survey |

| | |
|---|---|
| NSSO | National Sample Survey Organisation |
| OBC | Other Backward Class |
| PDS | Public Distribution System |
| PPP | Purchasing Power Parity |
| UNDP | United Nations Development Programme |
| UP | Uttar Pradesh |
| UPA | United Progressive Alliance |
| WTO | World Trade Organisation |

# Foreword

In 2004 I delivered the K R Narayanan Memorial Lecture at the Australian National University, Canberra. It was titled "India: On the Growth Turnpike". Dr. Narayanan, our former President, was a noble son of India. I had the privilege of interacting with him when he was our President and I was Finance Secretary.

It was my duty to brief him on the budget and I was very impressed by his grasp of complex economic issues. He emphasised the need for policies that foster accelerated growth and address problems of equity, the then and now the core issues for India's political economy.

Over the last decade the growth in India did accelerate. However, recently there has been some disquiet about equity outcomes. My Guru, Professor Jagdish Bhagwati, lucidly analysed the relationship between growth and poverty removal in his recent address to our Parliament. This triggered a very intense intellectual debate organised under the aegis of CUTS International. I congratulate CUTS for making this very important contribution to India's policy debate.

India's growth acceleration means that now we can double the per capita income in less than one generation which earlier used to take 3 generations! This is an awesome difference. But, today, an important question is whether we can sustain this great story as well as make it more robust and equitable.

This collection of views on growth-poverty of a number of eminent scholars from India and abroad makes a rich contribution towards understanding these important issues. This debate seems to suggest that while our Stage I reforms had borne fruits, a time has come to push Stage II reforms in social sectors such as health and education and other crucial sectors such as agriculture and labour markets.

Stage II reforms will be much more complex than Stage I reforms. We will need to confront a number of "social conflicts." In my abovementioned lecture I have argued that the high quality of our institutions of conflict management anchored in our democracy has helped us in carrying forward earlier economic reforms.

This year the Planning Commission of India made the process of formulation of the 12$^{th}$ Five Year Plan much more inclusive by asking for the larger civil society's views on several important issues confronting our growth and development. I am told that many of the submissions from our progressive scholars were more in favour of better designed market-oriented reforms. I am not surprised at this, given the need for implementing liberalisation with safety nets.

I understand that this motto – liberalisation with safety nets – is one of the credos of CUTS International, a leading international NGO working on trade and regulatory issues. Since 1990s, CUTS, under the visionary leadership of Pradeep S Mehta and his team of energetic analyst-activists, has made enormous contribution to the economic policy discourse in India and internationally. I have witnessed many of them and am proud to be associated with it.

This volume firmly establishes the importance of growth in social development. Its publication is timely as there is a reactionary murmur about growth in some political quarters. And we cannot afford that to happen.

It is our solemn duty to lift the largest number of our poor out of the poverty trap, which can be done only by expanding the cake, for which growth is an imperative. Therefore, I urge CUTS to organise more such constructive debates, particularly on Stage II reforms or the second generation reforms and thus take the messages down to the grassroots and thus help build consensus that is required for successful implementation of reforms.

June 2011

**Vijay Kelkar**
Chairman
$13^{th}$ Finance Commission

# Simply not Debatable!

On December 02, 2010 Professor Jagdish Bhagwati delivered a Lecture to a joint session of the Lok Sabha and the Rajya Sabha (the Lower House and the Upper House of the Indian Parliament) with the Prime Minister of India Manmohan Singh, the Lok Sabha Speaker Meira Kumar, the Vice President of India and Chairman of the Rajya Sabha Mohammad Hamid Ansari on the dais and dignitaries including Sonia Gandhi (Chairperson of the United Progressive Alliance – the ruling coalition in India), L K Advani (former Deputy Prime Minister of India and a senior leader of the main opposition: Bhartiya Janata Party), and many other Members of the Parliament such as Karan Singh, Shashi Tharoor and N K Singh in attendance. The Lecture, that is available now in a revised augmented version on the Lok Sabha web site *(www.loksabha.in)* alongside the shorter oral version, was entitled "Indian Reforms: Yesterday and Today" (the 3rd Professor Hiren Mukherjee Memorial Annual Parliamentary Lecture).

### It is a Myth that Reforms are Not Helping the Poor

The core point of his Lecture was that it is a myth that reforms are not helping the poor. He said that several analyses reveal that "the enhanced growth rates have been good for reducing poverty, while it has not increased inequality measured meaningfully".

Stating that high economic growth has led to greater revenues, and that India was finally able to spend more on health and education for the poor and underprivileged, Professor Bhagwati described conventional growth-enhancing reforms as stage one, and the spending on health and education of the poor as stage two reforms.

Both were 'inclusive', he said, adding that Stage 1 reforms have benefited, not immiserised, the poor and the underprivileged, while Stage 2 reforms, rendered possible by Stage 1 reforms, reinforced "the beneficial pro-poor effects of stage one reforms".

As an advocacy group committed to raising the living standards of people, and seeing that the issues raised by Professor Bhagwati are intrinsic to the policy discourse, CUTS International posted a news item of the Lecture on its web site and circulated it widely through its Internet-based Fora. The response was huge and unprecedented. The e-groups reach out to a large number of social scientists, intellectuals and policy-makers in India and indeed worldwide. Nearly all the contemporary important Indian economists joined the debate, which ran into thousands of pages, including some which were argumentative. Quite naturally the posting commentators did not respect the boundaries and some were quite garrulous.

This lead Martin Wolf, Chief Economics Commentator of *Financial Times* to write: "Obviously higher incomes are a necessary condition for better state-funded welfare, better jobs and so forth. This is simply not debatable. Indeed, only in India do serious intellectuals dream of debating these issues." (page 57)

Reforms in India started in earnest in the early 1990s, and until then the growth story was disappointing. The lack of growth had led to a failure of the growth strategy as the principal means to 'pull up' the poor out of the trap. But once the growth picked up due to the reforms, poverty declined.

Since the population is huge while there was a decline in percentage, the absolute numbers still remain overwhelming.

**Most Agree that Growth is Important, However….**

Most commentators agreed that on the overarching importance of growth *albeit* to a varying degree – the forceful assertion by Professor Bhagwati. The contention that more attention to growth promotion policies is absolutely vital for developing countries like India with high initial levels of poverty mainly arise on account of three different perceptions, which tend to overlook certain positive aspects of growth.

First, a majority of those who underrate the role of growth believe that growth almost invariably leads to high income inequality because accrual of benefits thereof is biased in favour of the upper strata.

Some commentators including Jean-Pierre Lehman (page 42), Raymond Saner (page 44) and Ravi Chaudhry (page 77) pointed out the glaring and growing disparities between the rich and the poor in the context of India's post-reform experience. This proposition (that growth typically caters to generating wealth for those who are already rich) is unfair considering that rising income inequality does not prevaricate poverty reduction as argued by Professor Arvind Panagariya (page 25).

Alok Ray provided examples of direct and indirect poverty reduction effects of growth in absolute terms (page 28). On a related note, Shantayanan Devarajan argued that social spending could do little to reduce income inequality and may even raise it if not targeted properly by giving the example that 33 percent of public spending on health in India accrues to the richest 20 percent (page 66).

Secondly, the question whether growth leads to poverty reduction has been debated while mostly ignoring the fact that flow of causality between these two is not unidirectional and static but circular and continuous. Many participants in the debate resonated reports in the popular media that growth has failed to deliver for the poor, while some shared instances of social spending failing to deliver real economic empowerment of the underprivileged (*High Growth Fails to Feed India's Hungry*, James Lamont, *Financial Times,* December 22, 2010). On the contrary, examples of reinforcement of the correlation between growth and poverty reduction were cited by G S Bhalla (page 67) and Professor Panagariya (page 68).

Ravi Chaudhry drew attention to the fallacy of considering the mutual effects of growth and poverty reduction as static and stated the importance of giving growth policies a head start to be accompanied by poverty reduction programmes after reaching a certain threshold (page 77). This view also buttresses the idea of sequencing Stage 1 and Stage 2 reforms as mooted by Professor Bhagwati in his parliamentary lecture.

Thirdly, some experts tend to harbour a belief that it is not feasible to target growth and poverty reduction through simultaneous policies. This view is epitomised by Abhijit Banerjee's comment which implies that governments are generally observed to be doing only one thing right at a time since there is always a trade-off (page 24). He stated that government's capacity to do anything new is always limited especially when the state is weak.

Professor Panagariya strongly countered this with the argument that governmental capacity to execute a mix of policies can vary considerably and improve significantly over time as has been observed in the Indian context (page 69). He further fortified his argument by proposing policy reforms on as many fronts as possible and through means that will impose a minimalistic burden on governments for their execution.

Additional responses on this issue stressed that the past trend of focusing on a single policy objective must give way for setting multiple policy goals which is by no means impossible.

Given the underlying premise that growth must only be a means to an end: better quality of life for all, to which most experts adhere to, the debate provides an important synthesis by way of directions for future course of action. Several important insights emerged from this synthesis. Most of the commentators unanimously agreed that there is an urgent need to create favorable conditions for participation of unskilled labour in the growth process. Governmental support should be extended to improve the bargaining power and social security of employees in the unorganised sectors.

Arne Melchior adroitly argued that disguised unemployment in the agriculture sector has to be removed by generating new and productive non-agricultural jobs (page 74). At the same time, a solution must be sought for eradicating massive corruption running through public institutions and establishments. This, in turn, will help to substantially improve the exchequer's capacity for higher investment in health, education and other social sectors.

Indeed and this is happening in India as pointed out by Swaminathan S A Aiyar (*It's Social Spend Boom, Stupid*, Times of India, New Delhi, February 02, 2011, page 92): "Between 2004-05 and 2009-10, central plus state social spending more than doubled from ₹1.73 lakh crore to ₹4.46 lakh crore and from 5.33 percent of GDP to 7.23 percent. So, social spending has actually risen faster than GDP. Rapid GDP growth has financed, not hindered, rapid growth of social spending. The Economic Survey (2009-10) says gross central revenues more than doubled in 2004-05 and 2009-10, from ₹3.04 lakh crore to ₹6.41 lakh crore. This helped finance the social spending boom".

On the other hand, there were still critics who seemed to think that growth had not been 'inclusive' and growth was an obsession to be discarded. In particular, Professor Amartya Sen, who was on the CUTS Trade Forum but did not join the Forum debate while writing elsewhere, condemned the preoccupation with growth and suggested that growth had little to do with helping the poor and the underprivileged, and that obsession with growth comparisons of India and China was also misplaced.

In response, Professor Bhagwati and Professor Panagariya (in two responses in his monthly column in *The Economic Times,* New Delhi) have noted that the post-reforms growth has indeed been good, not just for the elite or the upper middle class, but also for many underprivileged groups. The findings come from detailed empirical studies, many of them organised by Professors Bhagwati and Panagariya.

Again, some critics agreed with the proposition, apparently embraced by Professor Sen, that social expenditures rather than growth matter. But Professor Bhagwati argued that these expenditures cannot be sustained unless growth generates revenues. As he said, focus on growth matters for India as it "pulls the poor into gainful employment and also provides the revenues with which one can finance the direct programmes on health and education, which I call Stage 2 reforms" *(www.financialexpress.com/news/economists-endorse-bhagwati-line-for-upa/736850/0).*

This important lesson is now at the heart of the successful model of development embraced by the immediate past President of Brazil: Luiz Inácio Lula da Silva and espoused by the newly-elected President of Peru: Ollanta Humala. They embrace 'neoliberal' policies that promote prosperity and then use the resulting revenues to boost the budgets for health, education etc. for the poor. In fact, the 'moderate' advisers to the new President of Peru talk exactly in these terms, suggesting that they have been hearing the arguments in the CUTS Forum!

Many other subsidiary themes of interest surfaced in the many exchanges. To enable a proper evaluation of the multi-faceted theme of the interaction between growth and poverty, in particular, this selection of the Forum contributions is supplemented by writings on the theme by Professor Bhagwati and others over the last four decades.

The Indian experience corroborates with the general pattern of growth and poverty linkage that is observed from the international experience. The share of people in poverty, defined as those living on less than a dollar per day (poverty ratio), almost always declined in countries that experienced growth. High growth allowed many East Asian countries to reduce the share of the poor in their population during 1987-1998 – from 26 percent to 15 percent and the number of poor from 417 million to 278 million. With an annual growth rate of nearly 9 percent since 1979, when it began introducing market reforms, China alone has pulled more than 100 million people out of poverty.

According to the Santiago-based Institute for Liberty and Development, Mexico's per capita growth rate of 1.5 percent in 1990s did not affect the share of people living in poverty, while Chile's 7 percent average growth rate between 1987 and 1998 reduced its poverty rate from 45 to 22 percent. Between 1993 and 1998 Vietnam's per capita growth rate averaged about 6 percent per year and the World Bank reported that its population living in poverty declined from 58 to 37 percent. Uganda's per capita growth of more than 4 percent in 1990s reduced its share of poor people from 56 to 44 percent between 1992 and 1997.

And these are not isolated cases. David Dollar (*Globalization, Poverty, and Inequality since 1980*, The World Bank Research Observer, Oxford University Press, Issue 2, Vol. 20, 2005) found that "the trends toward faster growth and poverty reduction are strongest in developing economies that have integrated with the global economy most rapidly, which supports the view that integration has been a positive force for improving the lives of people in developing areas".

While the role of growth in poverty reduction is undisputable, a basic disagreement among some of those who participated in this debate was regarding the extent of reliance to be placed on growth alone as the panacea for poverty reduction. A closer look at various views reveals the vacuousness of a popular perception (particularly among some Indian NGOs and their foreign supporters who have little or no understanding of the subject of economics and how it works but more often than not express their views on this subject) that growth leads to inequality.

Our discussion underlined the fact that diverse viewpoints can indeed be reconciled which is an important pre-condition for a more viable and effective policy response so that other than achieving a US$6tr economy by the year 2020, India can reduce its level of poverty to a negligible figure (World Bank and IMF Report – Global Monitoring Report 2011: Improving the Odds of Achieving the MDGs – *High growth in India and China helps eradicate poverty: A Report*, *Financial Express,* New Delhi, April 17, 2011, page 134).

By successfully implementing Stage 1 reforms not only that India has achieved high growth rates but also either old institutions have been revamped or new institutions have come in place and as compared to the past the growth impact on poverty reduction is there to see (much more robust than in the past).

We would want the larger debate in future to be on the implementation of Stage 2 reforms (agriculture in particular – reform measures to get people out of agriculture and engage them more productively in other sector, particularly in manufacturing sector, and labour market reforms) and their political economy aspects. Already the Government of India has formulated a strategy to raise the manufacturing contribution to the GDP from the current level of 15-16 percent to 25 percent by 2025 to create 100 million new jobs. This would certainly help moving people from the rural sector to the manufacturing sector, but the biggest impediment to this ambitious plan is getting land for industrial use from the current farm lands. Looking at the current highly contentious debate on land acquisition, this is going to be a tough agenda.

June 2011

**Pradeep S Mehta**
**Bipul Chatterjee**

# PART - I

## Professor Jagdish Bhagwati's
## Lecture to the
## Parliament of India

# Indian Reforms: Yesterday and Today

*Jagdish Bhagwati*
University Professor, Economics and Law
Columbia University, USA

**Honourable Speaker of the Lok Sabha Smt. Meira Kumar, Honourable Prime Minister Dr. Manmohan Singh, and Honourable Vice-President of India Shri Muhammad Hamid Ansari:**

I am honoured by the invitation to give this prestigious lecture. I am also delighted to see many of our distinguished leaders in the audience, from all political parties and from several walks of life: among them, Smt. Sonia Gandhi, Smt. Gursharan Kaur, Shri L K Advani, Shri Karan Singh, Shri Shashi Tharoor and Shri N K Singh.

It is a great privilege to be lecturing here today on our reforms. But it is also presumptuous to do so in the presence of the Prime Minister who has not merely thought about these reforms for as long a period as I have, but has also initiated and overseen them. But, perhaps, I can add a few shades to the portrait he has been painting since 1991, while adding to the ongoing debate on the shape of Indian reforms to date, where they are going next, and where they should.

Yet, perhaps the most appropriate way to start my tribute to the memory of the eminent parliamentarian, Professor Hiren Mukerjee, would be by celebrating Indian democracy of which the Lok Sabha itself is the chief symbol. India was for decades unique in her democracy among the post-colonial countries that had gained Independence. Today, that uniqueness has thankfully disappeared as several countries around the world have followed in India's footsteps and transited from authoritarianism, even military dictatorships, to democratic forms of governance. But our embrace of democracy from the outset does set us apart from, and puts us in a higher pecking order relative to, China whose egregious denial of democratic and other human rights detracts hugely from admiration for its stellar economic performance.

India has not just the Lok Sabha and elections; it also has all the elements of what we now call a "liberal democracy". We have an independent judiciary that has also advanced the cause of our poor and the underprivileged with Public Interest Litigation that, I am happy to claim, my brother, the former Chief Justice of India, pioneered. We have a free and lively press. Most of all, we have innumerable and growing number of non-governmental organisations (NGOs), the social action groups, that make up our civil society.

Many NGOs today are led by women who generally prefer doing good to doing well. This is so manifestly true that there is now a joke that, whereas in the old days if you were looking for a good daughter-in-law, you had to offer her a flat or a green card to go to the United States so that she could escape from having to live with her mother-in-law, today you have to offer her money so she can start her own NGO!

The NGOs are a critical part of a well-functioning democracy because they facilitate the implementation of the important social legislation that governments like ours pass. You can have all the fine legislation you want at the Centre; but it will not be implemented if the NGOs do not bring the transgressions and omissions to governmental attention. They are the eyes and ears of good governance from the Center.

We have, therefore, what Naipaul called a multitude of mutinies. Many years ago, when I met with Prime Minister Lee Kuan Yew of Singapore where political freedoms are more muted, he contrasted Singapore's orderly regime favourably with our chaotic, undisciplined one. I remarked: Mr. Prime Minister, what you call the noise of democracy is in fact its music.

And we now increasingly realise how wisely our leaders since Independence managed to use democracy and its accommodating ways to hold a multi-religious, multi-language, multi-ethnic country together, creating unity without denying diversity. When Prime Minister Nehru wished to turn Bombay into a city state like Delhi, denying it to Maharashtra, he soon yielded to democratic agitation that could have been long suppressed by a dictatorship. It is no secret that reorganisation of states along linguistic lines was considered unwise in New Delhi; yet this was allowed in the end since democracy requires that voices from below must be heard at the top.

Minorities were given representation in public life: in the judiciary, in the legislatures, in the executive, even in the Foreign Service, thus giving them a sense of belonging. Our leaders had the wisdom to choose Muslim and Dalit Presidents long before the United States elected an African-American, Barack Obama, as its Head of State.

The same goes for women. We have had a woman Prime Minister in Mrs. Indira Gandhi while Mrs. Hillary Clinton still waits in the wings, hoping to return to the White House, where she was the First Lady, instead as the first female President of the United States. But few realise today that we owe this to Mahatma Gandhi, the Father of our Nation, who used the cultural, religious idiom of our mythology to advance women to the front ranks in Indian life. After all, our mythology is full of women goddesses slaying male demons! So, Gandhiji got us used to seeing women marching in the front ranks alongside men.

This came home to me when I was going for the year to New York from New Delhi and a voluble woman, who turned out to be the great American feminist Betty Friedan, was sitting next to me on the plane. She had been going around the country with Mrs. Gandhi after her assuming the Prime Ministership. She told me that she had asked every man she met: What do you think of Indira Gandhi as a woman Prime Minister? She had been astonished that every man replied: We think of her as the Prime Minister, not as a woman Prime Minister.

It is easy for us to forget today that many feared then that India's diversity would cause it to disintegrate. In fact, the distinguished American journalist Selig Harrison published in 1960 his alarming book, *India: The Most Dangerous Decades*, speculating how India could fragment. When this had not happened, my friend Sanjeevi Guhan, who had a sardonic wit, went to him and said: "Selig, I am sorry that we could not implement your agenda; you know how inefficient we are."

I must also add that our democracy has been a source of immense gratification, not just to elites, but also to the common man. It is easy to slip into the fallacy that the masses yearn for economic gains, not for political rights. I have long argued that economic betterment, in a country with an immense backlog of poverty, inevitably takes time.

On the other hand, democracy gives the poor and the underprivileged instant affirmation of what Americans call their "personhood", a sense of equality with the castes and classes above you in a strongly hierarchical society. The elections are preceded by the elite politicians courting your vote and not ordering you around; and the election day is when you have the sense that you can turn the "bums" out.

I wrote about this when Prime Minister Indira Gandhi returned to power in 1980 after the Emergency in 1975 and the electoral disaster that tuned her out in 1977. I did not have the vote as Indians abroad could not vote. But I, nonetheless, went with our family cook, who was from the Hills, to the election booth to observe what was going on. I was pleasantly surprised that, normally deferential, he stood in front of me in the line, not behind, and when I asked him if he was going to vote for Mrs. Gandhi, he said that he did not have to tell me. That was *his* day. So I reflected on this and wrote at the time that democracy matters more to the poor than to the rich: a proposition that the celebrated political scientist Al Stepan endorses and calls the "Bhagwati Law"!

But permit me to turn now to the central question that I wish to address today: the question of economic reforms, what they have accomplished, and where we are and should be headed. On what we have accomplished so far, what I call the Reforms Yesterday, there are two conflicting "narratives" that we find currently, one adoringly celebratory and the other hypercritical and condemning.

Perhaps the most dramatic, optimistic view of India has come from the once skeptical magazine, *The Economist,* which famously wrote nearly twenty years ago that India was a tiger that was crouched for long but unable to leap; the danger was that *rigor mortis* had set in. But the magazine wrote a raving cover page story on 10th September 2010, abandoning its reservations and arguing that India's steadily accelerating growth rate since the 1991 pro-market, liberal (or "neoliberal" if you wish to make them sound sinister) reforms was not a flash in the pan. Apparently throwing caution to the wind, it speculated that India's growth rate "could overtake China's by 2013, if not before".

But then, the naysayers, among them the socialists in the currently ruling Congress Party, have rejected the "miracle" produced by the reforms by asserting darkly that the growth "lacks a human face", that it is not "inclusive", that the gains have accrued to the rich while the poor have been immiserised, that inequality has increased, and that India stands condemned before the world. Perhaps the most articulate critics are the "progressive" novelists of India, chief among them Pankaj Mishra whom the op.ed. page editors of *The New York Times* regularly and almost exclusively invite to write about the Indian economy, a privilege they do not seem to extend symmetrically to American novelists to give us their profound thoughts on the US economy.

Mishra's latest *Times* op.ed. on October 02, 2010, writes of the "alarmingly deep and growing inequalities of income and resources in India", "the waves of suicides of tens of thousands of overburdened farmers over the last two decades", "a full-blown insurgency …in central India" to defend tribals against depredations by multinationals, "the pitiless exploitations of the new business-minded India", and much else that is allegedly wrong with India.

While economic analysis can often produce a yawning indifference, and Mishra's narrative is by contrast eloquent and captivating, the latter is really fiction masquerading as non-fiction. The fact is that several analyses show that the enhanced growth rate has been good for reducing poverty while it has not increased inequality measured meaningfully, and that large majorities of virtually all underprivileged groups polled say that their financial situation has not worsened and significant numbers say that it has improved.

## Abysmal Growth Prior to Reforms

The enhanced, and increasing, growth rate since the reforms followed a period of abysmal growth rates in the range of 3.5 to 4.00 percent annually for over a quarter of a century, starting in the 1960s. The cause of the low growth had to do, not with our efforts at raising our investment rate, but with the fact that we got very little out of the investment we undertook. The reason was that we had a counterproductive policy framework whose principal elements were:

- Knee-jerk intervention by the government through a maze of Kafkaesque licensing and regulations concerning investment, production and imports, prompting the witticism that Adam Smith's Invisible Hand was nowhere to be seen;
- Massive expansion of the public sector into many areas other than utilities, with occasional monopoly granted to public enterprises by excluding entry by the private sector, with predictable inefficiencies that multiplied through the economy; and
- Autarky in trade and inflow of equity investment which was so extreme that the Indian share of trade to GNP had fallen while it had increased in most countries whereas the inward flow of equity investment had been reduced to minuscule levels.

This policy framework had been questioned, and its total overhaul advocated, by me and Padma Desai in writings through the late 1960s which culminated in our book, *India: Planning for Industrialization* (Oxford University Press: 1970) with a huge blowback at the time from virtually all the other leading economists and policymakers who were unable to think outside the box. In the end, our views prevailed and the changes which would transform the economy began, after an external payments crisis in 1991, under the forceful leadership of Prime Minister Manmohan Singh who was the Finance Minister at the time.

It is often suggested by populist anti-reformers in India and their ideological friends abroad, that the policy changes were imposed from outside, reflecting what has come to be known as the Washington Consensus – a phrase that has the advantage of harnessing anti-Americanism in your cause – in favour of liberal reforms at the Bretton Woods institutions. But that is no more true than to argue that the Soviet *perestroika* under President Gorbachev and the Chinese economic reforms starting in the late 1970s were imposed by Washington. In all three cases, the driving force was endogenous, a realisation by the leadership that the old, counterproductive policy model had run their economies into the ground and that a change of course had to be undertaken. In fact, if the contention of the populists was correct, one would have expected the reforms to be reversed once the 1991 payments crisis was over. Instead, successive governments have only intensified the reforms: no serious analyst wanted to turn the clock back and back into the future, embracing a failed policy model.

The early reforms were primarily focused on dismantling the licensing regime (known popularly as the "permit Raj") which freed up the animal spirits of the private sector. The economy was also steadily opened up: the average import tariff on manufactures, at virtually 113 percent in 1990-91, was reduced steadily, avoiding the folly of "shock therapy", and now stands at 12 percent.

While privatisation would prove politically difficult, its intended effects in terms of efficiency of management were sometimes achieved by opening up entry by private firms into the sectors that had been reserved for public sector enterprises: the entry of these firms, plus unwillingness to provide ever more subsidies to absorb losses, was like a pincer movement that meant: shape up or ship out.

I remember how, on a flight of Indian Airlines from Bombay to Delhi, the stewardess had brought breakfast with the tea already made Indian-style: one part tea, four parts milk, and countless spoonfuls of sugar. When I complained, she answered: that is the way we serve tea (and, under her breath: if you do not like it, lump it). After the growth of splendid new private-sector airlines such as Jet Airways and Kingfisher Airlines, Indian Airlines changed: competition mattered.

The old policy architecture could not be demolished in one fell swoop. The leadership had to negotiate minefields of ideological opposition, bureaucratic intransigence, and the lobbies (called "interests" by political scientists) that had fattened on the rents (*i.e.* monopoly profits) attending sheltered markets that they were earning. The three I's – ideas, institutions and interests – of the old regime had to be confronted. Then, again, the post-1991 reformers felt that their task was akin to cleaning up after a tsunami. Hastening slowly was their only choice.

## Substantially Enhanced Growth after the Reforms

Still, as the reforms gathered steam, the effects on the growth rate were palpable. The growth rate, rising to roughly 6 percent, nearly doubled in the 1990s and increased still further in the next decade and has recently been close to 9 percent. The sense that India was now an "emerging superpower" was a heady experience for Indian elites who had seen their country marginalised by policies that had become a laughing stock in the world while smaller nations in the Far East had emerged as the much-admired star performers.

## The Poor and the Underprivileged Have also Benefited

But are the opponents of the reforms right to complain that the reformers have been focused on growth to the neglect of the underprivileged; and that the latter have been bypassed or immiserised?

It has become fashionable to say that this must be so because the Human Development Index, produced by the UNDP, puts India at the bottom, at 135$^{th}$ rank, in 1994. But this is a nonsensical index which reduces, without scientifically plausible weights, several non-commensurate elements like literacy and diverse health measures to a single number. It is a fine example of how bad science gains traction because of endless repetition by the media: it must be dismissed as rubbish.

There is no substitute for hard, scientific answers to the questions concerning what has happened, during the period of reforms and enhanced growth, to the poor and the underprivileged: and these answers, as I will presently sketch, are more benign.

To begin with, however, let me remind you that the common criticism that Indian policy was interested in growth for itself is not even true if we go back to the early 1950s when planning took formal shape. In fact, my first job in the Indian Planning Commission half a century ago was to devise a strategy to bring the bottom 30 percent of India's poor above the poverty line so they would enjoy a "minimum standard of living"; and I came to the view, often expressed by the leaders of the Independence movement, that we had to grow the pie to do so: redistributing wealth in a country with "many exploited and few exploiters" as the visiting Marxist economist Kalecki put it graphically to me in 1962, was not a strategy that could produce sustained impact on poverty.

Growth was, therefore, regarded as a principal "instrument", a strategy, for pulling the poor out of poverty through gainful employment, not as an end in itself. Growth was seen as what I have called an activist, radical "pull up" strategy to reduce poverty. In no way was it viewed as a passive, conservative "trickle down" strategy to reduce poverty, illustrated by the film of Robin Hood where the Earl of Nottingham and his vassals are eating legs of lamb and venison at the high table and crumbs fall below to the dogs and serfs underneath the table.

The growth strategy to pull the poor up from poverty, however, did not work because growth itself did not materialise because of the counterproductive policy framework that I sketched above. But now that growth has actually been produced by the post-1991 reforms, what can we say about the wisdom of the growth strategy? Let me sketch some of the studies that suggest an affirmative answer.

After a considerable debate, it is now generally accepted that the enhanced growth over nearly 25 years year was associated with lifting nearly 200 million of the extreme poor above the poverty line. By contrast, consistent with commonsense, the preceding quarter century with abysmal growth rate witnessed no perceptible, beneficial impact on poverty.

Then again, at a narrower level, the political scientist Devesh Kapur and associates have studied the fortune of the *Dalits* (untouchables) in India's most populous state, Uttar Pradesh, between 1990 and 2008, to find that 61 percent of those surveyed in the east and 38 percent in the west said that their food and clothing situation was "much better".

Most striking is the finding of the political scientists Al Stepan and Yogendra Yadav, drawing on polling data produced by the Center for the Study of Developing Societies in Delhi, that for every disadvantaged group, including women, the response to the question "Has your financial situation improved, worsened, or has remained the same" posed in 1996 and again in 2004, shows that every group has overwhelmingly remained the same or improved: those who claim to have worsened are invariably less than 25 percent of the respondents.

As for the relative economic outcomes of the disadvantaged groups, the economist Amartya Lahiri and associates have studied India's "scheduled castes" and "scheduled tribes", two particularly disadvantaged categories, and conclude that the last twenty years of major reforms "have seen a sharp improvement in [their] relative economic fortunes". Then again, using household expenditure data for 1988 and 2004, the Johns Hopkins economists Pravin Krishna and Guru Sethupathy conclude that inequality, using a well-known measure invented by the Dutch econometrician Henri Theil, while showing initial rise, had fallen by 2004 back to the 1988 levels: a straight rise in inequality cannot be asserted.

I should also add that many reforms help the poor more than the rich because the rich can cope with the results of inefficient policies better than the poor. If the public sector generation and distribution of electricity is inefficient, and the electricity goes off in the middle of the night in Delhi's summer, the rich turn on their private generators and their air-conditioners continue working. But the poor man on his charpoy swelters as his small *Usha* fan is not working. Those who object to letting in Coke and Pepsi forget that the common man derives his caffeine from these drinks while the well-off critics get theirs from the Espresso and Cappucino coffee in the cafes.

The most interesting political implication of the success in finally denting poverty significantly, though nowhere enough, is that poverty is now seen by India's poor and underprivileged to be removable. India is witness finally to what I have called the *Revolution of Perceived Possibilities.* Aroused economic aspirations for betterment have led to political demands for the politicians to deliver yet more. This suggests, as my Columbia University colleague Arvind Panagariya and I have hypothesised, that voters will look to vote for the politicians who can deliver growth, so that we would expect growth before the vote to be correlated with vote now.

In an important paper, Poonam Gupta and Panagariya have recently tested for this hypothesis and indeed found that it works. So, this implies that politicians should be looking to augment reforms, not reverse them as misguided anti-reform critics urge. In fact, the recent dramatic success of Chief Minister Nitish Kumar, who had successfully delivered on prosperity, only underlines the lesson that the electorate will reward the politicians who have delivered and, therefore, are credible when they promise more.

So, politicians would do well to strengthen the conventional reforms, which I call Stage 1 reforms, by extending them to the unfinished reform agenda of the early 1990s. In particular, further liberalisation of trade in all sectors, substantial freeing up of the retail sector, and virtually all labour market reforms are still pending. Such intensification and broadening of Stage 1 reforms can only add to the good that these reforms do for the poor and the underprivileged.

But these conventional reforms have also generated revenues which can finally be spent on targeted health and education so as to *additionally* improve the well-being of the poor: these are what I call Stage 2 reforms which were, let me remind you, in the minds of our earliest planners (as demonstrated by their inclusion in our Five Year Plans since 1951 and Programme Evaluation reports at the time) but had been handicapped principally by revenue constraints.

When "progressive" critics argue that Stage 2 reforms must replace Stage 1 reforms, because they appear superficially to be more pro-poor, they forget that Stage 2 reforms have been made possible only because Stage 1 reforms have been undertaken and have produced the necessary revenues.

How to get the most bang for the buck from programs under Stage 2 reforms is where we have to be turning our attention as well. As it happens, Stage 2 reforms involve "social engineering" and are inherently more difficult than Stage 1 reforms. Thus, except for political difficulties, it is easy to reduce trade barriers: you just slash them. But if you want to improve education, for example, you have to worry about the best classroom size, the issue of teacher absenteeism, the question of how to get poor children to the school when their parents might want to have them work instead, whether you want to use school vouchers, and so on. There is little doubt, however, that, once we have put our minds to work and our shoulders to the wheel, we will move ahead on both Stage 1 and Stage 2 reforms.

Many of the reforms require good governance and indeed necessitate a role for the government in some areas (in the appropriate provision of health, for instance) even as they require withdrawal of the government from others (as with inappropriate labour laws). Can we do this?

It is easy to get despondent today about the deterioration in governance because many seem to surrender much too easily to the notion that we have become hugely corrupt and that this is irretrievably so. Thus, Transparency International's index of corruption ranks us high on corruption. However, this index is wholly arbitrary, depending on subjective evaluation of the chosen respondents. Besides, in India, public figures are considered to be corrupt unless they prove to you otherwise. A blind man will tell you how he saw "with his own eyes" a bribe being given and accepted. A most distinguished Indian bureaucrat once told me that his mother said to him: "I believe you are not corrupt only because you are my son".

The abolition of the permit raj, of course, eliminated that important source of corruption. But that also means that we have removed from our system the way in which politicians could raise money for their campaigns which, while not as expensive as in America, are still large enough to matter. This means that other forms of corrupt ways of raising political funds have proliferated. We need, therefore, legal ways to raise campaign finance. Americans have done this; we need to do so as well.

Then again, we can use science to get at corruption in several areas. Thus, Nandan Nilekani is engaged in arguably the most important innovative reform in recent years by creating a national database of identity details of Indian citizens.

This should take the political corruption out of the Public Distribution System and in the Employment Guarantee Scheme, for instance, and will also reduce bureaucratic corruption by bypassing the low-level bureaucrats who refuse to give you what you need unless you grease their palms.

In fact, what Nilekani is doing additionally is demonstrating anew how science is integral to our assault on poverty and other ills in our society. The enormous potential of science is variously manifested. To take just three examples:

- The invention of the cheap laptop by Media Lab at MIT and later by Intel, has almost made it possible financially to put a laptop into every lap;
- The invention of Embrace baby warmers for the millions of premature and low-birth-weight babies born each year is an important breakthrough, which will make it possible for them to sell at a price that is one percent of the traditional incubator; and
- The invention of BT Brinjal and other GM crops makes it possible to have a second round of the Green Revolution that we need so badly if we are to increase productivity in agriculture; but the government has to deploy scientific evidence and argumentation against the naysayers who have objected to these as Frankenstein foods and instead have been allowed to halt their use on flimsy, virtually unscientific grounds, including assertions of "agricultural suicides" that have been exposed often as unrelated deaths.

Perhaps we need to recall what Prime Minister Nehru said eloquently: "It is science alone that can solve the problems of hunger and poverty, of insanitation and illiteracy, of superstition and deadening of custom and tradition, of vast resources running to waste, of a rich country inhabited by starving poor…Who indeed can afford to ignore science today? At every turn, we have to seek its aid…The future belongs to science and those who make friends with science."

Reflection on what I have said today should provide the agenda that the impressive young Members of the Lok Sabha, who clearly seek new perspectives and aim to accept fresh challenges, can embrace to take India to what Jawaharlal Nehru called our "tryst with destiny". After 60 years of Independence, surely it is high time for his vision to turn into reality.

*This is the full, augmented text of the Hiren Mukerjee Lecture delivered in the Lok Sabha on December 02, 2010. The oral presentation is available on the Lok Sabha website (http://164.100.47.132/inputprogram/Module/part2.pdf).*

# PART – II

## The Debate on Growth and Poverty

# It's a Myth that Reforms are not Helping the Poor

*G Srinivasan*

The Hindu Business Line, December 03, 2010

The "'hypercritical" reaction to India's accelerated growth in the post-1991 economic reforms phase because of its "alleged bypassing, even immiseration, of the poor and the underprivileged" was "mistaken", eminent economist Prof Jagdish Bhagwati of the Columbia University said.

Delivering the third Prof Hiren Mukerjee Memorial lecture at the Central Hall of Parliament on "Indian Reforms: Yesterday and Today", the trade policy economist said several analyses reveal that "the enhanced growth rates have been good for reducing poverty, while it has not increased inequality measured meaningfully".

Besides, large majorities of virtually all the underprivileged groups polled contend that their financial situation has not worsened, while significant numbers say that it has improved, he said.

## Higher spend on health

Stating that high economic growth has led to greater revenues, and that India was finally able to spend more on health and education for the poor and underprivileged, Prof Bhagwati described conventional growth-enhancing reforms as stage one, and the spending on health and education of the poor as stage two reforms.

Both were "inclusive", he said, adding that stage one reforms have benefited, not immiserised, the poor and the underprivileged, while stage two reforms, rendered possible by stage one reforms, reinforced "the beneficial pro-poor effects of stage one reforms".

He said the most interesting political implication of the success in "denting poverty significantly, though nowhere near enough, is that poverty is now seen by India's poor and underprivileged to be removable".

He singled out Nitish Kumar for "successfully" delivering development to the poor. India was now "witness to the revolution of perceived possibilities" with "aroused economic aspirations for betterment, leading to political demands for the politicians to deliver yet more".

As this suggests that voters would look to opt for politicians who could deliver growth, "we would expect growth before the vote to be correlated with vote now", Prof Bhagwati said.

This implies that "smart members of the Lok Sabha should be looking to augment reforms, not reverse them as misguided anti- reform critics urge".

Hence, he urged the politicians to strengthen the conventional stage one reforms by extending them to the unfinished reform agenda of the early 1990s and, in particular, to "further trade liberalisation in all sectors, substantial freeing up of the retail sector and virtually all labour market reforms".

He, however, hastened to add that reform demands "good governance and indeed necessitate a role for the government in some areas (in the appropriate provision of health) even as they require withdrawal of the government from others (as with inappropriate labour laws)".

Even as the end of the permit raj eliminated that important source of corruption, other forms of corrupt ways of raising political funds have proliferated, he said, adding that this calls for "legal ways to raise campaign finance".

**Growth and social justice**

The proposed creation of a national database of identity details of Indian citizens under Nandan Nilekani, he said, should take "the political corruption out of the public distribution system and in the employment guarantee scheme, besides reducing bureaucratic corruption by bypassing the low-level bureaucrats who refuse to give you what you need unless you grease their palms".

He said science and technology should be increasingly harnessed in the growth process to help the poor.

In his remarks, the Vice-President, Hamid Ansari, described Prof Bhagwati as an ardent advocate of free trade and democratic values as being important to ensure sustained growth and social justice.

The Prime Minister, Dr Manmohan Singh, recalled his 50-year-old association with Prof Bhagwati from his Cambridge years and said that he was the architect of the World Trade Organisation.

He said Prof Bhagwati questioned the licence-permit raj which his government dismantled in the 1990s, when India introduced economic and trade policy reforms.

He said thanks to the reforms India ushered in, there was now a reverse flow of investment, production and expertise and the so-called brain-drain had been happily converted into 'brain gain' for India.

*Deputy Editor*
*The Hindu Business Line*

# Selected Reflections from the Debate

## Abhijit Banerjee

One way to think about this question is that governments will in any case continue to do a bunch of stuff, driven by their own compulsions, some of which promote growth while others probably retard it.

Governmental capacity to do anything new is always limited (think of Obama) and all the more so when the state is weak. Therefore, there is always a trade off: For example, suppose that the government can only do one new thing right now. There is a case for land reforms that make the conversion of land into industrial use less fraught; there is a case wide-ranging educational reform which makes it easier for the poor to access quality education; and there is a case for revamping primary healthcare to make it much more functional.

The first probably does not do so much for poverty in the short run (at least in a country in India where industry employs very few unskilled people) but in the longer run the effect on poverty can be substantial as growth turns into a demand for ancillary services.

The second has a medium term effect on both poverty and growth. The third affects the relatively quickly but its growth effects may take time (and may be less pronounced, that is less clear). What should it do? Reasonable people can disagree about this.

*Department of Economics*
*Massachsetts Institute of Technology, USA*
*(January 06, 2011)*

## Arvind Panagariya

Abhijit has argued that when governments have limited capacity, we have no choice but to selectively focus on one or other area of reform (his examples: land reforms that make the conversion of land into industrial use less fraught; revamping primary healthcare to make it more functional; and increased access to the poor to quality education).

He concludes that once this is recognised, reasonable people may differ on which is the right area to select – one that promotes growth but helps the poor only in the long run (land reform for the conversion of land for industrial use) or one that helps the poor relatively quickly but may at best help growth in the long run (revamping primary healthcare to make it more functional).

I find this approach to thinking about policy choices rather unhelpful for at least three reasons.

As policy analysts, do we really want to circumscribe our thinking regarding what the right policy mix for the eradicate poverty and associated deprivations is by the issue of the capacity of the government? Surely, we want to first arrive at what the right policy mix is and then consider how best to proceed with implementation given the limited government capacity. After all, the capacity of the government itself varies considerably over time and space.

Thus, for example, the Narasimha Rao and Atal Bihari Vajpayee governments simultaneously implemented very substantial reform packages during their tenures. A future government may be able to do the same. Likewise, when we consider states, which too must undertake reforms, government capacity varies dramatically. Surely, Nitish Kumar, Narendra Modi and Naveen Patnaik are quite capable of implementing reforms that help growth as well as those that target poverty and deprivation directly.

Even if the maintained hypothesis is that the government has limited capacity, the answer is not that reasonable people could choose to focus on different areas of policy but that reforms should still proceed on as many fronts as possible but take forms that make minimal demands on the government for their execution.

In the case of land conversion, this would mean a reform that allows the buyers and sellers to negotiate the price at which they transact, with the government acquisition limited to truly public projects.

In the area of health, the constraint of an incapable government would point to a reform that provides the poor (say, bottom 40 percent of the population) insurance for in-patient care and income transfers for outpatient care, letting private provides deliver the actual service.

I am surprised that having first stated that the government is incapable, Abhijit proceeds to limit the available policy option for the provision of healthcare for the poor to "revamping primary healthcare to make it much more functional."

Given the government failure in this area over the last 50-plus years, is it realistic to assume that primary healthcare can be made functional in a relatively short period? Should we not at least consider the option of moving away from the current model of public health and community health centres under which public employees have zero incentive to deliver the services for which they are hired (see the excellent comment by TCA S Raghavan on this issue)?

Finally, as an aside, it is not clear to me that the caricature of land acquisition for industrialisation as doing little to help the poor in the short run, suggested by Abhijit, is itself correct. A proper reform in this area will ensure that the seller receives the true market value of his or her land. This could lift many tiny farmers out of poverty overnight while industrialisation helps promote growth. This is not pure speculation: several owners of small pieces of land in Gurgaon and Noida became moderately rich overnight when they sold their land for industrialisation.

*Professor of Economics, Columbia University, USA*
*(January 07, 2011)*

## R Vaidyanathan

Reforms have not impacted the service sector which is the engine of our economic growth – more than 60 percent share in national income (NI) and growing at more than eight percent consistently. Service sector consisting of construction/trade/transport/hotels and restaurants/other self employed services like plumber/electrician/painter/priest – are predominantly partnership or proprietorship firms and most of the laws/regulations pertaining to them is under state governments where no major reforms have been undertaken – as in – land laws/shops and Establishment Act/commercial taxes/IMFL taxes/cess/Registration Act/stamp duty/octroi etc.

The growth is primarily due to enhanced savings of households (consisting of producing and consuming households) and massive/consistent remittances from abroad.

No point dragging government reforms in the debate which has at best [or worst] helped less than 15 percent of our gross domestic product (GDP) – namely corporate sector.

Our growth is due to small household businesses propelled by household savings. Neither global markets nor government reforms are causing it.

*Professor of Finance, IIM Bangalore, India*
*(January 10, 2011)*

## Alok Ray

A few more observations on reforms, growth and poverty in India. The World Bank economists Ravallion and Datt (2009) argue, on the basis of consumption distribution data over a 50-year period (1956-2006), that there has been a faster reduction in headcount poverty in the post-reform period compared to the pre-reform era (until 1991).

But in terms of other measures (like poverty gap) that gives greater weight to the gains of the poorest, there is no evidence of a larger reduction in poverty in the post-reform period, despite a higher growth rate.

The possible implication of these findings is that the gains from high growth in the post-reform period are going more to the officially poor, but not particularly to the miserably poor or the poorest.

Interestingly, however, a recent National Council of Applied Economic Research study using 2004-05 data for the Below Poverty Line (BPL) families find 30.3 percent of urban 'poor' own a colour TV, 24.9 percent own a two-wheeler, 10.5 percent a refrigerator and 55.6 percent a pressure cooker. The corresponding figures for the rural poor are much lower – 6.3 percent, 9 percent, 0.9 percent and 18.6 percent, respectively.

Such studies underline that poverty (and its manifestations in various forms) is much more concentrated in the rural areas of some specific states and regions within the states.

At the same time, all the official 'poor' in India are not necessarily the destitutes that we usually associate with the term 'poverty'. There was no question of a 'poor' family owing a colour TV set or a refrigerator some 15 years back.

Overall, though the picture is still pretty bad (especially on malnutrition and child mortality), absolute poverty (in the sense of utter destitution) is now mostly concentrated in a few pockets (like the remote tribal belts) where the benefits of growth as also various social welfare programmes have not yet percolated.

Most poor people in India are poor not because they do not do anything (many poor people work harder than many rich people) but because they are engaged in low-productivity and low-income jobs.

Higher growth has opened up many new job opportunities (think of masons, electricians, plumbers, furniture makers, shop floor assistants, waiters in food courts, car drivers, security personnel, repair and maintenance people) for people from very ordinary families (not just software engineers or English-speaking call centre jobs) – specially from construction activities in urban areas (inducing migration from rural areas).

Though the average income per person may not have gone up significantly, family income has gone up at a higher rate since more members in a family (including women) are now able to find some jobs – though not necessarily high-income jobs.

*(Former) Professor of Economics, IIM Calcutta, India*
*(December 31, 2010)*

## Basudeb Chaudhuri

That poverty has diminished in India is statistically true, even if experts quibble about the extent of the decrease in poverty. However, it is unfortunate that an intellectual and economist of the stature of Professor Jagdish Bhagwati should label education and health as second stage reforms as opposed to deregulating the economy, which he calls first stage reforms.

The idea that education and health are the "soft" areas of development, that come after the "hard " or more important areas such as industrialisation or physical infrastructure (building dams) – is symptomatic of the deeply flawed thinking, for over 50 years, of both the Indian planning milieu and the Congress Party that promoted this vision of development.

In Asia, if Japan, South Korea and China are all much better off than India today, it is quite simply education – the depth of their creation of human capital – that has driven the difference in their growth trajectories in international and comparative terms. The seminal research of Robert Lucas and particularly Roland Benabou clearly shows the role of human capital in development, and how segregation and social stratification that denies public goods to a part of society can handicap long term growth prospects.

Professor Bhagwati is undoubtedly aware of this. He should not hesitate to criticise his friend the Prime Minister, as Professor Amartya Sen, who stresses the liberating and capability enhancing role of education, often does.

*Centre de Sciences Humaines, New Delhi*
*(December 08, 2010)*

## Indira Rajaraman

Where I disagree is that no individual, not the present PM nor indeed anyone else, can be held responsible for the present situation. There were structural reasons at play.

1. The quantum of funding for education and health was inadequate. The structural reasons for this are explored in a paper of mine (attached). Quoting from the conclusion of the paper: "... poor human capital endowments in a federal setting could be the outcome of adverse incentives in the structure of funding of sub-national governments, which usually carry the major expenditure responsibility for these functions...

   Statutory flows from national government (the "Centre" in Indian terminology) to states are predictable in quantum (subject to the known error margin of Central tax revenues), defined in both aggregate and distribution between states, and unconditional, properties necessary for multiyear expenditures of the kind needed for provision of primary education and health.

However, statutory flows never amounted in practice (except after 2005) to more than 60 percent of the total flow. Even after non-statutory flows became largely formulaic in distribution between states in 1969-70, they remained unpredictable in quantum from year to year. That, along with the 70 percent loan content implicitly altered the allocation incentives away from avenues such as health and education facilities, which call for multi-year current expenditure commitments, and carry no promise of commercial returns like public enterprises (potentially, at any rate)..."

2. Recent large national schemes for education, like SSA, have muddied the accountability waters, and there is a large corruption element in these because of that very lack of accountability.

*National Institute of Public Finance and Policy,*
*and Member, Thirteenth Finance Commission,*
*Government of India*
*(December 09, 2010)*

## Jagdish Bhagwati

The terminology Stage 1 and Stage 2 does not imply that Stage 2 is somehow "soft"!!!! This is Chaudhuri's idea, not mine! I introduced this distinction (though calling the two direct and indirect impacts on poverty) in discussing the impact of the growth strategy some 2 decades ago in my Vikram Sarabhai Lecture in Ahmedabad; the Lecture is reprinted in one of my collections with MIT Press.

Second, Stage 2 reforms were in fact part of our overall strategy for development: they are in the earliest plans and in programme evaluations as well! What prevented them from being implemented was principally the revenue constraint.

As for Professor Amartya Sen, I doubt that he has criticised the Prime Minister and me; Chaudhuri probably got it wrong. But if Sen has done so, he is hardly the person to throw stones at us. One can legitimately argue that his implicit and explicit endorsement of the pre-reforms policy framework contributed to the abysmal growth and hence the muted assault on poverty which many have now documented! Talking about poverty and doing something effective about it are two different things, I am afraid.

*Professor of Economics and Law, Columbia University, USA*
*(December 14, 2010)*

## S L Rao

There can be no arguing that growth does reduce poverty. It has also greatly increased inequality.

It has increased the financial capability of our governments to spend on the poor and on infrastructure. But it has also increased the leakage, wastage, inefficiency and theft, as a result of which a good part of such expenditures do not reach the people they are meant for.

It is I think in this background that there is argument against facile statements that 'inflation is acceptable' if there is growth – a statement attributed to top economic policy makers in this government who also talk of 'inclusive' growth. They forget that inclusion is difficult when food inflation has immediate adverse effects on the poor.

Growth cannot be an objective by itself. It has to be accompanied by moderate inflation, by adequate social services, nutrition, health and education for the deprived. Services like NREGA must reach the people they are meant for, in full. Indian growth has been lopsided, with focus on services and not on the real economy of agriculture and industry, volatile foreign fund inflows and stock markets, large government debt and deficits, as well as current account deficits-reminiscent of the American economy except for high household savings and GDP growth, without the strength and standing of the American economy.

We must rebalance our growth, moderate food inflation, ensure minimal food security and services for the poor. If that means that growth numbers are lower, we must accept them.

*Chairman, Institute for Social and Economic Change*
*Bangalore, India*
*(December 31, 2010)*

## Martin Wolf

This comment from Rao assumes there is a trade off between higher incomes and other good things. Is this really true in India? I strongly doubt it.

Many of the policies that would make the benefits of growth more widely shared – elimination of regressive subsidies or of job protections for elite workers and more spending on health, education and infrastructure – would also accelerate growth. Thus, with a better focus to centre and state budgets, it would be easier to raise spending on education, health etc. (on which India spends extraordinarily little.)

Moreover, there is a very strong and understandable correlation between income and quality of governance. High income countries are less corrupt, because their relatively educated populations will not tolerate it, to the same extent.

This is really not a debate Indians should still be having. The right debate is not over compromises between growth and other goods but over how to have growth and other goods.

*Chief Economics Commentator, Financial Times, London*
*(December 31, 2010)*

## Rajesh Shukla

It might be useful to refer matters presented below:

- As per NCAER's National Survey of Household Income and Expenditure the bottom 60 percent Indian households account for 30 percent of national income (NI) and about 40 percent of private final consumption expenditure (PFCE). However, the top 40 percent households in India have 72 percent of income and almost 90 percent of surplus income (NI-PFCE).
- The top 20 percent of India's population has a more than 50 percent share of the national income in 2009-10, up from 37 percent in 1993-94. According to a study, ***How India earns, spends and saves***, the bottom three quintile, or 60 percent of India, has a mere 28 percent share in total income, down from 39 percent at the start of the reforms.

The reforms have thrown up the opportunities that those with resources have been able to exploit better, creating the distortion in income that would suggest that the rich have benefited more from the reforms. This would seem to confirm the charge that income disparities have increased in the reform years, 1991 onwards, and the rich have got richer as a freer economy has created more opportunities.

- Using two data sets of NCAER, contrary to popular belief, income inequality has gone up, both in rural and urban India, in the last decade or so. Per-capita income-based Gini coefficient has moved up 13 percent for rural India – 0.38 in 1995-96 *vis-à-vis* 0.41 in 2004-05 – and as much as 15 percent in urban India – 0.39 *vis-à-vis* 0.43. At the all-India level, the Gini coefficient has moved up from 0.43 (1995-96) to 0.45.

What should worry the policymakers is not the high income inequality *per se*, but that it continues to widen even today, after two decades of reforms. In the initial years of reforms an increase in income inequality was understandable as those with access to resources or equipped with skills would be in a position to make use of the opportunities better or command a better price. However, over time, a larger share of population should have been able to benefit from the near double-digit growth of the Indian economy.

The problem is not that the rich have got richer but that those at the bottom have not been provided the wherewithal to improve their earning capability. And that continues to be the case even now. Access to meaningful and affordable education, for one, continues to be an issue, and lack of physical infrastructure makes it difficult for the hinterland to be integrated with the market economy.

The problem, clearly, is not that rich have got richer, rather that a vast percentage of population still continues to be deprived of the means that can enable them to take a greater share of the wealth creation happening through the rapid growth.

*Director, NCAER Centre for Macro Consumer Research*
*(December 31, 2010)*

## Sumit Majumdar

What is somewhat unusual, and quite surprising, in all of these debates is that commentators have simply not paid any attention at all to the all-important productivity question. Fortunately, the Indian story is no longer a case of falling outputs and rising inputs. True, India is experiencing rising outputs, but this is accompanied by rising inputs.

Growth of output, without accompanying productivity gains, is hardly going to lead to sustained growth in real wages and incomes. The Indian government revenues have been substantially enhanced by increasing collections of direct taxes, but the ever-increasing leakages in spending have frittered these sums away. Hence, the relative impact of social sector spending has been stagnant.

India has experienced extensive growth, to use a term once used decades ago, rather than intensive growth. A release of pent-up expectations of a billion persons drives demand-side growth, but there has not been a supply-side revolution. India's manufacturing sector productivity story is grim, and the services sector story so far is all about using cheap while collar staff as long as the opportunity exists for East-West wage arbitrage.

Unless and until India's productivity growth is also at the rate of well over 10 percent per annum, Indian real incomes will stagnate in a relative. Realistically, India's productivity growth has to be at the rate of 20 to 25 percent annum for the next decade for India's real income levels to reach 25 percent of US levels.

*University of Texas*
*(December 31, 2010)*

## Jagdish Bhagwati

Professor Majumdar is right; and I did deal with the question briefly when discussing the role of science at the end of my final draft of the Lecture which is on the Lok Sabha website now.

The debate at CUTS Forum is however on whether growth (which must of course reflect policies that include productivity-enhancing policies which are within reach) matters and in what way. On that issue, clarified best by Arvind Panagariya, it is now pretty clear that the general consensus among the contributors to this Forum is that it does by pulling the poor into gainful employment and also additionally by providing the revenues with which one can finance direct programmes on health and education, which I called Stage 2 reforms.

One thing that needs to be emphasised (as I did in fact in my Lecture), thanks to a later FT story by Amy Kazmin on healthcare which is characteristically shallow, is that such expenditures amount to very difficult social engineering and hence are inherently more difficult than Stage 1 conventional reforms. She quotes Sen as decrying under-financed public sector provision of healthcare and how that is driving the poor into private medical facilities. But this begs the question: would greater provision of funds to the public sector healthcare be then the right way to provide healthcare for the poor.

Leaving aside the fact that Sen thinks that working to improve growth is "stupid", so that one wonders where he would get the added funds for giving to the public sector provision of healthcare, how is he sure that the additional moneys are better spent on expanding possibly inefficient public sector facilities as against giving, say, income transfers (as with vouchers) that can then be spent on using private sector facilities? In short, ex cathedra pronouncements in these critical matters do more harm than good.

*Professor of Economics and Law, Columbia University, USA*
*(January 01, 2011)*

## K A Badarinath

I have a few points to make given the arguments put forth by Prof Jagdish Bhagwati and Prof Amartya Sen.

1. Economic theories do not necessarily offer solutions to every problem or its manifestation. Practical experiences and our Vedic texts may offer wholesome solutions to grassroots problems in remotest areas of India.
2. Prosperity in a society does not necessarily mean that a particular economic solution has worked or otherwise.
3. Poverty may be prevalent in a system despite best policies that are formulated and implemented.
4. Sage Chanakya's *artha niti* (economic engagement) may offer some rare insights into economic governance issues bogging different strata of Indian society.

5. *Vidhur Niti* (Vidhur of Mahabharata fame) may provide the solutions to coalition politics that has its bearing on economic engagement with the population/electorate of a duly elected government.
6. Most economies including India's are run on political lines. Hence, without examining the impact of political dispensation on economy of a country may not be possible. This analysis may be different from pure-play economic policies pursued by the coalition government that has been in saddle for at least over 12 years (including NDA and UPA governments).
7. Best of free market economic policy making has not insulated developing countries like India from impact on its growth, macro-economic fundamentals, poverty of people especially after the abuse and misuse of market dynamics in US leading to this century's depression.
8. Best of command economies led by proletariat governments in socialist/communist governments have freed people totally from scourge of hunger, disease, illiteracy and non-availability of two square meals a day.
9. One solution that may be found in this maze of economic theories to rid human race of – is to reverse the economic pyramid. I suspect that going back to *gram-swarajya* (village as basis of empowerment and economic development) is the only way out. Rural economies all over must the focus of all thinkers, policymakers and intellectuals.
10. I also think that biggest issue here is lack of governance model free of corruption, scandals and moral fabric that has torn into heart of Indian society. It is not just India. Developed economies seem no better placed. Hence, one needs to really address these issues rather than posturing on theories.

*Editor, Financial Chronicle*
*(December 24, 2010)*

## Nayanima Basu

With due respect to all, I think Badarinath is absolutely correct in stating that absence of good governance and related problems with it have led to an increase in poverty rather than reducing it. Words like reforms and policy formulation looks good in books and analytical pieces but honestly none of us have any clue on how to deal with it in reality.

It is very easy for us to ignore little children who sit all day under the traffic lights while their mothers run behind cars to get a Re.1 coin or the maid who washes our dirty utensils everyday and we do not even bother to ask her whether she had a peaceful sleep the previous night and was not beaten black and blue by her drunk jobless husband. But we are very particular of the fact that this very maid should open her torn sandals before entering our houses.

At best we can show sympathy to prove that we are humans. Do you really think solving these issues needs blockbuster policy reforms or jingoistic thesis sprinkled with jargons? Well, we all know the answer….

We should start bringing changes in our daily lives by doing simple things which are right there in our ancient text books on ethics and morality but who cares? I am not being pessimist or "Leftist-minded" but let's for once sit and give a serious thought on this. Large-scale thesis and theories, which a normal person cannot understand, are meaningless. We need to in still in our everyday life simple values and virtues of truth, honesty, empathy and love.

Why cannot people like us spend our weekends by teaching a poor child or help our maids open bank accounts and get her children admitted in schools? Why cannot we offer free but quality education to the children out there right inside our colonies? Well, difficult it may sound … it is actually very simple. We need to come out of our parochial, regionalist and fanatic views. And this is true not only for India but the world.

Besides lack of education and absence of good governance, poverty is also increasing due to rise in religious dogmatism and fanatic perspectives. We cannot carry the baggage of history and try a build a new society. We need to read history and learn from the mistakes made in the past.

Lastly, I apologise for sounding naïve amidst such great and revered minds, but to me reducing poverty should not be treated as rocket science and may be that is exactly why poverty in this country has increased rather getting decreased. We have only been cleverly able to hide it!

*Principal Correspondent*
*Business Standard*
*(December 22, 2010)*

## Nitya Nanda

Poverty reduction started happening in India since mid-1970s even though India was not doing quite well then in terms of economic growth. This could have been possible probably because of direct poverty reduction measures adopted by Mrs Indira Gandhi. Poverty has been falling since then but of course as you also recognised, one might question if poverty reduction rates have been high enough along with higher growth rates.

It is also more or less agreed by the economists that economic growth accelerated right in the beginning of 1980s a full decade before economic reforms started. However, in my view, India followed a growth pattern throughout the post-Independence history *(My article: "The Indian Growth Story: Myths and Realities…amp;#65533; Journal of Asian and African Studies, 44 (6), pp74-765)*. All along industry and services have experienced much higher growth period compared to agriculture. Services have always seen highest growth.

Thus in 1950s when industry and services were doing well, the overall growth could not be very high because agriculture growth was not very high but its share in GDP was almost 60 percent. However, this uneven growth rates ensured that the share of agriculture fell down drastically while that of services went up. Thus now the share of services is about 55 percent and a high growth in services pulls up the overall GDP growth rate and low growth in agriculture does not have a major adverse impact on GDP growth rate.

It would also be unfair to ignore the fact that in 1950, our savings rate was about 10 percent which has gone up to 35 percent now. There was also some deviation from the pattern of course in 1960s and 1970s as we went from crisis to crisis on several counts: China war in 1962, Pak war in 1965, successive droughts, Bangladesh war in 1971, oil shocks in 1973 and 1979 and emergency and other political uncertainties.

There is also serious problem with the work of Dollar and Kraay on trade, growth and poverty *(Chapter 2 of my book: Expanding Frontiers of Global Trade Rules: The Political Economy Dynamics of the International Trading System, Routledge, London & New York, p224)*. If you look at the diagrams provided in their paper, you will be surprised to see that "globalisers" identified by them had LOWER trade/GDP ratio and HIGHER average tariffs than "non-globalisers".

For them, if your tariff was at 90 percent and you brought it down to 70 percent, you will be considered a globaliser but if your tariff was 10 percent but you did not change it, you will be a non-globaliser! Or if your trade/GDP ration went up from 15 percent to 18 percent, you will be a globaliser, but if your trade/GDP ratio went down from 90 to 88 percent, you will be a non-globaliser. So in actuality even their own paper shows that countries with higher tariffs had higher growth rates!!

I of course do not have any major disagreement with the other paper by them cited by you. Growth is, by and large, good for the poor. This of course does not prove that there is no need for reforms as economic policies cannot be static and they have to change over time. The question is what kind of reforms you will need.

In economic analysis one cannot say anything with 100 percent certainty. This is because we do not have counterfactuals. One can argue that reforms in 1990s were necessary to maintain the growth momentum, there is no way we could prove or refute this with 100 percent confidence. Similarly, if one argues that we could not grow even by three percent had we not followed a planned model in 1950s, may be she is right!

*Fellow*
*The Energy and Resources Institute, New Delhi*
*(December 24, 2010)*

## Jean-Pierre Lehmann

As an outside observer, I have to say that this correspondence is quite stimulating. I hope I will not appear too arrogant however when I add that it also leaves me with the bewilderment I have felt towards India since the first time I went there, in 1965, and remains to this day. How is it that clearly some of the world's most intelligent people can make such a mess out of their country? I remember another FT correspondent to India, before Lamont, Ed Luce, commenting to me that whereas in Africa poverty is a tragedy, in India it is a scandal.

As much admiration and affection I have for India (loads and loads), it is difficult to understand why and how it is that child malnutrition, female illiteracy, and many other social ills should be so high. As to how to succeed in curing these flagrant social cataclysms one is tempted to say that it does not really matter whether a cat is black or white; so long as it catches mice it is a good cat. Has too much theorising got in the way of policy implementation? If, as all seem to agree, education is important, then why not invest in education? If revenue is needed, then why not get the rich and the middle classes to pay taxes?

My own initial specialism was in Japanese economic history. For some time my studies and "area of expertise" remained in East Asia. When I began hearing about the "East Asian miracle economies", my reaction was: "miracle? what miracle?". It was then (80s) I started looking more closely at India. I found myself more struck by how Indian policy makers managed to screw things up than how East Asians concocted an alleged miracle.

So while India has achieved the status of a major global economic power and it has recorded among the world's highest growth rates, it is still by some distance the country in the G20 with the worst scores in the Human Development Index (HDI).

I have no doubt, as Martin Wolf and others have argued, that fast growth is a must, but if we see another decade with high growth and the same proportion of children suffering from malnourishment, then it will be very difficult to claim "success".

It seems to me there should be two targets. One is to achieve sustained fast growth in order to raise incomes, the other would be to, say, reduce child malnutrition by 50 percent by, say, 2015. This is something Indian society, especially the rich and the middle classes, should embrace, as it will make for a much more secure society.

*Emeritus Professor of International Political Economy &*
*Founding Director, The Evian Group at IMD*
*Lausanne, Switzerland*
*(January 01, 2011)*

## Jagdish Bhagwati

The only problem with what Jean-Pierre write is that, if growth does occur rapidly, the evidence is that it does help the poor and the underprivileged contrary to those who decry its appropriateness. Also, if Stage 2 reforms are done well, you get a double bang with your growth strategy.

If only we had had the high growth rates almost a quarter of a century earlier when I and Padma wrote our famous book detailing the bankruptcy of the old policy framework, the impact on the poor and the underprivileged would have been that much greater.

So, if you really mean what you say, that poverty and under nourishment are a scandal – and Ed Luce is only the last to have said it: many Indians have said the same over decades! – you should recognise that the true scandal is that people who continue to condemn the reforms that can help are the true scandal. But, as you well know, in Economics, there is no accountability for the consequences of your advice! And that is particularly so in an inscriptive society like India: the eminent are revered and rewarded, not condemned, despite the harm they cause!

*Professor of Economics and Law, Columbia University, USA*
*(January 06, 2011)*

## Raymond Saner

It was on October 08 that I send out a request to our CUTS colleagues in Geneva inquiring what their reaction might be in regard to Arun Kumar's article entitled "India and Poverty" (September 2010) which made reference to the Oxford Poverty & HDI and their Multidimensional Poverty Index (MPI). A new index which measures poverty based on deprivation, and not on income alone.

Subsequent to my inquiry, CUTS responded with a very helpful and detailed response clarifying the following:

A distinguishing feature of this index is that out of the ten indicators used to estimate poverty, eight belong to the Millennium Development Goal (MDG) targets. This makes the index more useful in assessing poverty and taking measures to address the issue. Further, the new index is expected to replace the old one in the 20th Anniversary Report of the United Nations Development Programme (UNDP), as per indications available.

As far as government action in dealing with the indicators of MPI is concerned, many initiatives have been taken, and therefore, the index might not lead to any immediate change at policy level. It might, however, get increased attention, once the index gets its place in the UNDP Report as indicated by some sources.

Professor Arun Kumar's article is pointing out the glaring and growing disparities between the very rich and still horrifically large segment of India's population classified as poor whether classified by the MPI or India's Tendulkar Commission or UNDP's HDI. India is at the bottom of the G20 in regard to the size of population remaining in poverty but also in regard to the disparity between the very rich and the very poor.

I have since followed with great interest the exchanges between various experts mostly trade economists but also some political scientists from India as well as from western Europe and the US (including Indian diaspora scholars in the US and western Europe). What follows are my reactions to ideas and comments made by various participants of CUTS Forum.

1. Professor Bhagwati emphasises that growth is needed for Stage 2 reforms (January 01, 2011) pulling the poor into gainful employment and also additionally by providing the

revenues with which one can finance direct programmes on health and education, which I called Stage 2 reforms.

I agree that growth is needed but when do we reach this magical day when enough growth has been achieved to afford social programmes? Scandinavian countries did not wait for completion of a "Stage 1" to move their populations out of poverty – and poverty they had to face at early industrialisation. Instead, they moved on all fronts: economic growth, education, health, social programmes. The same can be said of the Netherlands and Switzerland, my home country, which faced poverty, famines, continuous wars, internal colonial situations (cantons owning other cantons).

2. Dr Montek Singh Ahluwalia, Deputy Chairman, Planning Commission, spoke at the book vernissage of Sankar Kumar Bhaumik's edited book enitled '*Reforming Indian Agriculture*'. He compared China and India in regard to development strategy and emphasised the need for India to find ways of moving 300-400 million farmers to urban or semi-urban locations to increase productivity of agricultural production. China has and continues to face the same challenge. How does this match with "Stage 2"? or with growth in general?
3. The Indian poor will not be lifted up by growth alone. There is urgent need to help them help themselves so that more unskilled labourers can enter the labour market and earn decent salaries. There is need to provide skill training, basic accident and health insurance and organisational support to improve their bargaining power against Indian employers' dominant and often abusive use of power. Indian solutions exist *(www.labournet.in/)* but are ignored by policy makers.

As Martin Wolf stated (January 01, 2011) India needs increase incomes and less protection of elite workers. Higher incomes for low and semi-skilled workers would increase their spending power. Policies and concrete actions are needed to lift the millions of poor unskilled workers out of their current structural helplessness. Poverty also means predominance of the informal sector. Reducing the high size of the informal sector cannot be achieved through growth alone. Micro-economic and social policies should go hand in hand with growth and trade liberalisation strategies.

*Director*
*Centre for Socio Eco-Nomic Development, Switzerland*
*(January 13, 2011)*

## Jagdish Bhagwati

Sanner does not address the issues at hand, I am afraid. As for Saner, indices which reduce a vector to a number without compelling weights are meaningless. If Saner thinks his group is advancing anything except rubbish with new such indices, he has producer sovereignty; and who am I to tell him what he should spend his time on?

[While Professor Sen thinks, according to a press report, that it is "very stupid" to ask whether the Indian growth rate will shortly exceed that of China, I may ask him: who are you to tell me that I should not consider this question any more than I can tell him what he should be interested in? Besides, aside from its intrinsic intellectual interest, the growth-related question about India and China is of interest from the viewpoint of Indian public policy in at least two ways: we can learn from Chinese experience, both its successes and its failures; and whether we do better than China affects our respective influence in the world which affects in several ways.]

While Saner can spend his time anyway he wants to, he should not expect us to applaud. What matters are policies to advance our objectives such as poverty reduction, not pseudo-indices-mongering. So, the debate is about policies.

As for Fabian, he claims that economists in New Delhi have no interest in his remark from Aristotle. What does that prove? Many of us do have knowledge of philosophy, sociology, political science, law, literature, international relations and much else that helps us think about public policy meaningfully. Maybe he should read more economists, not just talk to a few in Delhi over cocktails in Chanakyapuri.

I suggest that he read my book, *In Defense of Globalization,* or my much-reprinted essays on *Markets and Morality* and on *The Critiques of Capitalism* after the crisis; or google down Ben Friedman or Edmund Phelps or Ronald Findlay, all of whom have written extensively on economics in a much broader perspective than the purely technical economics generally works with.

As regards his suggestion that considerable corruption moneys could be diverted to increase social spending, how do we do this? The issue of corruption requires us to understand how corruption began, how it works, and how it could be contained and even reversed. I, and doubtless others (e.g. Pratap Bhanu Mehta) have written extensively about these matters in the Indian context; and I did address the matter in my Lok Sabha Lecture which has touched off the debate in this Forum.

And his suggestion that corruption moneys should be used to increase social spending begs the question: is this form of spending a more effective way to reduce poverty than alternative ways (such as building infrastructure, for example) that increase growth with its impact on poverty as well both directly and by generating revenues that can finance more social spending?

*Professor of Economics and Law, Columbia University,USA*
*(January 17, 2011)*

## Madhav Mehra

I have no qualifications to join the debate of stalwarts. Both Professor Bhagwati and Professor Amartya Sen are icons I profoundly admire. Like most Indians abroad, it shames me that despite two decades of reforms that made India one of world's fastest growing economies, we not only continue being a nation with world's largest number of hungry and malnourished but are at the bottom of G20 in regard to the disparity between the very rich and the very poor. This is a real time bomb that threatens the integrity of our country.

Growth to be sustainable has to be led by the bottom of the pyramid and not the other way around. Could anyone imagine that a social network model developed by a 19 year old to get girls attracted to him will become the biggest wealth driver making him the Time's Person of the year or that that a film based on his life will be such a big hitter at the Golden Globes.

We must not fail to recognise that the incredible India story rests on its youth – its demographic advantage. It proved itself when Haryana youth rescued India out of the CWG mess by winning a record number of gold medals. It is this "revolution of perceived possibilities" that has made our entrepreneurs venture out aggressively in every corner of the world. If Indian youth does not find jobs, it becomes an easy prey for terror groups. Terror from within is far more lethal than terror from outside.

Regrettable though it is, modern education has only inverse correlation with morality or ethics. With respect to Martin Wolf high income does not necessarily remove corruption. Companies that destroyed shareholder values were run and managed by some of the best boards. A Mackenzie director attended every board meeting of ENRON. LTCM board included the best Nobel laureates such as Myron Scholes, Robert Merton. Harvard Professor Palepu was part of the Satyam board, Dean of Stanford Business School was chairman of the audit committee of ENRON and Henry Kissinger was a member of the Hollinger board run by Lord Black who till recently was serving a 78 months prison sentence in US.

Greed has no constituency. Our markets are distorted because of greed which is fed by cosiness, concealment, conceit and corruption. Architects of meltdown were well-bred, brainy and brilliant people. Seven out of ten were from Harvard Business School. "Ahead of the Curve" by Philip Delves Broughton and Liar's Poker by Michael Lewis illustrates the corrupting influence of quality education.

Indeed the minimal rate of defaulters among rural illiterate poor that burst the tills of micro finance industry until their greed drove farmers to suicide contrasts with the manner Berlusconi is thriving in educated Italy. Graphic accounts of fraudulent expenditure claims among British parliamentarians exposed by *Daily Telegraph*.

The inequalities that threaten our integrity are the direct result of poor and opaque governance. Raghuram Rajan reiterates his fears about India's oligarchic brand of capitalism saying "the ties that bind India's billionaires to the state are too close for comfort".

The good news is that inclusive growth is achievable. All it needs is a trigger to spark a nationwide explosion of innovation. That trigger in India is vigorous enforcement of Competition Act 2002. Protecting and pampering incumbents drives out radicals and starves innovation.

History tells us that no technological breakthrough was ever achieved by industry insiders. It is always an outside job. Incumbents, having invested in old technology always use their clout to keep radicals out.

Curbing abuse of dominance and punishing cartel conduct opens the terrain for radical innovators to achieve the twin objective of offering new technologies at much lower costs and leveraging bottom of the pyramid for inclusive growth.

Systemic corruption is the biggest obstacle to all this. But it is not a virus carried by aliens from Mars; it is within each one of us. The only way to treat is to ensure complete transparency. Transparency frightens wrong doers and acts as a disinfectant. It exposes the culture of concealment, conceit, cosiness, groupthink, self delusion and hypocrisy. Transparency can be far more effective than can be imagined to curb corruption in these days when social media has become our 24 hour watchdog.

Despite its messiness, our greatest advantage lies in our uniquely vibrant democracy. It has helped us internalise the value of pluralism, capitalising diversity, dissent and dialogue. India has the distinction of effecting bloodless regime change overnight. Diversity has a priceless role in creating synergistic solutions in the age of uncertainty.

Instead of paying lip service to Mahatma Gandhi let us just remember one of his messages about the purpose of our effort: "Every action we contemplate should in its implementation wipe the tears of poor and downtrodden. Only when we have wiped the tears off the eyes of all the poor, have we truly arrived as a nation."

*President*
*World Council for Corporate Governance, London*
*(January 21, 2011)*

## Martin Wolf

Let me respond to the following comment from Mehra: "With respect Martin Wolf high income does not necessarily remove corruption." First, I would never claim that high incomes eliminate corruption. Nothing can eliminate corruption until all human beings become saints. Corruption will always be with us. So it is a matter of degree. But degrees matter. There is clear evidence of the inverse relationship between incomes per head and indicators of corruption.

Second, lower corruption is both cause and consequence of rising incomes. Surely, we can already see the latter in India, with voters beginning to look for actual and prospective performance in office as a justification for their support.

Third, corporate corruption is indeed important. But it is not, in my view, as damaging as large-scale corruption in government. Governments are monopoly suppliers of certain essential services. People find it very difficult to escape the harmful effects of corrupt governments. It is usually possible to escape the services of corrupt companies. Corrupt companies are likely to collapse. (Think of Enron) The life span of a corrupt government is often far longer.

Fourth, probably the most damaging interaction between companies and governments is the corruption of the latter by the former. One of the arguments for economic liberalisation is that it reduces the incentives for such rent-seeking activities.

Finally, I agree that the complex corporate form – necessary though it is – is vulnerable to managerial capture. It is quite difficult to fix this. Equally, powerful companies do seek to twist the political and legal environment for their benefit. This challenge exists for countries at all levels of income.

*Chief Economics Commentator, Financial Times, London*
*(January 21, 2011)*

## KP Fabian

A comment on Martin Wolf's comments.

He says: "Fourth, probably the most damaging interaction between companies and governments is the corruption of the latter by the former. One of the arguments for economic liberalisation is that it reduces the incentives for such rent-seeking activities."

The manner in which India has opened up its telecom sector has engendered one of the biggest scams in living memory. There are many ways in which liberalisation can be effected, with a lot of corruption, with minimum corruption and in between. But, as recent history shows it has by and large, begotten big corruption, not only in India. Ergo, we should stop praising liberalisation *per se* as many economists have been doing.

*Former Ambassador to Italy and*
*Permanent Representative to the UN*
*(January 24, 2011)*

## Martin Wolf

In reply to Fabian, I do not understand the details of the Indian telecoms case. But it seems to be a failure of spectrum allocation.

In the case of wireless telecommunications, there is a scarce resource – the spectrum – that government has to allocate. Everybody knows the efficient, just and non-corrupting way to allocate such a resource: one sells it to the highest (qualified) bidders in a properly constructed open auction. That is what liberalisation means: market-determined prices that result from an open, law-governed process.

Such a process is far more difficult and politicised and so more susceptible to corruption than is operation in sectors less directly dependent on government-controlled assets. But it has been done elsewhere.

I see this scandal as another opportunity for progress in the right direction.

*Chief Economics Commentator, Financial Times, London*
*(January 25, 2011)*

## Jagdish Bhagwati

I thought I had written down the last word on this Forum. But Martin Wolf's reply to Fabian, which all economists will agree with, reminds me of what a wit once said: the problem with economics is that there is free entry and inadequate exit. Everyone thinks that they can pronounce on economics whether they have any training or not.

This is not a matter of credentials; I like to listen in particular to students who are studying serious economics and often ask splendid questions or make excellent comments.

They are also the ones who are skeptical of the claims of my colleagues such as Stiglitz whose conclusions are more obvious than their arguments: they tell me that they (or their parents) have not paid US$50,000 a year to listen to ideological rants by professors, no matter what their credentials. I wholly agree with them.

We need that attitude also in India where foolish and harmful pronouncements from economists with credentials are taken at face value instead of being debated in public fora. Thus, I once asked the Chairman of the Planning Commission today why, when Stiglitz was invited to talk there, I had not been asked to debate his assertions, either simultaneously (if I was in Delhi at the time) or subsequently.

At Columbia also, the practice of some groups on campus is to invite, at great university expense, only their friends of the same POLITICAL persuasion, even when their PROFESSIONAL publication record is negligible (as can now be googled down and checked).

On the other hand, when I have helped organise with and without Arvind Panagariya conferences and events on India at Columbia, we have invited scholars who are not pro-reforms or share our views since I do believe that we must have diverse views discussed: but only if those views are not just views but are backed by scholarly achievement. Some scholarly opponents refuse to come; but we will keep trying! Their refusal to come is our loss; but it is theirs also.

*Professor of Economics and Law, Columbia University, USA*
*(January 27, 2011)*

# Economists Endorse Bhagwati Line for UPA

*Kirtika Suneja, Subhomoy Bhattacharjee*

The Financial Express, January 13, 2011

The annual *tete-a-tete* of Finance Minister Pranab Mukherjee with economists ahead of presenting the annual budget has got dwarfed this time by a huge debate that is sprung up on the internet among some of the global top economists tracking the India story.

The motion: Does India's growth story need to make a pause to push social equity? More loosely, it is the Jagdish Bhagwati versus Amartya Sen line, though economists like Kaushik Basu say the distinction is not that sharp. Framed in whichever way, the dominant point of view emerging from the to-and-fro is that Indian policy makers should not do anything to upset the growth engine they are riding.

They have a point. The UPA government has already rolled back several multi-billion dollar investment projects citing environment, land and tribal rights issues while others like the urban renewal missions are facing question marks. Some members of the ruling Congress party including cabinet ministers have said the reforms for pushing growth are increasing social inequality.

An indication of where this could lead is the recently finalised check-list the National Advisory Council, chaired by Sonia Gandhi has lined up for 2011. "Displacement of both tribals and non tribals (for setting up industry) is an issue but the former needs a special reference because that is where all the land, mineral and forest wealth is", said NC Saxena, Member, National Advisory Council.

Yet, as Bhagwati says, focussing on growth matters for India as it "pulls the poor into gainful employment and also provides the revenues with which one can finance direct programmes on health and education, which I called Stage 2 reforms."

The names involved in the internet debate are formidable, including Arvind Panagariya of Columbia University, Sumit Majumdar, University of Texas, Indira Rajaraman, NIPFP, Abhijit Banerjee of MIT and Martin Wolf of *Financial Times*. For the UPA government, buffeted by competing interest groups, this could act as the most decisive line of support to move on with growth-enhancing policies. The debate is sort of just-in-time as the government has to set in place policies that will run through for at least three years or more (unless there are mid-term elections), setting the tone for the most crucial decade for India.

It was spurred by Bhagwati's Lecture in the central hall of Parliament to the MPs, explaining his thesis that only reforms, and therefore growth, can produce the necessary funds for the state to invest in health and education.

His position, he has explained in the course of this debate, contrasts that of Amartya Sen, who has argued that the primary focus of the state should be on sectors like these instead of worrying too much about growth. The Internet Forum was facilitated by CUTS International, one of India's leading think-tanks on trade and development.

Commenting on the differences, Chief Economic Adviser to the Finance Ministry, Kaushik Basu: "I believe that the differences between Sen and Bhagwati are less substantive than what is popularly made out to be. On a variety of important policy matters, they use different languages but say very similar things. My only worry is that even on this Sen and Bhagwati will agree that I am wrong."

But Bhagwati, in his characteristic style, is more forthright. On the issue of sequencing reforms, something the UPA government is struggling with now, he says: "The true scandal is that people who continue to condemn the reforms that can help are the true scandal. But...in economics, there is no accountability for the consequences of your advice! And that is particularly so in an ascriptive society like India: the eminent are revered and rewarded, not condemned, despite the harm they cause."

## BLOGTALK

- One way to think about this question is that governments will in any case continue to do a bunch of stuff, driven by their own compulsions, some of which promote growth while others probably retard it.

  **– Abhijit Banerjee**

- Obviously, higher incomes are a necessary condition for better state-funded welfare, better jobs and so forth. This is simply not debatable. Indeed, only in India, do serious intellectuals dream of debating these issues.

  **– Martin Wolf**

- Even if the maintained hypothesis is that the government has limited capacity, the answer is not that reasonable people could choose to focus on different areas of policy but that reforms should still proceed on as many fronts as possible but take forms that make minimal demands on the government for their execution.

  **– Arvind Panagariya**

- The real revolution India needs is in efficiency and productivity, whether in government or private sector activities.

**– Sumit Majumdar**

# Some More Views on Growth and Poverty

## Jagdish Bhagwati

I enjoyed the *Financial Express* story that was sent to me, titled "Economists Endorse Bhagwati Line for UPA".

In my Lok Sabha Lecture, which has led to the debate in the CUTS Forum, I took care to avoid personalities but the debate has inevitably squared me off against Amartya Sen. Statements by him (after my Lok Sabha Lecture) like it was "very stupid" to worry about growth when nutrition was so bad, ignoring (among other things) the fact that resources do not fall from the sky like manna from heaven and that growing revenues due to higher growth would provide these resources, have perhaps led to this Bhagwati vs Sen format of the CUTS Forum debate. And indeed, Sen's prescriptions and track record hardly parallel mine.

This leads me to respond to Kaushik Basu's observation that there is really no difference between me and Sen. That reminds me of the time I was appearing with Joe Stiglitz at the UN with Jomo Kenyatta Sundaram, a "progressive" and fine sociologist who surprisingly does the economics at the UN. I and Stiglitz disagree hugely on globalisation, of course, and we did at the meeting also. But when it came to Sundaram's turn, he said that there was no real difference between me and Stiglitz!

That, in turn, reminds me of Paul Streeten's witty observation that, in politics, we reach agreement by obfuscating differences, and in economics, by sharpening them (so that we see clearly why we reach different conclusions).

Basu should not paper over the dramatic differences between his teacher, Sen, and his friend, Bhagwati: no one who knows what we have been writing and advocating since the early 1960s could say there is no real difference between the two economists. On the other hand, if Sen has now come around to my viewpoint, he should say so clearly. Maybe he has; but I do not keep up with all that he says any more than he keeps up with everything I say.

In any event, I am grateful that CUTS Forum's carrying of a short version of my Lecture – it is now on my website *www.columbia.edu/~jb38* and on the Lok Sabha website in a fuller version which incorporates several oral remarks and anecdotes – and to many economists and intellectuals who have written in response to it. I have learnt much from their communications.

*Professor of Economics and Law, Columbia University, USA*
*(February 06, 2011)*

## M Govind Rao

The entire debate on the issue of primacy of growth vs poverty reduction has not brought any new perspectives with commentators reaffirming their own beliefs!

The views of Prof. Bhagwati are well known and he has articulated them for several years including his paper on "Poverty and Public Policy" (see page No 151) in World Development in 1988. As he has reiterated in this discussion, accelerating growth as well as public interventions to enable the poor to participate in the market in a meaningful manner is necessary.

Growth is important not merely to generate the resources for anti-poverty interventions and human development but essentially, it is growth that should provide sustainable and productive employment opportunities to the poor. If our growth has not produced sufficient jobs, the fault does not lie with growth but with our policies which have anti-labour bias. Employment intensive growth requires us to question our policies creating structural rigidities. Examples include the need to rethink on our labour laws and equally important, whether we should continue to prevent foreign investment in activities such as retail trade.

Surely, it is important to have a larger focus on social sectors as Prof. Bhagwati has argued for long, we need interventions to make the poor participate in market activities. It is not just that the growth can generate larger volume of resources for investment in human capital; there must be concerted efforts at raising more resources as well as reprioritising our public spending. The tax information network and choosing NSDL as the technology partner to implement it has helped the Centre to increase its income tax – GDP ratio by over three percentage points since 2003-04. Surely, much more remains to be done to improve tax administration.

Even more important aspect is to reprioritise our spending and the need to phase out explicit and implicit subsidies to release resources for human development. If we continue our present pattern subsidising, we will not only have resources to enhance human development, but will distort the resource allocation with adverse impact on both efficiency in resource allocation and sustainable use of resources.

Finally, our focus should be on poverty and ensuring that the poor participate in the market in a productive manner. Reducing the incomes of the rich will not increase the incomes of the poor. In fact, it may reduce it further. Let us focus on how to improve the incomes of the poor which requires policy changes to enhance their productivity.

*Director, National Institute of Public Finance and Policy, India*
*(January 13, 2011)*

## Geza Feketekuty

I have been following the debate triggered by Professor Bhagwati's 3rd Professor Hiren Mukerjee Memorial Parliamentary Lecture with great interest. With the encouragement of a number of Indian friends, I would like to make a few observations, but first I would like to congratulate Professor Bhagwati for stimulating this rich debate, and CUTS for providing a Forum where or a wide range of experts could participate in an open discussion of the various facets of Indian economic reform and development policies.

One has to be impressed with what India has achieved in building a competitive economy that can now export to any part of the world, in upgrading the productivity of its services and manufacturing industries, and in providing jobs for the people graduating from its schools. This is not to say that India does not have many unmet social needs, and that large parts of its population have not gained as much as they should from the increased performance of the economy.

The starting point for any discussion on how to address these unmet needs should focus on how to go forward from the policies that have achieved these remarkable results, rather than in turning the clock back and making everyone poorer for the sake of income equality. It seems to me, that the challenge is how to fine-tune the reforms, and how to better focus government expenditure and regulatory policies to achieve the desired social objectives.

This kind of discussion is very much-needed, since it is my impression based on several visits to India that there is much less of a consensus on the right direction of Indian economic reforms among academic experts than among India's business leaders and government officials. This has been a bit of a surprise to me, since I had come to believe that India's bureaucracy would be a major obstacle to reform, but that has not proven the case as far as I can see. The lack of consensus among the intellectual elite does seem to me to create problems at the political level, and constrains the reforms the civil service can pursue effectively.

India prides itself on being a democracy, and great strides are being made in make it a better functioning democracy through a vastly expanded dialogue between the government and various stakeholders, and CUTS has made a great contribution in enhancing that process.

At the same time, I find it ironic that there seems to be a greater consensus among China's intellectual elite on the course of China's economic reforms than there is among India's intellectual elite on the course of India's economic reforms. There is, of course, a parallel debate in China on how to better meet China's social needs, but it nevertheless strikes me as curious that China with fewer opportunities for open debate has achieved a greater degree of consensus on its economic policies. I suppose that the cultural revolution has been an important factor in eliminating false illusions about how economic progress is achieved.

Many of the participants in this discussion in CUTS Forum seem to have made the underlying assumption that poverty alleviation can only be solved by either policies geared towards distributing income in favour of the poor or policies that emphasise growth. This seems to me to be a false dichotomy. The reforms that have increased growth have clearly been necessary to generate the resources that are needed to address India's social needs, and increased GNP does not necessarily mean that all the increased GNP has to go into increased consumption by the new professional class.

At the same time, the government clearly has a critical role to play in addressing the unmet social needs, including the pursuit of expenditure and regulatory programmes designed to alleviate poverty. I cannot judge whether the level of government expenditure as a percent of GNP is the right amount, but it seems to me that a critical challenge in any case is achieving the most impact for the money the government does spend.

The discussion, therefore, needs to focus on how expenditure programmes dedicated to poverty alleviation are designed, and how subsidies, grants and tax incentives, along with regulatory policies, are focused to achieve the most impact.

The problem it seems to me is that too much of the money that is currently spent by the government is widely disbursed through across the board subsidies that do not necessarily lead recipients to make the right economic decisions that will help them to improve their own economic situation over time. Moreover, regulatory policies often take the form directing and constraining business decisions, rather than in creating the right kind of incentives and disincentives that will induce both businesses and the poor to make decisions that are both economically efficient and socially responsible.

The question, therefore, is how the government can strategically focus its expenditures and its regulatory policies so they will create the right market incentives for economic actors to make economically rational decisions that will contribute to the alleviation of poverty. Much has been learnt by economists over the past few decades over the design of policies so they will achieve the desired social objective at the least cost.

Another assumption that seems to have been made by many participants is that the most relevant policies for policy alleviation are the policies and programmes of the Central government. That is a mistake. While India is a more centrally organised country than countries with a federal structure, the states in India have considerable leeway in how they implement federal policies and programmes, and some states have taken far more initiatives to pursue their own approach to policy alleviation than others.

What I have found largely missing from this debate is an objective analysis of the wide range of programmes pursued at the state level, and their relative success rates. There has been a considerable amount of experimentation at the state level, in some cases with extremely creative programmes, to address rural poverty, e.g., programmes to establish internet cafes in villages, to build the infrastructure necessary to disburse manufacturing investment to the countryside, etc. It would be nice to have a rigorous analysis of the results of such state level programmes.

There is no way of reducing rural poverty in India without reducing the number of people actively engaged in farming, and providing alternative employment opportunities for the rest of the rural population. Since you do not want all these people to flock to the already overcrowded cities, you need to create new jobs in the country side. This is a two-sided problem.

How do you create the right economic incentives for manufacturing and services enterprises to establish themselves in the rural areas, and how do you equip the people you want to draw into the new manufacturing and services jobs with the necessary skills and education. This requires strategic investments in infrastructure and education, and the development of the right kind of tax incentives and one time grants and subsidies.

This brings me to the issue of corruption. India as a functioning democracy is in a far better position to deal with this problem than other countries with less opportunity for citizens to voice their complaints. I am surprised that not more has been said in this discussion on what I understand is currently the major approach to reducing corruption in India, and that is a policy of full transparency for government expenditure decisions at all levels of government. There are undoubtedly major issues in fully implementing this policy, but it is the right policy, along with a requirement that all senior civil servants make public their incomes and financial assets.

In conclusion, I would like to once again to congratulate CUTS and to set them a challenge, which is to summarise the major elements of this debate, and to lay out a research programme that could lead to a better evaluation of the relative effectiveness of micro-economic policies and expenditure programmes at both the Central and state government levels.

*Special Adviser to the President, Overseas Private Investment Corporation, USA*
*(February 05, 2011)*

## Shantayanan Devarajan

In this debate on growth vs social sector spending, one point that has been insufficiently emphasised is that additional social sector spending may not lead to better human development outcomes. The empirical evidence (across countries and over time) shows a very weak connection at best. There are at least three reasons.

First, social sector spending is often captured by the non-poor. In India, about 33 percent of public spending on health accrues to the richest 20 percent of the population, while less than 10 percent goes to the poorest quintile. The reason is that the lion's share of this spending goes to hospitals (which are located in urban areas) rather than to primary clinics in rural areas (where the majority of the poor live).

Second, even when spending is redirected towards primary clinics and schools, the doctor is absent 40 percent of the time, the teacher 25 percent of the time.

Finally, when present, qualified public sector doctors in Delhi have been found to provide worse service than unqualified private doctors. In short, the question is not whether government should emphasise growth or social sector spending, but how overall public spending – and public policy more generally, including regulations – could be made more pro-poor.

*Chief Economist, Africa Region, The World Bank, USA*
*(January 18, 2011)*

## G S Bhalla

I did not wish to join this debate, but I can not resist the temptation of comparing Indian Punjab experience with that of Kerala. Punjab chose the path of growth. It was a pioneer in the adoption of green revolution. Its agricultural sector boomed leading to overall growth of its economy. Soon it became the richest state in the country with highest per capita income. It still is one of the richest states in the country although its rank has slipped a bit to $2^{nd}$ or $3^{rd}$ position.

Now look at Kerala. Kerala chose the opposite model. Professor K N Raj and his colleagues at the CDS advocated giving priority to investment in social sectors like health and education.

I remember often teasing Professor Raj about the fallacy of his theory and telling him that soon Punjab will have huge resources and would be able to surpass Kerala in social sector investment.

But look at the results today. Kerala has the highest rank in Human Sector Development in India. Girls' education has imparted a unique dignity to women. Thanks to its investment in education and health, it has the lowest mortality rate, and one of the highest sex ratio.

For Punjab it is just the opposite. It is indeed sad to note that Punjab has the lowest sex ratio in the country – it has the highest rate of infanticides. In 1991 the girls ratio in 0-6 age-group was 875, it came down to 798 in 2001. Punjab's educational standards in primary education are quite poor and it health sector is not in a very good shape. I could go on, but I am sure the readers will draw their own conclusions.

*Professor Emeritus, Centre for the Study of Regional Development, India*

*(January 24, 2011)*

## Arif Waqif

In my view, the simplest Economic Litmus Test for liberalisation and globalisation led growth is : Has it resulted in higher prices for goods and services which the poor (as-are) produce, and lower prices of goods and services which the poor consume?

The persistent double-digit inflation of food grains and vegetable prices in India alone would suggest an emphatic NO. Should not those interested in poverty alleviation focus on growth of what the poor need – remunerative and stable work, food, 'minimum needs' etc. (*ala* Malcolm Adiseshaiah, Vakil and others)? That is, focus on the pro-poor composition of growth?

For instance, the extraordinary growth in cars compared to that in public transport, bicycles cannot by any stretch of imagination be said to be pro-poor.

*Professor and Founder-Dean (Retd), University of Hyderabad, India*
*(January 25, 2011)*

## Y Venugopal Reddy

I think Professor Waqif makes a very important point – but the problem is that trade in food and related items has not been globalised; and in fact even in India we have restrictions on domestic trade. So how do we analyse food vs. non food globalisation and impact on prices/incomes?

*Emeritus Professor, University of Hyderabad*
*Former Governor, Reserve Bank of India*
*(January 25, 2011)*

## Prasenjit Bose

With due respect to Dr Reddy, trade in food articles and other agricultural products have been increasingly liberalised over the past decade. Domestic trade restrictions have been diluted. Food exports and imports have also increased significantly over the years. The commodity futures markets link Indian agricultural prices to global prices.

Therefore, while the extent of 'globalisation' of Indian agriculture/food economy is debatable, the policy direction over the past decade is not. The result has been, in sum: stagnant productivity growth, falling per capita food availability, enhanced speculation and profiteering on food items and as a result of all this, food price inflation going out of control.

As far as the impact of economic growth in India on poverty reduction is concerned, an important channel (if not the most important one) through which the former can bring about the latter is through the generation of gainful employment. It is indeed surprising that those celebrating the Indian growth story are so oblivious to the jobless nature of the Indian growth process.

The latest employment/unemployment survey by the NSS ($64^{th}$ round – 2007-08) brings out the conundrum: *www.pib.nic.in/release/release.asp?relid=62083* an economy growing at eight percent also has an unemployment rate of eight percent (by current daily status)! Any explanations forthcoming?

*Head, Research Unit, CPI(M)*
*(January 25, 2011)*

## Arvind Panagariya

Perhaps out of respect for the late Professor K N Raj, Professor G S Bhalla has conceded too much to him in his post a few days ago. I am sure Professor Surjit Bhalla, who once crossed swords with Professor Sen on Kerala, can enlighten us further, but for now here are some important statistics in favour of Professor G S Bhalla who argued the case of Punjab:

1. Thanks to its pro-growth strategy, with the exception of J&K where data are probably not very reliable, Punjab has enjoyed the lowest poverty rate among all states. Based on the latest thick survey by the NSS conducted during 2004-05, (uniform reference period), its poverty rate was 8.4 percent. In contrast, the poverty rate in Kerala was 15 percent, behind Punjab, Haryana, Himachal Pradesh, Delhi, Goa and J&K.
2. Based on the survey above, Kerala has the worst income distribution of all in both rural and urban areas.
3. Do not forget, globalisation did come to the assistance of Kerala through remittances. Kerala has had a huge emigration of workers who have been sending remittances accounting for a substantial part of its expenditures (which have, no doubt, contributed to both the decline in poverty and perhaps increased inequality).

*Professor of Economics and Law, Columbia University, USA*
*(January 31, 2011)*

## Surjit S Bhalla

I have been meaning to write a comment on the interesting exchange of views in this Forum. Better late than never so here goes. I wish to make the following nine observations:

1. More than two decades ago, Professor Bhagwati articulated the divide between the direct (government action) and indirect (economic growth) influences on poverty removal (Poverty and Public Policy, World Development, 1988 see page no. 151). The profession, and policy makers, have absorbed that debate and moved on.
2. Except in India. A debate like this can only happen in India. I do not know whether that is good or bad, but it is a fact.
3. And facts are at a deep discount in India, and especially when it comes to the debate on poverty and its removal.

4. Consider the point made by my namesake Professor GS Bhalla on Kerala vs. Punjab. In the early 1980s, this took the form of Sri Lanka being exceptional in terms of its living standards. And that this exception was due to its policies towards health and education. The causality inference was erroneous since it was easily documented that Sri Lanka had exceptional living standards in 1960, so that levels of education and health observed in 1980 (e.g. by Professor Amartya Sen) had precious little to do with Sri Lankan public policy expenditures since 1960. Accounting for initial conditions is critical before any inferences about policy induced change can be reached.
5. The issues before us are age old. Governments tax, and have taxed for centuries, primarily to redistribute. The question is on the efficiency of this redistribution. As far back as 1985, Prime Minister Rajiv Gandhi stated that only 15 percent of expenditures meant for the poor has reached them. Evaluation of the numerous in the name of the poor programmes in India suggest that Rajiv Gandhi was either spot on or a wild-eyed optimist – and this also applies to the newest in the name of the poor National Rural Employment Guarantee Act programme of the Congress party – the same party Rajiv Gandhi headed.
6. While we should be worried about scams that benefit the rich e.g. 2G scam, we should also be worried about in the name of the poor scams that also benefit the rich and the political parties. Just because the programme was meant for the poor does not make it either good, or desirable, or not massively corrupt.
7. There is a light at the end of the tunnel. Even India will move towards cash transfers, as most of the developing world has already done. There is considerable opposition to such policy reforms from, you guessed it, the major beneficiaries. But India will move ahead.

8. And when it does, the debate will centre on not growth vs. public expenditures, but the efficacy of public expenditures, period.
9. Finally, I have yet to meet somebody who does not want to help the poor. So let us not beat our chests and appear more "concerned" than the next guy.

*Managing Director, Oxus Research and Investment*
*(February 02, 2011)*

## Leonard Ugbajah

I feel the need to make these few observations on the debate as a footnote if you would be inclined to post same.

My concern is in the manner the distinguished Professor Bhagwati responded to comments made and authorities cited by other persons, most of whom are economists of high standing, including comments credit to Sen and later Stiglitz, arguable two of the finest contemporary economist.

I am a bit concerned that Professor Bhagwati seems to have a knack for attacking not just theories but persons, in fact more of the latter than the former. The distinguished Professor seems to have a penchant for questioning the credentials of other equally distinguished contributors. I was taught in my introductory lessons in logic as a law students that *agumentum ad hominem* is when you abandon the points raised and instead attack the person who has raised the points.

Secondly, the distinguished Professor seems to leave us with the impression that economics is a science *qua* natural science where one plus one equals two. But we know too well, even with elementary knowledge of economics that economic theories like most social sciences depend on a number of variables which relate to human behaviour within a physical and social environment.

Therefore, so long as human behaviour and the permutations of his environment are not always predictable, economic variables cannot be static. Even in the natural sciences, old theories and formulas give way to new ones as the body of knowledge expands. Therefore, I think it is wrong for the Prof to hold his theories as sacrosanct.

Thirdly, another related point is that I do not imagine anybody to assume that economics as a subject holds the answer to all the development questions facing mankind today, neither indeed can economics lay claim to being at the driving seat of the quest for improved standard of living for all mankind such that it reserves the prerogative to allocate spaces and roles to other areas of academic inquiry in this quest. This to me seems to be the fundamental assumption of the distinguished Professor on which I am sure quite a few scholars will differ with this assumption.

In fact, in the contrary, economics as a subject is a late entrant into the body of knowledge and its claim to be a science is of a much later origin. It is also arguable if the mere fact of the emergence of economics as a distinct body of academic inquiry has radically improved the condition of mankind on planet earth.

I think the danger in the approach of Professor Bhagwati to economics lies in the possibility of making the subject so mechanical and esoteric that it loses touch with the realities of human existence beyond the figures and percentages it churns out to 'prove' what our real life experience cannot relate with!

As a young lawyer who is interested in human development, I have taken time to study a bit of political economic/economic theory (including a volume of Professor Bhagwati's Princeton Lectures and few of his articles as I am able to lay my hands on. I have also looked at the works of the earliest theorists like Adam Smith, Senior Nassau, Bastable, etc) and I have come to appreciate the progression of knowledge in this field and how it led to the alteration of assumptions and theories over the ages.

I think Professor Bhagwati should accept that economics does not hold all the answer neither can it determine how much of the answer that should come from other fields of learning – political science, sociology, anthropology, law, philosophy, theology and other areas of learning concerned with human behaviour and how it affects development.

Finally, our distinguished Professor need to give credit to his fellow professors of economics who work equally hard to find the solutions to the tragedy of poverty and underdevelopment rather than dismissing their works with a wave of the hand couched in witty expressions. He should also try to answer the points raised on how some countries have attained significant levels of human development without spiralling economic growth figures.

In the face of the overwhelming counter arguments to the Prof's positions, I think it is not just good enough for him to dismiss the contributors as lacking in academic credence.

Africa is rising; we shall redefine the theories and practice of development such that the China and the Asian Tigers experience will sound stale.

*Acting Executive Director, Centre for Trade and Economic Regulation, Nigeria*
*(January 07, 2011)*

## Arne Melchior

In China, the number of poor (people below 1.25 PPP US$ a day, using World Bank poverty headcounts from PovcalNet) fell from about 700 million in 1990 to 200 million in 2005. In contrast, poverty in India was more or less constant at about 450 million. So even if India's poverty rate decreased from 54 to 42 percent in that period, it was because of the population increase. In addition to faster rural population growth in India, a main difference between China and India was faster and more productive job growth in China.

During 1981-2005, 280 million non- agricultural jobs were created in China; 100 in manufacturing and 180 in services. In India as well as China, there was fast population growth in cities. In China, sufficient jobs were created so urban poverty fell but in India it increased (and is now 25 percent of total poverty).

During 1993-2005, India was not too far behind in the number of jobs created (about 83 million in both countries), but there was no job growth at all in the “organised sector”. Hence, job growth in India was in the “unorganised” part of the economy. This is reflected in value added per worker: while productivity in China increased massively, in 1993-2005 and measured in US$ actually fell in India for the primary, secondary and even (although just slightly) the tertiary industries. This is a main reason why growth in India has been lower than in China: around 1990, GDP per capita in the two countries were about the same level; in 2008 China was nominally three times richer and twice as rich if we correct for price levels (PPP).

So with respect to productivity which is a main part of the story, one might say that India’s growth was actually too low. In India, 20 percent less of the population is in the workforce (39 percent vs. 59 percent of the population in 2008, according to ILO data). India’s workforce has increased along with the population but it is now time to increase productivity as well.

In order to get rid of poverty, India has to create new and productive non-agricultural jobs, control rural population growth and raise productivity in agriculture, and stimulate transition out of agriculture. This involves a number of policy areas, including those related to health, education and infrastructure. If the Indian state is to play its appropriate role it has to get rid of corruption, raise tax revenues and create a business-friendly environment that stimulates new jobs. Non-agricultural job creation should take place not only in cities but also in rural areas. Hence, distribution and logistics related to agriculture could be reformed; increasing employment in related services and creating better distribution.

Given that less than 10 percent of employment is in the organised sector, India should "become more organised"; I am not fully sure how this could be achieved but labour regulations could be one aspect that contributes to the excessive "un-organisedness".

The role for international integration and globalisation should neither be under- or over-estimated. It should not be over-estimated since many of the core reforms are essentially domestic. For example, some of China's early success in combating poverty was due to its rural reforms. For India, domestic market integration may be as important as international integration.

But globalisation should not be underestimated either since it can bring investments, increase productivity (which is very important for India), bring welfare gains and probably (for India) also help to get rid of excessive micro- regulation. A developing country also needs exchange earners such as manufacturing in China.

In China, the largest job creation was in the tertiary sector but manufacturing has still played an essential role for the transition.

For India, the IT sector has been an important contribution but more is needed, also in manufacturing. For productivity in India, more indicators point in the right direction after 2000.

*Senior Research Fellow, NUPI*
*(February 01, 2011)*

## Ravi Chaudhry

### Five Key Themes of the Dialogue and Emerging Action Points

The ongoing dialogue appears to be following a set pattern – greater emphasis on defending stated postures and scoring debating points – rather than addressing the key issue of fast-tracking the process of poverty alleviation in our country. There have been several thoughtful interventions by those unhappy with what has been achieved so far and are unable and unwilling to accept the *status-quo* policies. They deserve a serious hearing. Let us take cognisance of those ideas, even if they are at variance with our current views and incorporate those in the policy framework recommendations emerging from this dialogue.

I have endeavoured to summarise below the five key themes that have emerged and the action points emanating there from.

### Theme One

***The question is not whether growth will lead to poverty alleviation or poverty alleviation per-se will lead to growth. It cannot be a 'this or that' option. We want both – poverty alleviation as well as growth.***

There is virtual consensus that the quantum of poverty alleviation in India so far has been marginal and is no cause for either celebration or for continuing the policies adopted till now. Rajesh Shukla testified that the top 20 percent of India's population has more than 50 percent share of the national income in 2009-10, up from 37 percent in 1993-94.

The bottom 60 percent of India has a mere 28 percent share in total income, down from 39 percent at the start of the reforms, confirming the charge that income disparities have increased since 1991 and the rich have got richer. What is most worrisome is that this gap continues to widen even today.

Professor Raymond Saner gently reminds us that India is not only at the bottom of the G20 in regard to the size of population remaining in poverty but also in regard to the disparity between the very rich and the very poor.

G Sabarinathan crisply remarked that to take solace under the narrow confines of selective economic research and to grossly overlook the larger human problems that stare at us amounts to deliberately missing the big picture.

Shovan Ray has categorically, and rightly so, asserted that asking the poor to wait for trickle down process is morally unacceptable and strategically questionable.

Jean-Pierre Lehmann sums it up best by quoting Ed Luce, "whereas in Africa poverty is a tragedy, in India it is a scandal."

The deprived 600 million people of India, who are not a part of the growth story, are no longer willing to accept poverty as perpetual destiny. Their condition is a consequence of deliberate actions of previous governments including the colonial government, and it is incumbent upon the present government to set the imbalance right. Of course, we all know that to get freedom from our own misrule will be far more difficult than it was to get freedom from British rule.

**Action One**

The government's declared objectives for 2011-2015 should include two parameters, (as also suggested by Jean-Pierre Lehmann). (a) To achieve sustained fast growth in order to raise incomes; and (b) To reduce absolute number of poor in the country from about 26 percent currently to less than 15 percent of population by 2015, to reduce child malnutrition from about 45 percent today to less than 25 percent by 2015, and similar stretch targets to improve supply of drinking water, sanitation facilities, literacy levels and gender parity – all MDGs.

These targets may appear to be outrageous at first, but that is because we have never really focused on them. If we could more than double our GDP growth trend rates, surely we can also achieve these specific poverty alleviation targets. For that, the focus must change and the priority must be non-negotiable.

**Theme Two**

***The GDP growth criteria typically pander to generating wealth for those who are already rich. Barring a few exceptions such as telecom, the investment is directed primarily towards products that the rich consume and the services that they use.***

Arif Waqif makes a telling observation that Indian growth model has clearly resulted in higher prices of goods and services which the poor consume and lower prices for goods and services which they produce.

For instance, the extraordinary growth in cars compared to that in public transport, cannot by any stretch of imagination be said to be pro-poor. On the other hand, the persistent double-digit inflation of food grains, pulses and vegetable prices has made a mockery of the proposition that the poor have substantially benefited from two decades of growth.

Prasenjit Bose has relevantly highlighted the employment conundrum by pointing out that Indian growth model has virtually resulted in a jobless growth. While our economy grew at eight percent, the official unemployment rate has also stubbornly remained at over eight percent (on current daily status basis).

Tom Reardon shared the outcome of research that shows that the medium and larger farmers (with 4 to 10 ha holdings) employing 20 to 30 percent of farm population, have 85 percent of the subsidised tubewells and purchase 90 percent of the subsidised seed and fertilisers sold by the state and coop stores. Quite clearly, the subsidies ostensibly meant for the poor farmers (less than 2 acre holding) are mostly lapped up by the rich.

**Action Two**

The government's policies need to be re-prioritised so as to focus more on pro-poor composition of growth, e.g. stable work, stable food prices, affordable housing, cheaper access to finance for encouraging village entrepreneurship, etc.

The agenda to achieve this would include: (a) substantive agricultural reform including change in subsidy regime; (b) break-through real-estate reform – unshackling the vice-grip of what is called the land *mafia*; (c) creating rural financing infrastructure that ensures that the lending rates to the poor are no more than the lending rates to the rich (even micro-finance institutions are too high); and (d) allocating higher share to social sector spending and ensuring that the money does not remain unspent year after year.

The government also needs to reform the tax structure by giving incentives to those who create jobs and punishing those who are engaged in industries that pollute, leave carbon footprints and use excessive natural resources.

**Theme Three**

***Education and health are indisputably the two prime movers to fast-track poverty alleviation. There is total consensus that these two areas cannot be neglected as something to be done at leisure.***

The usual plea that the government needs economic growth first to generate more tax revenues for such 'poor-oriented' activities is neither credible nor can stand scrutiny. It is simply a matter of priorities. There is always enough money for wasteful expenditure on totally unessential projects (such as Commonwealth Games 2010); surely a similar do-or-die approach to poverty alleviation tasks would ensure that adequate state funds can be allocated.

While we aim to emulate the GDP growth rates of fast-growing emerging and emerged economies, we cannot disregard the simultaneous emphasis placed by those economies on citizens' education and healthcare.

John Bryden subtly goads us to remember that in countries that do not respect basic human rights including education and healthcare and where the gap between political and economic democracy grows to danger levels, social divisions and possible conflicts are assured. In fact, such neglect has already led to our facing several flash-points in many parts of the country.

Basudeb Chaudhuri unequivocally emphasises that education and health should not be treated as "soft" areas of development that would get attention only after the "hard" or more important areas such as industrialisation or physical infrastructure have been taken care of. That has been a deeply flawed thinking of all successive governments for over 50 years.

**Action Three**

The government needs to position the Ministry of Education and Ministry of Health as the ones that shall be led by the most competent 'doers' in the cabinet.

I also wish to propose that the government should make it mandatory for each graduate student to spend six months in either a rural school or a rural hospital or a rural agricultural centre to undertake voluntary service – before he or she is awarded the graduate degree. The programme should initially be planned in two states of India. The responsibility of implementing the programme should rest with the universities, in conjunction with state education departments. Such an initiative would not only bring about a much-needed ground-reality understanding of rural India among our youth – but also temporarily meet the trained manpower shortage.

**Theme Four**

***While growth can be achieved with poor governance, genuine, sustainable poverty alleviation will not be possible without good governance. The citizens of India need and demand: "growth with transparent governance and growth for all".***

It is wrong to say that corruption is a result of low-per capita income in India. That is totally erroneous. The Indian corruption phenomenon is entirely led by Indian elite and the rich Indians. There is widespread perception that in a majority of the cases, one joins the government not to serve the people of India – but to make loads of money within the shortest possible time.

The system of electioneering discourages honest citizens to join politics. The qualities required to win an election are totally different from qualities required to govern the nation.

None of the three key themes mentioned above can be effectively implemented, unless we develop a system of zero tolerance for corruption at every level of government. In today's world of 24/7 surveillance, it is a doable task. I do not also agree that corruption is difficult to control in a multi-party coalition system. All it needs is one determined leader willing to work with total transparency.

**Action Four**

First, both the Central and state governments should start following the practice recently introduced by the Greek government as their country has been pushed to the brink. No government contract or order is valid unless it has been posted on their website, clearly indicating the name/names of persons authorised to do so.

Second, let us follow the Turkish practice of introducing live TV coverage of all bidding processes for public tenders.

The technically approved bidders have the option to raise their bids in an open auction to secure the tender awards.

Third, there is need for electoral reform. If there is state funding of elections, it would obviate the need to seek funding favours which then need to be returned in kind – by framing government policies that explicitly favour the funders.

Fourth, the Parliament must retract its own amendment that nullified an earlier Election Commission ruling that barred even once-convicted criminals from seeking election to a public office.

Fifth, the government must urgently introduce and make functional the *Lokpal* Bill in the Centre as well as states, empowering prosecution of anybody and everybody, without exception and irrespective of the high political, judicial or any other office one may be holding. No prior permission from anyone should be necessary, if there is a *prima-facie* corruption case against any individual.

To prevent filing of frivolous cases, there should be a deterrent punishment for those making a complaint without a valid basis. The brilliant work done by Arvind Kejriwal in this context is most commendable and must be supported and encouraged.

**Theme Five**

***It is the inexhaustible supply of corrupt money that is leading to astronomical demand for corrupt money.***

The policy framework in our government has been hijacked by business-politics nexus. One wonders if the view expressed by US President Rutherford Hayes, in 1876, "this is a government of the people, by the people and for the people no longer. *It is a government of corporations, by corporations, and for corporations*," crisply portrays the stark underlying reality in India.

In fact the danger is that if we do not stem the rot and correct the current system, it could soon become what some people have called 'a government of criminals, by criminals, and for criminals'.

As long as this unholy alliance between corrupt business and politics is not dissolved, GDP growth and genuine poverty alleviation will be like two tracks of a railway line. Looking ahead from any point, they appear to converge in the distance; in reality they never do.

**Action Five**

Here the initiative must come from India's corporate leaders. The mere talk of inclusive India is meaningless – if they cannot govern their own corporations with total transparency in their public dealings.

I invite corporate leaders to declare on their website that their company shall hereafter follow a strict code of conduct that includes zero bribes. Of course the company may suffer for a while – but without such sacrifices – it is difficult to change the direction.

*Chairman, CeNext Consulting & Investment Pvt. Ltd,*
*New Delhi*
*(January 28, 2011)*

# High Growth Fails to Feed India's Hungry

*James Lamont*

Financial Times, December 22, 2010

The toll booths on the expressway between New Delhi, India's capital, and the satellite city of Gurgaon tell their own story of the country's fast-paced economic growth.

When the toll road was built, its architects forecast that by now 120,000 vehicles would pass through its gates daily. Today, about 210,000 stream through in a torrent of commuter traffic. India's economic growth is forecast at 8.5 percent in 2010, making it the fastest growing large economy after China.

Yet the benefits of that economic boom are far from universal: the rapid growth is concentrated in a handful of states, particularly in the south, and among a tight circle of businesses.

The uneven economic performances in a country of continental proportions, alongside an unhealthy fixation with the headline growth rate among policymakers, have become issues of concern.

Amartya Sen, the Nobel Laureate economist, issued a stark warning to New Delhi about how "stupid" it was to aspire to double-digit economic growth without addressing the chronic undernourishment of tens of millions of Indians.

The country's emergence as a responsible power hangs on the quality of its growth, and whether it is transforming the lives of its 1.2 billion people. A growth map that resembles a patchwork quilt has given rise to a debate about whether India is expanding as one country and tackling poverty.

India's gathering success is less assured when highly populated states such as Uttar Pradesh, Madhya Pradesh and Chhattisgarh – where per capita incomes are considerably lower than the national average – continue to fall behind.

Undernourishment is a vital indicator. Despite rising growth, the average calorie intake among India's poorest has been stagnant for more than a decade. 11 out of 19 states have more than 80 percent anaemia, and more than half of India's children under the age of five suffer stunting and poor brain development from inadequate nutrition.

Rather than seeking to drive growth higher, Prof Sen recommends higher public spending on health and education, and to take notice of how China has fed its people better.

Jagdish Bhagwati, another highly respected economist and a Professor at Columbia University in New York, stirred up debate by arguing that rising incomes were felt widely across the country and were not bypassing the poor. "[Success in] denting poverty significantly, though nowhere near enough, is that poverty is now seen by India's poor and underprivileged to be removable," he said.

Other academics warn against celebrating the achievements of India's higher rates of economic growth prematurely.

"The Forbes list of Indian millionaires lingers a lot less in my memory than the images of misery that stare at us when we, the luckier Indians, step out of the comfort of our apartments," says G Sabarinathan, Indian Institute of Management, Bangalore.

India's 28 states present a mixed picture, and a largely unchanging one. On the one hand, extreme India is an industrialised and wealthy country, on the other it is stubbornly poor.

The states of Maharashtra, Gujarat, Karnataka, Tamil Nadu and Delhi are the established economies driving India's growth, with dynamic manufacturing and service sectors. They generate bulk of exports and attract the most foreign investment. There, incomes are rising among large urbanised workforces.

Then there is the rural and populous hinterland of Uttar Pradesh, Madhya Pradesh, Orissa, Chhattisgarh, Bihar and Jharkhand, long characterised by low growth and some of the lowest per capita income. Of these, Bihar, with a population of 90 million, has surprised many by recently recording higher rates of growth. But Uttar Pradesh, with a population similar to Brazil and notorious for social marginalisation, trails badly.

For decades, the ranking of states by income by the International Monetary Fund and others has changed little.

In 2010, the World Bank warned: "In 2000, the [Indian] state with the highest per capita income average was four and a half times the per capita income of the poorest state. In 2008, the difference ... was almost unchanged."

*South Asia Bureau Chief, Financial Times*

# Growth vs Caring: A 'Stupid' and 'Nonsensical' Debate!

*Vivian Fernandes*

IBN Live - Espresso Economics Blog, January 04, 2011

Chasing growth is "stupid" says Professor Amartya Sen. That he is obsessed with growth is "nonsense" says Professor Jagdish Bhagwati. At the time when the government's stewardship of the economy is being called into question over high food prices, growing public debt, corruption scandals and imports financed with flighty foreign money, heavyweight economists are wrangling over its economic orientation.

Nobel Laureate Amartya Sen has called the government's pursuit of faster economic growth and the desire to outpace China as "stupid," triggering an online debate among economists led by Columbia University Professor Jagdish Bhagwati who says Sen's position is "untenable," while affirming that his is "the appropriate one."

Professor Bhagwati had endorsed the government's twin-track "inclusive" growth strategy on December 02, 2010 at the Professor Hiren Mukerjee Memorial Lecture to Parliament when it was itself torn between the opposition's demand for a committee of lawmakers to probe a telecom scandal and the government's refusal to give in.

Growth did not passively trickle down to those lower down in the food chain after the big cats had feasted on the kill. It actively pulled people out of poverty while generating tax rupees for the relief to those still steeped in it. Poverty is now seen by the down-and-out as removable, and this "Revolution of Perceived Possibilities" was for Prof Bhagwati a ringing endorsement of economic reforms.

Prof Bhagwati said growth would get an impetus from a push to "Stage 1 reforms" like an across the board cut in import duties, substantial easing of restrictions on retailing and less onerous labour laws. These, he said, would generate resources for Stage 2 reforms to improve the well-being of the poor – food security, schooling for all and universal healthcare.

But Prof Sen seems to believe that the economy can take care of itself; the government should be worried about more pressing concerns. In a sense this reflects the divide between the growth orientation of the Planning Commission of which the Prime Minister is the chair and the welfare orientation of the National Advisory Council whose chairperson is Sonia Gandhi.

While addressing students and young entrepreneurs in Delhi on December 21, 2010 Professor Sen told India to pay greater attention to hunger and poor nutrition among its half a billion people and ask why it was "falling behind" in feeding them at a time when food prices were high. For Professor Sen how India's 8.5 percent growth compared with China's 9.5 percent rate was "not a serious question." Instead he wanted India to learn from China about social improvement. Higher growth was a "positive thing" in the context of social justice, poverty reduction and directing more money towards health and education.

*The Financial Times*' report of Prof Sen's remarks, reproduced in turn by Chinese publications, had sparked the debate (facilitated by CUTS, a Jaipur-based free-trade advocacy group). During a meeting with President Obama in Washington in 2010, Prime Minister Manmohan Singh said that India could aspire to an annual growth rate of 10 percent over the next many years (higher than that projected for China). In September 2010, *The Economist* said that India could surge past China by 2013 and narrow the gap with an economy which is four times larger.

Joining issue, Prof Bhagwati's colleague Arvind Panagariya said Prof Sen's view rested on three "rather implausible" assumptions that; (a) current income levels and revenues could finance social programmes of the desired scale; (b) attention to growth would divert attention from social programmes; and (c) a focus on welfare would itself stoke growth.

Only in India do serious intellectuals dream of debating the trade off between growth and welfare, says Martin Wolf. It is not growth but higher incomes that are a necessary condition for better state-funded welfare and better jobs. India is still a very poor country. Poverty would be lower at higher income levels and the point of faster growth is to get there as quickly as possible.

Without productivity growth real incomes would stagnate, says Sumit Majumdar, Professor of Technology Strategy at Texas University's School of Management. India has experienced "extensive growth" driven by the pent up demand of a billion people and has not seen a supply side revolution. India's manufacturing sector productivity story is "grim" and the services sector story so far is about leveraging white collar wage differentials with the West. Prof Majumdar says India should aim for an annual productivity growth rate in excess of 10 percent.

While faster growth has lifted income levels, the spread of cheer has been uneven says Rajesh Shukla of the National Council of Applied Economic Research. Comparing NCAER's data over the ten-year period to 2004-05, Shukla says inequality has widened in rural and urban India, a finding that Prof Bhagwati disputes. The Gini coefficient that Shukla relies on is not as fine a measure as (Dutch economist Henri) Theil's index. By this gauge, a study by Pravin Krishna (of Johns Hopkins University) to be unveiled in March finds that inequality, while rising initially after the 1991 reforms, has fallen by 2004 to 1988 levels. "So a straight rise in inequality cannot be asserted," says Prof Bhagwati.

Of course it would be naive to assume that the state's enhanced capacity for welfare will necessarily result in it. TCA Srinivas Raghavan, a journalist with *The Hindu Business Line*, sees an impediment in the lack of administrative reforms. For this lack of accountability he blames a colonial law imported wholesale by independent India that virtually insures civil servants against dismissal. "So the work that a government employee does really depends on his goodwill." Prof Bhagwati agrees that setting up schools and clinics within walking distance requires greater, not less, state involvement. Persuading teachers and doctors to earn their pay requires better governance.

When Professor Sen suggested that the government shed its obsession with growth rates he was telling it to address the governance deficit that denies the poor and the underprivileged the welfare benefits that higher growth makes possible. That does not seem like such a stupid thing.

*Economic Policy Editor*
*Television Eighteen India Limited, India*

# It’s Social Spend Boom, Stupid

*Swaminathan S. Anklesaria Aiyar – Swaminomics*

Times of India, February 06, 2011

Economists have, for over a month, had an internet debate on growth and social spending. It started with the *Financial Times* citing Nobel Laureate Amartya Sen as saying it would be “stupid” to focus on double-digit GDP growth without spending more on social sectors. The newspaper also cited Jagdish Bhagwati, a potential Nobel Laureate, as stressing second generation economic reforms to accelerate growth to finance more targeted social spending.

I think Martin Wolf got to the heart of this debate. “Obviously higher incomes are a necessary condition for better state-funded welfare, better jobs and so forth. This is simply not debatable. Indeed, only in India do serious intellectuals dream of debating these issues.” How true!

Rather than enter this debate, let me simply expose the scandalous mendacity of left analysts and politicians on this issue. Sen did not actually accuse the government of failing to expand social spending. But a cavalcade of left analysts and politicians has endlessly repeated the myth that the government is a neoliberal fiend that focuses on fast growth while ignoring social spending. Which planet do they live on? Social spending has actually been booming.

Recent scams make it blindingly obvious that the last thing this government focuses on is GDP acceleration. When Ashok Chavan and other worthies wangled lucrative flats for relatives and friends in what was supposed to be a defence services building, were they aiming for double-digit GDP growth? Was this a neoliberal abandonment of all regulations, or a classic case of the *neta-babu raj* imposing regulations in the holy name of socialism, and then using them to line their pockets and create patronage networks?

When Suresh Kalmadi and others handed out bonanzas to various contractors in the Commonwealth Games, did these constitute a single-minded focus on accelerating GDP? Or did they display a single-minded focus on accelerating their own personal wealth?

When former Telecom Minister Raja manipulated 2G spectrum to favour some businesses, causing revenue losses of possibly ₹176,000 crore according to the Comptroller and Auditor General (CAG), was he trying to accelerate economic growth? No, he was illustrating the strategy of the political class: no matter how many controls are abolished to facilitate growth in some areas, controls must be expanded and milked in other areas to ensure that politics remains the most profitable business of all.

Like all businesses, politics requires massive cash investments in winning elections. Likewise, politicians want high dividends from their investment. But democracy means they may never be re-elected or get another cabinet post. Any opportunity to make big money may be their last. So, they make hay while the sun shines, piling up enough cash to last a possible lifetime out of power.

Every political party in India is an investor with considerable expertise in ways to improve profits and shareholder value. But the Congress has always been the biggest business house of all. It knows that to stay profitable in a democracy, a ruling party must provide visible hand-outs for the masses, even while raking in black money itself. This principle has been the lodestar of seven years of Sonia-Manmohan Singh rule. Second generation economic reforms have taken a back seat.

On coming to power in 2004, the first priority of the Congress-led UPA coalition was to rectify the supposed anti-rural bias of the preceding Vajpayee government. So it shifted governmental focus to Education For All, rural employment guarantees through NREGA, and *Bharat Nirman* – a multifaceted rural infrastructure programme covering irrigation, roads, telecom, electrification, health and much else. This was a win-win strategy, wooing voters while ensuring that leakages from social programmes leaked (to the extent possible) into the desired political pockets.

Between 2004-05 and 2009-10, central plus state social spending more than doubled from ₹1.73 lakh crore to P4.46 lakh crore (and from 5.33 percent of GDP to 7.23 percent). So, social spending has actually risen faster than GDP.

Rapid GDP growth has financed, not hindered, rapid growth of social spending. The Economic Survey (2009-10) says gross central revenues more than doubled in 2004-05 and 2009-10, from ₹3.04 lakh crore to 6.41 lakh crore. This helped finance the social spending boom.

Sonia Gandhi's key policy innovation has been a National Advisory Council brimming with NGOs. This led to the Right to Information, a sort of Right to Work (through an employment guarantee), Right to Food (to be implemented through a Food Security Act) and Right to Education. To claim that this is a mindless neoliberal search for double-digit growth is nonsense. I hope Amartya Sen will denounce such claims as stupid.

*Consulting Editor, The Economic Times*

# PART – III

## Some Relevant Writings of Scholars and Commentators

# Growth and Other Concerns

*Amartya Sen*
The Hindu, February 14, 2011

I was awakened early one morning recently by someone who said he was enormously enjoying my ongoing debate on economic growth in India. I was very pleased that I had given someone some joy, but I also wondered what on earth he could be talking about, since I have not been involved in any such debate. As it happens, I am getting a steady stream of telephone calls and electronic communication about this alleged debate.

Since I could not generate the memory of any such debate, I tried to recollect any solitary remark on economic growth in some other context that I might have made in the last few months. I managed to resurrect the memory of having said in passing, in a meeting of The Indus Entrepreneurs in Delhi in December, that it is silly to be obsessed about overtaking China in the rate of growth of GNP, while not comparing ourselves with China in other respects, like education, basic health, or life expectancy. Since that one-sentence remark seems to have been interpreted in many different ways (my attention to that fact was drawn by friends who are more web-oriented than I am), I guess I should try to explain what that remark was about.

GNP growth can, of course, be very helpful in advancing living standards and in battling poverty (one would have to be quite foolish not to see that), but there is little case for confusing (1) the important role of economic growth as means for achieving good things; and (2) growth of inanimate objects of convenience being taken to be an end in itself. One does not have to "rubbish" economic growth — and I did not do anything like that — to recognise that it is not our ultimate objective, but a very useful means to achieve things that we ultimately value, including a better quality of life.

Nor should my remark be taken to be a dismissal of the far-reaching relevance of comparing India with China. This is a good perspective in which to assess each of the two countries and a lot of my past work — on my own and jointly with Jean Dreze — has made use of that perspective. It is of some historical interest that comparing India with China has been the subject matter of discussion for a very long time.

"Is there anyone, in the five parts of India, who does not admire China?" asked Yi Jing (I-Tsing, in old spelling) in the seventh century, on returning to China after being in India for ten years, studying at the ancient university in Nalanda. He went on to write a book, in 691 AD, about India, which presented, among other things, the first systematic comparative account of medical practices and healthcare in these two countries (perhaps the first such comparison between any two countries in the world). He investigated what China could learn from India, and what, in turn, India could assimilate from China.

Comparisons of that kind — and more — remain very relevant today, and I have discussed elsewhere the illumination we can get from such comparisons in general, and in comparative medical practice and healthcare, in particular *(The Art of Medicine: Learning from Others," Lancet, January 15, 2011).*

What goes wrong in the current obsession with India-China comparison is not the relevance of comparing China with India, but the field that is chosen for comparison. Now that the Indian rate of economic growth seems to be hovering around eight percent per year, there is a lot of speculation – and breathless discourse – on whether and when India may catch up or surpass China's over-10 percent growth rate. Despite the interest in this subject, comparable to that in the race course (the betting comes from the West as well as Asia), this is surely a silly focus. This is so not merely because there are so many elements of arbitrariness in any growth estimate (the choice of prices for weighting is only one of the problems, as any serious economist knows), but also because the lives that people are able to lead – what ultimately interest people most – are only indirectly and partially influenced by the rates of overall economic growth.

Let me look at some numbers, drawing from various sources – national as well as international, in particular World Development reports of the World Bank and Human Development reports of the UN. Life expectancy at birth in China is 73.5 years; in India it is still 64.4 years. Infant mortality rate is 50 per thousand in India, compared with just 17 in China, and the under-5 mortality rate is 66 for Indians and 19 for the Chinese. China's adult literacy rate is 94 percent, compared with India's 65 percent, and mean years of schooling in India is 4.4 years, compared with 7.5 years in China.

In our effort to reverse the lack of schooling of girls, India's literacy rate for women between the ages of 15 and 24 has certainly risen, but it is still below 80 percent, whereas in China it is 99 percent. Almost half of our children are undernourished compared with a very tiny proportion in China. Only 66 percent of Indian children are immunised with triple vaccine (DPT), as opposed to 97 percent in China. Comparing ourselves with China in these really important matters would be a very good perspective, and they can both inspire us and give us illumination about what to do – and what not to do, particularly the glib art of doing nothing.

Higher GNP in China has certainly helped it to reduce various indicators of poverty and deprivation, and to expand different aspects of the quality of life. So we have every reason to want to encourage sustainable economic growth, among the other things we can do to augment living standards today and in the future. Sustainable economic growth is a very good thing in a way that "growth mania" is not. We need some clarity on why we are doing what (including the values we have about our lives and freedoms and about the environment), and getting excited about the horse race on GNP growth with China is not a good way of achieving that clarity.

Further, we have to take note of the fact that GNP per capita is not invariably a good predictor of valuable features of our lives, for they depend also on other things that we do – or fail to do. Compare India with Bangladesh, where, as Jean Dreze pointed out in an article many years ago, "social indicators" are "improving quite rapidly" *(Bangladesh Shows the Way, The Hindu, September 17, 2004).*

In terms of income, India has a huge lead over Bangladesh, with a GNP per capita of ₹3,250, compared with ₹1,550 in Bangladesh, in comparable units of purchasing power parity. India was ahead of Bangladesh earlier as well, but thanks to fast economic growth in recent years, India's per-capita income is now comfortably more than double that of Bangladesh. How well is India's income advantage reflected in our lead in those things that really matter? I fear not very well – indeed not well at all.

Life expectancy in Bangladesh is 66.9 years compared with India's 64.4. The proportion of underweight children in Bangladesh (41.3 percent) is a little lower than in India (43.5), and its fertility rate (2.3) is also lower than India's (2.7). Mean years of schooling amount to 4.8 years in Bangladesh compared with India's 4.4 years. While India is ahead of Bangladesh in male literacy rate in the youthful age-group of 15-24, the female rate in Bangladesh is higher than in India.

Interestingly, the female literacy rate among young Bangladeshis is actually higher than the male rate, whereas young females still do much worse than young males in India. There is much evidence to suggest that Bangladesh's current progress has much to do with the role that liberated Bangladeshi women are beginning to play in the country.

What about health, which interests every human being as much as anything else? Under-5 mortality rate is 66 in India compared with 52 in Bangladesh. In infant mortality, Bangladesh has a similar advantage, since the rate is 50 in India and 41 in Bangladesh. Whereas 94 percent of Bangladeshi children are immunised with DPT vaccine, only 66 percent of Indian children are. In each of these respects, Bangladesh does better than India, despite having less than half of India's per-capita income.

This should not, however, be interpreted to entail that Bangladesh's living conditions will not benefit from higher economic growth – they certainly can benefit greatly, particularly if growth is used as a means of doing good things, rather than treating it as an end in itself. It is to the huge credit of Bangladesh that despite the adversity of low-income it has been able to do so much so quickly, in which the activism of the NGOs as well as public policies have played their parts. But higher income, including larger public resources, will enhance, rather than reduce, Bangladesh's ability to do good things for its people.

One of the great things about economic growth is that it generates resources for the government to spend according to its priorities. In fact, public resources typically grow faster than the GNP: when the GNP increases at 7 to 9 percent, public revenue tends to expand at rates between 9 and 12 percent. The gross tax revenue, for example, of the

Government of India now is more than four times what it was in 1990-91, at constant prices – a bigger rise than GNP per head.

Expenditure on what is somewhat misleadingly called the "social sector" (health, education, nutrition, etc.) has certainly gone up in India, and that is a reason for cheer. And yet we are still well behind China in many of these fields. For example, government expenditure on healthcare in China is nearly five times that in India. China does, of course, have a higher per-capita income than we do, but even in relative terms, while China spends nearly two percent of its GDP on healthcare (1.9 percent to be exact), the proportion is only a little above one percent (1.1 percent) in India.

One result of the relatively low allocation to public healthcare in India is the development of a remarkable reliance of many poor people across the country on private doctors, many of whom have little medical training, if any. Since health is also a typical case of "asymmetric information," with the patients knowing very little about what the doctors (or "supposed doctors") are giving them, the possibility of fraud and deceit is very large.

In a study conducted by the Pratichi Trust, we found cases of exploitation of the poor patients' ignorance of what they are being given to make them part with badly needed money to get treatment that they do not often get (we even found cases in which patients with malaria were charged comparatively large sums of money for being given saline injections). There is very definitive evidence of a combination of quackery and crookery in the premature privatisation of basic healthcare. This is the result not only of shameful exploitation, but ultimately of the sheer unavailability of public healthcare in many localities around India.

The central point to seize is that while economic growth is an important boon for enhancing living conditions, its reach depends greatly on what we do with the fruits of growth. To be sure, there are large numbers of people for whom growth alone does just fine, since they are already privileged and need no social assistance. Economic growth only adds to their economic and social opportunities. Those gains are, of course, good, and there is nothing wrong in celebrating their better lives through economic growth, especially since this group of relatively privileged Indians is quite large in absolute numbers. But the exaggerated concentration on their lives, which the media tend often to display, gives an incomplete picture of what is happening to Indians in general.

And perhaps more worryingly, this group of relatively privileged and increasingly prosperous Indians can easily fall for the temptation to treat economic growth as an end in itself, for it serves directly as the means of their opulence and improving lifestyles without further social efforts. The insularity that this limited perspective generates can even take the form of ridiculing social activists – *jholawalas* is one description I have frequently heard – who keep reminding others about the predicament of the larger masses of people who make up this great country. The fact is, however, that India cannot be seen as doing splendidly if a great many Indians – sometimes most Indians – are having very little improvement in their deprived lives.

Some critics of huge social inequalities might be upset that there is something rather uncouth and crude in the self-centred lives and inward-looking temptations of the prosperous inner sanctum. My main concern, however, is that those temptations may prevent the country from doing the wonderful things it can do for Indians at large. Economic growth, properly supplemented, can be a huge contributor to making things better for people, and it is extremely important to understand the relevance and role of growth with clarity.

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# I Beg to Differ, Prof Amartya Sen

*Arvind Panagariya*
The Economic Times, February 23, 2011

In a recent op-ed in *The Hindu*, Amartya Sen has clarified his views regarding what importance we should assign to growth in the policy discourse. Coming as it does in response to a debate on the CUTS Forum to which I had actively contributed, Sen's clarification justifies a rejoinder by me. The lively debate on the CUTS Forum had been triggered by a Lecture Jagdish Bhagwati had delivered at a joint session of the Parliament on December 02, 2010 and subsequent remarks Sen made on India-China growth comparisons while speaking in New Delhi. Bhagwati , who actively contributed to the CUTS Forum debate, had emphasised in his Parliament Lecture the centrality of growth to poverty alleviation firstly as a force that "pulls up" the poor into gainful employment and secondly as a source of revenue to expand anti-poverty programmes.

In contrast, in his New Delhi talk, Sen had argued that the Indian fixation with surpassing China's rate of economic growth was "very stupid" as a measure of the nation's advancement (James Lamont in the *Financial Times*, December 21, 2010). He noted, however, that growth was a "positive thing" in the context of social justice, poverty reduction and directing greater revenues towards health and education. In the op-ed, Sen elaborates on these views. He states that growth can be a good thing, denounces growth for its own sake (a *non sequitur* since no serious analyst advocates growth for its own sake), notes the importance of growth in generating "resources for the government to spend according to its priorities" and characterises as "silly" the focus on growth in India-China comparisons.

Sen leaves the impression that growth is at best a sideshow when it comes to the well-being of the poor. He essentially ignores the direct contribution growth makes to the creation of income and employment for the poor when he states: "The central point to seize is that while economic growth is an important boon for enhancing living conditions, its reach depends greatly on what we do with the fruits of growth. To be sure, there are large numbers of people for whom growth alone does just fine, since they are already privileged and need no social assistance."

Thus, contrary to the evidence that growth directly benefits the poor, Sen emphasises the accrual of such benefits only to those "already privileged" with the benefits to the poor depending principally on how what the government does with the "fruits of growth". Why does it matter whether you choose to see growth as central to improving the well-being of the poor or as a sideshow? Because the policies you would advocate critically depend on this choice. Bhagwati, who sees growth as central, has long advocated policy reforms that enhance growth prospects while also recommending increased expenditures on anti-poverty programmes.

Sen, who sees growth as a sideshow, has rarely spoken in favour of pro-market reforms, implicitly giving a nod to the licence-permit raj, which denied higher incomes and better employment opportunities to the poor. All politicians now recognise the centrality of growth in generating revenues to finance expenditures on health, education and employment programmes in a poor country like India. Because India started extremely poor at independence and also grew very slowly for nearly four decades, successive governments failed to muster enough revenues to finance expenditures on these sectors.

As a concrete example, Article 45 of the directive principles of state policy in the Constitution had required free compulsory primary education. But despite repeated attempts throughout, the goal remained unfulfilled until 2010 when accelerated growth finally yielded sufficient revenues to permit the implementation of the right to education as a fundamental right.

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# Sen versus Sense on Healthcare

*Arvind Panagariya*
The Economic Times, March 23, 2011

Last month, I took issue with Professor Amartya Sen on the importance of growth comparisons in policy discourse. Space constraints precluded a critique of his views on international comparisons of the well-being of people and public versus private provision of healthcare. I undertake this task below.

Sen argues that India compares poorly with China on indicators of peoples well-being. As he himself recognises, this difference is partially due to Chinas superior growth performance, which has given it a per capita income more than thrice India's. But he glosses over the fact that the current differences also reflect Chinas historical advantage over India. According to World Development Indicators, by1980, China already enjoyed life expectancy at birth of 66 years against India's 55 and under-five mortality rate of 59 per thousand against India's 149. These differences persisted in 2008 with China achieving a life expectancy of 73 against India's 64 and under-five mortality rate of 21 against India's 68.

More puzzling is Sen's comparison of India with Bangladesh: the advantage India enjoys over Bangladesh in per capita income, he says, is not reflected very well in things that really matter. But in reaching this conclusion, he chooses his indicators selectively. Thus, he never discusses the relative levels of poverty, which place India well ahead of Bangladesh: 27.5 percent as against 40 percent at the national poverty line for 2004. World Bank calculations using a common poverty line paint a similar picture.

More surprisingly, Sen does not cite the Human Development Index, which he himself helped the UNDP design and launch in 1990 to facilitate international and inter-temporal comparisons of peoples well-being. While the index is difficult to interpret because it packs a diverse set of characteristics into a single number, it has consistently placed India well above Bangladesh, the gap being as many as 10 countries in the latest 2010 rankings.

True, Bangladesh marginally outperforms India on life expectancy at birth (66 versus 64 years), infant mortality (42 versus 52 per thousand births) and a few other indicators but it is outperformed by India along a large number of other important indicators, sometimes by wide margins. As an example, India is miles ahead of Bangladesh in primary completion rates for both females (92 percent versus 57 percent) and males (95 percent versus 52 percent). Contrary to the impression conveyed by Sen, even limiting the comparison to women, Bangladesh has not outperformed India across the board.

Most disturbing of all, however, are Sen's diagnosis of and prescription for healthcare. He lashes out against premature privatisation of basic healthcare, arguing that with the patients knowing very little about what the doctors (or supposed doctors) are giving them, the possibility of fraud and deceit is very large. As evidence, he cites cases of exploitation of the poor patients' ignorance of what they are being given to make them part with badly needed money uncovered by his Pratichi Trust. His solution to this 'quackery and crookery' is to replace private by public provision of healthcare supported by larger health expenditures.

For every crime of commission by private providers discovered by Sen's Pratichi Trust, I could point to a crime of omission by public providers with far more grievous consequences. Just within the last month, 17 pregnant women have died, four of them after giving birth to stillborn children, in a prestigious government hospital in Jodhpur, owing to contaminated fluids injected intravenously.

Symmetrically, I could point to many sparkling examples of private providers of healthcare: Life-Spring Hospitals in Andhra Pradesh, the Merrygold network in Uttar Pradesh and Aravind and Sankara eye hospitals in Tamil Nadu, etc.

While examples are helpful, policy formulation must be based on representative data and studies. On this score, Sen's case is quite weak. After decades of effort and expenditure, the performance of public healthcare has been dismal.

Based on the National Sample Survey data, a 2001 World Bank study concluded that 80 percent of outpatient and 55 percent of inpatient care in both rural and urban areas was provided by the private sector in 1995-96.Even the poor overwhelmingly seek private providers.

A 2006 study reported that the countrywide absenteeism of public sector doctors exceeds 40 percent on average. Given that they can almost never be fired and therefore cannot be held accountable, the public sector doctors often run private practices in nearby towns, away from their assigned posts. In contrast, private doctors or supposed doctors earn their living from the service they render and are, therefore, accessible to the patients.

Economists Jishnu Das and Jeffrey Hammer found in a 2007 study that private sector doctors, while less qualified, put far greater effort into patient care than their public sector counterparts.

No doubt, the government needs to raise expenditure on health. Luckily, the growth Sen discounts has made this possible through increased revenues. But the wisdom of spending this money on expanding public healthcare is highly questionable.

Given the remote prospects of drastically altering the prevailing perverse incentives, is it wise to throw good money after bad instead, the government should use the extra expenditure partially to provide cash transfers for outpatient care and modest health insurance for inpatient care to the bottom 30-40 percent of the population and partially to improve public health services such as sanitation, immunisation and medical education and research.

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# A Curzon Without an Empire

***Pankaj Mishra***

Outlook India, January 31, 2011

Patrick French's armchair exercise parrots the rosy western view of India, shunning rigour and ignoring depth for shallow deftness. His 'portrait' is a catalogue of absences.

The Cambridge economist Joan Robinson would often say that "whatever you can rightly say about India, the opposite is also true". For a long time India was seen as poor and spiritual in the West even as the IITS and IIMS disgorged thousands of aspiring tycoons into Europe and America. The worldwide corporate hunt for new sources of profit has now created another one-dimensional image: India, we are now told, is rich and materialistic, briskly flattening the world, in Thomas Friedman's indelible phrase.

Never mind that more desperately poor people – 421 million – live in India today than in all of sub-Saharan Africa. The new western accounts of India speak of the magnates of Mumbai and Bangalore; they hail an India rising, finally, to the consumer capitalism that is apparently the summit of human civilisation, if not the terminus of history. India becomes in this 2.0 version a vibrantly democratic country full of confident tycoons, adventurous entrepreneurs and friendly English-speakers, which might even counterbalance China while assisting the economic recovery of the West.

Patrick French's book *India: A Portrait* forcefully amplifies this newest idea of India; its vast echo chamber admits few discordant voices. French deals summarily with some long-established commentators on India, such as Amartya Sen, whom he compares to a "clever schoolboy", someone out of touch with the "reality of how people live and think". Romila Thapar and Wendy Doniger are more brusquely dispatched. Riffing on India's social and political histories, French ignores the vast trove of Indian art and literature that can help illuminate them. Even India's popular cultures, reliably bracing guides to a range of Indian attitudes, do not get a look-in; *Kyunki Saas Bhi Kabhi Bahu Thi* and the IPL as well as *Apur Sansar* are sidelined.

This kind of haughtiness can be enticing. V S Naipaul, French's previous biographical subject and a striking though unacknowledged influence on this book, often gives the impression that no one else has ever written about India, or at least not as incisively as he has. He then goes on to redeem this conceit with an original and provocative way of looking at people, landscape and architecture.

India rarely offers the aesthetic pleasures of a steady, crystalline vision. French does not make himself, like Naipaul, an engaged and engaging protagonist in his narrative of India. His tone is detached, pedagogical; it often reminds you of the omniscient geopolitical sages of another time – Lord Curzon, for instance, in *Persia and the Persian Question*. Yet India is most absorbing when French picks up his reporter's notebook, and exposes himself to raw actuality.

A visit to Kashmir brings him face-to-face with the brutality that the vociferous demand for 'law and order' often amounts to in practice. A sharply written account of the (Aarushi) Talwar family in Noida underlines the vulnerability of even well-connected Indians to a venal police and judiciary. In these chapters French recreates the experiences of many foreign visitors to India, who, preparing themselves for a vibrant democracy, are shocked to encounter its hollowed-out forms:

rampant corruption, widespread practices of torture and extrajudicial execution, degradations of class and caste, and the hatred laced with fear of the very privileged for the poor majority.

Shocked by a press report about a labourer called Venkatesh, who has been shackled to his place of work, French travels to Karnataka to interview him. He is appalled by the living conditions of workers constructing a fancy condominium in Bangalore. French also describes a visit to Andhra Pradesh in 2002 when he met some evidently deluded Maoists, and a Tennyson-quoting IPS officer accused of encounter killings. "I do not doubt that any of the people we have killed are guilty," the officer says in the course of a long tirade, which convinces French that "vicious policing" would soon help diminish the Maoist movement.

There are some vivid descriptions and interesting encounters, including with Afzal Guru at Tihar jail, in *India*. More fieldwork, you suspect, would have given some extra ballast to the book, which flits distractingly between journalism, history, analysis, stern generalisations ("Hindus have no concept of compassion") and bold prophecy (India "may be the world's default setting for the future"). Unfortified by first-hand experience, French often succumbs to the intellectual languor and overworked templates of foreign journalists in India.

He prefers to rhapsodise about the making of the Constitution, although the strength of Indian democracy today is found in the many civil society movements, and sections of the press that still retain a degree of public-spiritedness. Likewise, many intrepid and powerless Dalit individuals and organisations today fight for social and economic justice; but for French it is, predictably, Mayawati who embodies low-caste assertiveness.

There is something very retro about his conclusion that corruption in India is caused by "poverty and social imbalance"; it reminds you of the small-time bribe-taking *babus, netas* and *thanedars* of a relatively innocent, pre-1991 era. Rising India, however, has been developing much larger and coarser appetites. The Commonwealth Games fiasco, the Reddy brothers scam, the Adarsh, Lavasa and 2G scandals merely highlight how some of the most prominent businessmen, politicians, bureaucrats and journalists synergistically plunder such national resources as land, oil and gas, and mines.

Though surprised by the Maoist resurgence today in places other than Andhra, French foregoes any close examination of the corporate scramble for land and commodities, or the accelerated dispossession, in recent years, of landless adivasis and farmers alike. He deplores Salwa Judum, but it is not clear if French has visited Chhattisgarh, or investigated the many human rights atrocities there. He approvingly quotes a CRPF constable on "the strictness of the rules of engagement" against the Maoists; and this seems to close the file on the appalling collapse of moral sense as well as civil liberties in the state that led, most recently, to the conviction of Binayak Sen.

Even stranger gaps exist in *India*, which, though subtitled *An Intimate Biography of 1.2 Billion People*, finds no place for the nearly 800 million Indians who still depend on agriculture for a living. The quiet catastrophe in rural areas – the collapse of water tables, spiralling debt, the poisoning of cultivable land, and tens of thousands of farmer suicides – is absent from *India*. French does talk to one man with a farming background at length; but the latter turns out to be an upwardly mobile *adivasi* at a Californian-style vineyard owned by Sula Wines.

Claiming that Mahadev Kolis "normally prefer" Chenin Blanc and Madeira, he leads French into upbeat speculation about the "democratisation of wine-drinking" in India. Such possibilities of high-end consumption may entrance the primary audience of *India* – western businessmen, who, given the size of India's middle class and aspirational market, can afford to remain indifferent to the benighted 800 million in rural areas. For its Indian readers, French's book may pose an obvious problem: all that he knows and retells, whether about Sanjay Gandhi or Sikh fundamentalists ("Some Sikhs do drink alcohol," reads one anxious endnote), is likely to be less than what they already know.

Wondering why nepotism in Indian politics has "never been fully quantified", French produces computer-generated charts and graphs to underline what to any sentient Indian has long been blindingly plain. His interview with L K Advani, gingerly handled, reveals no new facts about the BJP leader's life and personality; the latter's responsibility for the demolition of the Babri Masjid and subsequent violence remains unexamined. More surprisingly, French berates secular Indian intellectuals for blinding themselves to the damage inflicted on India by the "Muslim invasions".

Some other familiar ideological strains emerge in French's historical survey of the Indian economy, which opens idiosyncratically with John Maynard Keynes's sex life but includes the obligatory account of how a Superman-like Manmohan Singh rescued an economy "stripped bare by socialism". French has no time for the well-attested wisdom that British imperialists imposed a damaging regime of 'free trade' on the Indian economy. He focuses instead on the money Britain owed its Indian possession by 1945, apparently "a substantial potential asset for the newly independent nation" that Nehru frittered away.

Echoing Thomas Friedman, he sees the second half of the 19th century as the 'First Age of Globalisation' rather than 'The High Noon of Imperialism'. He also quotes the free-market ideologue Milton Friedman against Nehru's central planner P C Mahalanobis, lamenting the fact that postcolonial nation-builders "went not to Chicago for guidance, but to Calcutta".

It is imperative to examine just how 'socialist' India was until 1991. It is also important, in light of the ongoing Great Recession and the destruction of Latin American economies in the 1980s and '90s, to question whether the Chicago School's notion of unregulated capitalism is not another dangerous fantasy. Nevertheless, French is right to be critical of Nehru, whose errors have had all too real and grave consequences for generations of Indians.

The influence of the right-wing Friedmans on French, however, results in a lopsided critique. Nehru is blamed for discouraging private entrepreneurship, but not for neglecting land reform, agriculture, healthcare and primary education – the early sins of omission partly responsible for the fact today that half of India's children are malnourished, and the overwhelmingly young Indian workforce remains largely unskilled, exposed to brutal exploitations in the unorganised private sector.

The sensitive journalist – as distinct from the pundit – in French is alert to the broadening inequality of income and opportunity found in India today. Describing his encounter with Venkatesh, the shackled serf, he worries, "how many generations would it take to turn a junior Venkatesh into a software engineer?" Later in the same chapter, he concludes a rags-to-riches story of a rural migrant in Bangalore (whose son works in Silicon Valley) with the words, "The answer was, in this case, only one".

Well, yes. But, surely, not all young men from destitute rural families can join the software industry, which currently employs all of 2.3 million people, or take up wine-making. Indeed, it seems impossible to move hundreds of millions of

Indians from rural to urban areas, and create labour-intensive jobs for them in manufacturing and services, even as technology continually increases output per worker.

Like many recent accounts of the country, French's book is imbued with the mystical faith that a 'dynamic' Indian class of producers and consumers will somehow accomplish social as well as economic change. The book's true heroes are the *maharajas* and *gurus* of the corporate world who liberated themselves from the licence-permit raj, and who now seem ready to emancipate the rest of us as well.

Though contemptuous of secularist historians, Maoists, Amartya Sen and others, *India* deferentially reproduces the rhetoric of India's business elite. The Airtel billionaire Sunil Bharti Mittal quickly convinces French that the world can be changed through corporate philanthropy. The maker of Chik shampoo charms French into hailing "the sachet revolution" as a "major feat of democratisation" since previously poor people can "now aspire to the pleasure of having shiny hair and softer skin".

But democratically cheap beauty aids are unlikely to compensate the poor for a cruelly inegalitarian healthcare system, which pushes, according to a new report in *The Lancet*, 39 million Indians below the poverty line each year. French's book has little or nothing to say about the major challenges facing India today, such as the task of adequately educating the country's large youth population, not to mention making economic growth environmentally sustainable.

It is as though its unilinear discourse about the dynamism of Indian markets and democracy – one that excites audiences at Davos and Aspen and the *HT*'s 'Luxury Summits' – cannot accommodate too many potentially complicating facts. Not surprisingly, French's admiring account of Mayawati's power skips over the evidence of her brazen ransacking of UP's exchequer, her deals with the Manuwadi BJP and persecution of OBCs, and her solitaire diamonds.

This is a pity because French's book, unavoidably partial as all portraits of India are, would only have been enriched by a deeper account of the India that is indeed rising: the aspiring as well as already privileged classes with their inordinate craving for wealth and fame, and their very fragile self-esteem.

Some of the best works of narrative non-fiction in recent months — Rana Dasgupta's *Granta*essay on Delhi, Siddhartha Deb's article in *Caravan* on Arindam Chaudhuri and Sonia Faleiro's *Beautiful Thing* — have plunged us into this teeming universe of euphoric desires, resentments and fears, the cities where thousands of Gatsbys and Babbitts are reinventing themselves madly in a manic quest for status and prestige.

If there is one thing the Radia tapes reveal most clearly, it is that writers and journalists have only begun to capture the particular exuberance, tawdriness, cruelty and melancholy of India's own Jazz Age. French's book manages to remain unaware of this country, even as it heralds the New India where adivasis may not have potable water but can drink Sula wine.

*Indian Essayist and Novelist*

# Cameron's Cuz is More the Curzon

***Patrick French***
Outlook India, February 14, 2011

Pankaj Mishra's was more an ideological cry of pain than any honest appraisal of my book, says Patrick French India is changing more rapidly now than at any point in its history. Change brings uncertainty. Even if you are doing well – better than your parents could ever have hoped for – many of the old certainties have disappeared. Jobs are less secure, even if better paid. School places are more difficult to obtain. Prices are unstable.

When I wrote India: A Portrait, I wanted to catch some of this uncertainty — the sense that the world was fluctuating. The voices of the very rich, the voices of the very poor and the voices of the many in between are part of a symbiotic story that extends from Ladakh to Kanyakumari. Because writing on India is so often driven by ideology, it was hard to do this in one book.

For devotees of the India Shining story, at home and abroad, the rise of a new consumer market is in itself the story. For followers of the political left, prosperity must be discounted since it has increased inequality: why be happy for many millions of people who have been lifted out of poverty following the economic reforms of the early 1990s, if so many others have been left behind?

It should, in theory at least, be possible to write about contemporary India in a way that is neither triumphalist nor apocalyptic. By including a range of contradictory characters, I hoped to draw people out of their ideological comfort zones and look at aspects of the present and recent past directly, without preconceptions. In most cases, this has worked, and readers and reviewers have been generous in their reaction.

A particularly tired message came from Pankaj Mishra in Outlook. As most readers will have realised, it was less a review than an ideological cry of pain. So I was depicted as a Bob Christo character, playing several villainous, alien roles: I was the viceroy Lord Curzon, a shocked "foreign visitor", a writer influenced by "right-wing Friedmans", whose book was aimed at "western businessmen" – and not just any western businessmen, but the sort who "remain indifferent to the benighted 800 million in rural areas". Pankaj had, in fact, already written a review of the book in London's blue-chip *Financial Times* which contained compliments like "eloquent" and "acclaimed", but in the Outlook version, such words disappeared.

The technique he used was one of calculated distortion and misquotation, claiming, for instance, that my research into the family background of Lok Sabha MPs revealed what was already "blindingly plain...to any sentient Indian" (though presumably not plain to the Editor of Outlook, who put the story on the cover). Bizarrely, he misquoted me as saying, "Hindus have no concept of compassion." But I never wrote this sentence, and nor do I believe it.

For a reviewer, it is the cheapest shot in the locker to compare any foreigner you disagree with to a British imperialist. For the record, I am the first member of my family to go to the subcontinent. My grandparents came from Ireland — and the Irish did not rule India. Perhaps it is Pankaj, with his high, sanctimonious tone and his migratory bio (he apparently divides his time between Delhi, Shimla and London) who sounds more like the viceroy Lord Curzon.

I write as someone who has long admired Pankaj Mishra's literary aspirations. I first met him in 1996, when he asked me to lunch at the Gaylord Restaurant in Connaught Place so as to give me a copy of his Bill Bryson-style travel book Butter Chicken in Ludhiana. It was funny and entertaining, and remains his best book. His journalism has been interesting: no fellow writer could fail to be impressed by his rendition of the story of Ngodup, a Tibetan man who died in a protest in Delhi.

It is a pity Pankaj did not pursue his burgeoning career as a novelist, or produce the promised short history of modern India. Instead, he has ranged widely, sitting on eminent literary prize committees, popping up as a visiting fellow at assorted foreign universities and jetting about denouncing "business-class lounges" and their elite inhabitants. It is not clear whether Pankaj – travelling the globe for high-paying western publications, while busily condemning "late capitalist society" – ever uses these lounges himself, or whether he prefers to take a downgrade to cattle class.

For a long time I have appreciated his chutzpah most of all, though he remains a writer of promise. He has been successful in imparting his "authentic" take on India to the West, and one American intellectual even adjudged our reviewer to be "the young Siddhartha Gautama himself: a scholar-sophisticate" after meeting him at "the lower Manhattan holiday party of a stylish magazine".

Pankaj has obviously been on a long journey from his self-described origins – in what he calls a "new, very poor and relatively inchoate Asian society" – to his present position at the heart of the British establishment, married to a cousin of the Prime Minister David Cameron. But he seems oddly resentful of the idea of social mobility for other Indians.

One of the most unexpected aspects of my research for India: A Portrait was the sheer extent of aspiration and achievement across the country, ranging from a girl from a poor background who secured a place at an IIT, to a man who has devoted his life to inventing and manufacturing a low-cost sanitary towel, to Dattu, a landless and illiterate *adivasi*, who today has a good job in a Maharashtra winery, to C K Ranganathan, who trudged the streets of Cuddalore in the 1980s selling sachets of shampoo and now employs more than 1,000 people. Pankaj looks down haughtily on the ₹1 sachet revolution, saying "cheap beauty aids are unlikely to compensate the poor for a cruelly in egalitarian healthcare system". But whoever suggested they would? It is a fatuous conjunction of two unrelated points.

Having read his review, it is still not clear to me what he wants for India. He mentions what is wrong: poverty, corruption, debt, resource shortages, poor primary education and healthcare. But everyone knows this. Much of my book is devoted to analysing the ways in which progress is – and is not – being made. And the question remains – how to proceed from here? I do not buy the romantic view that an end to poverty is possible without the creation of wealth, or that the era of the permit raj was somehow an easier time. "India registered its most impressive gains from 1951 to 1980," Pankaj wrote in one of his blogs on the Guardian website.

"Until 1980, India achieved an average annual economic growth of 3.5 percent". This is a ludicrous statistic to quote, since it makes no mention that the population grew rapidly during the same period: by the 1970s, per capita GDP in India was rising more slowly than at any point in the preceding century.

In another exhausting blog post, he makes a paternalistic plea to the British government not to cut its foreign aid, so as to avoid "the severing of Britain's old links with India's great mass of ordinary people". But with the British economy contracting and cousin Cameron having to borrow money to fulfil that particular obligation, it hardly looks like a long-term solution.

It goes without saying that I do not believe – as alleged – that "consumer capitalism is the summit of human civilisation", but I also have grave doubts whether Marxism, Maoism or Mishraism offer a solution. Can India's chronic rural poverty really be alleviated only by the state? If so, how will the state get the money to do this, except by further economic growth?

It is no use chanting *Garibi Hatao* and patting yourself on the back if you have no coherent suggestions of how to abolish poverty. You do not choose your history or your geography, and India is situated in a dangerous and difficult neighbourhood. It may be a long way from Utopia, but India has an entrenched and developed democratic system, a long tradition of fervent debate, a vibrant economy and a largely tolerant relationship between different communities.

I have some questions for the vendors of the apocalypse, who make a living abroad selling a constrained, outdated and implacably narrow vision of what India is and could be. Where do they currently see their own political and economic ideas being put into effect in a useful, humane way? Is it in West Bengal, or Dantewada? Or perhaps abroad, in foreign countries? How does poverty stand a chance of being alleviated unless someone does the work of creating wealth? How is the state to pay for social welfare schemes and come up with money if not through taxing the wealth that is generated by individuals and by industry?

I ask this in a spirit of genuine inquiry, because it seems that the Indian Left has failed utterly to come up with a coherent narrative with which to oppose economic liberalisation. It is easy enough to identify problems (which invariably predate the reforms of the early 1990s) but what are missing are active, detailed, constructive, alternative proposals. It is simple to recite the problems, and nobody disputes their depth or seriousness. If Pankaj or his admirers e-mail me with their ideas (patrick@theindiasite.com), the most interesting responses will be put up on www.theindiasite.com. Rough, raw, real life does not fit in with any ideology, leftist or rightist – that is the message of my book.

*British Writer and Historian*

# TWIN GOALS – Growth and social welfare are not conflicting objectives

***S L Rao***

The Telegraph, January 10, 2011

This column has, for many years, argued the following: reforms to stimulate growth and ensure that government expenditures on physical and social infrastructure are made efficiently and honestly. Growth that adversely impacts the poor – for example, by stimulating galloping food inflation – must be corrected. Inflation's effects must be moderated and alleviated.

The unleashing of private enterprise that began when Rajiv Gandhi introduced "broad banding" of industrial licensing in the mid-1980s changed India. The government should rely on markets even to get cheap food, kerosene, health, education and so on to the poor, than rely on inefficient and wasteful physical deliveries by government agencies. The reform of India's administrative services, good governance and independent regulation are fundamental to high, consistent and inclusive economic growth in India.

However, a recent and ongoing debate in an internet forum presents two nuanced positions that appear to pit social welfare schemes against economic growth. Economic growth is said to reduce the numbers in poverty. Growth improves government revenues by bringing in greater tax and non-tax revenues, and enables much larger expenditures on education, health, nutrition and other social services, especially those meant for the poor. Without high levels of economic growth, the government's revenues are limited and so is its ability to spend on welfare.

Many economists agree and feel that India should emphasise policies and reform measures that will enable sustained and high economic growth, providing the resources for governments to improve capability and opportunity for the betterment of the living standards of the poor. If there is inflation or high current account deficits or volatile foreign exchange inflows, or even high government deficits, they must be closely monitored. But they should not cause panic in the government and lead it to moderate policies oriented to growth.

The proponents of this view do not sufficiently recognize the present inability of the government to spend such resources, to do so efficiently, and with minimal theft. Another and more sophisticated version of the argument asks for less dependence on the government – even for social welfare schemes – and greater reliance on the market, through cash disbursements, vouchers, coupons, and so on, that individual households can spend on education, health and other sectors according to their choice. This argument neglects the difficulties in identifying and targeting the households that must benefit from these measures. It can lead, as with physical distribution, to undeserving people getting them. The unique identity project, called *Aadhar*, is an attractive way to improve identification and targeting of beneficiaries.

The spend-on-welfare-first school includes the many Indians who have been brought up under 30 years of the "socialistic pattern of society" to believe that governments must, at all costs, first invest in improving the capability of the poor and raise the resources from the better-off and the rich. There is no faith in the trickle-down argument – that growth will trickle down to benefit the masses of the poor even while it improves incomes and the wealth of the rich and the middle classes.

But data from the National Sample Survey Organization and the market surveys of the National Council of Applied Economic Research show that the high growth years of the last two decades were accompanied by declining percentages of the very poor in the population and increasing purchases of manufactured goods by the relatively poor. (However, the rural poor did not benefit in this way and they are a significant number).

Lack of faith in trickle-down led to the programmes of subsidies on foodgrain, kerosene, fertilisers, petrol, diesel, liquefied petroleum gas cylinders, electricity and so on. Many, but not all, were meant either for the very poor and vulnerable or large voting groups. Suppliers under these schemes give goods and services at below-cost tariffs and make up most of their losses through cross-subsidies, that is, by charging extra from other consumers. If this is inadequate, the government is to make up the difference through cash disbursement to the suppliers.

In fact, governments are slow in disbursing. There are large arrears, and suppliers are squeezed for liquidity. Further, subsidies and cross-subsidies lead to distortions in the markets, demand and prices. Suppliers often cook their accounts to claim high reimbursements. Beneficiaries sell the subsidized products in the market. For example, over 40 percent of the subsidised kerosene is estimated to be used for adulteration of diesel and is sold to truck operators.

Despite high economic growth and the large subsidy programmes for the poor, inequalities in Indian society have been widening. An increasing proportion of incomes and wealth is controlled by the very rich. Inequalities by themselves may not matter so much for welfare because poverty levels are falling and human development indicators of the population, as a whole, are rising. The poor should then have had access to more food and nutrition as well as to health and education. As they improve their capability to take on better jobs, they become an important part of the growing consumer classes.

However among the very poor, the rural poor have been the least benefited. Their employment opportunities are limited, wages are low and government services in health and education are of low quality, if these are available. The poor spend far more of their meagre incomes on availing of these services from private providers than others. Of course, the new social welfare programmes, such as free mid-day school meals, the national rural employment guarantee scheme, education for all, and others, make some difference to the well-being of the poor. But reforms to legislation and policies for labour, investment, better infrastructure, and administration, have lagged far behind the need for them. Alternative employment opportunities and government services for improved living have avoided the rural poor.

Growth and social welfare schemes are not conflicting objectives. Growth does enable substantial resources for welfare, and more suppliers bring competition. It can result in lower tariffs and better quality of service and supplies. These are, however, not automatic results of growth or of the withdrawal of the government to let private enterprise grow. Transparency is needed, so that information is freely available to all, and exploitation of the consumer is minimised. This requires open government decisions through public hearings, consultation of all interests, reasoned and public decisions, and the means to ensure that rules laid down for the market are followed on pain of severe penalties.

India's administrative services at all levels have demonstrated their incapacity to manage the spending of vast government funds on physical and social infrastructure efficiently, effectively and honestly. The country's governance through the legislative, executive and the judiciary has also been inefficient and slow. Crony capitalism – the favouring of crony industrialists by the government – is rising.

There is little provision for monitoring by institutions closest to the users, such as the *panchayat*s in villages, ward committees in urban areas and independent regulators and consumer groups elsewhere. Even where there are provisions, there is no functioning capacity built into these institutions. The fourth estate, that is the media, has been only spasmodically effective in unearthing abuse and misuse.

India must have a wholesale top-to-bottom reform of administration if the fruits of growth are to rapidly reach everybody. Unfortunately, the terms of the debate have been confined to growth versus social welfare and not the nitty-gritty of how both can be achieved effectively.

*Chairman*
*Institute for Social and Economic Change, Bangalore, India*

# Growth as Tool to Alleviate Poverty

*Alok Ray*

The Hindu Business Line, March 25, 2011

At a recent function for police officers, the Prime Minister observed: "If we don't control Naxalism, we have to say goodbye to our country's ambition to sustain a growth rate of 10 to 11 percent per annum."

Some commentators (like Prof Prabhat Patnaik of JNU) interpret this (in a newspaper piece) as the Prime Minister prioritising 10-11 percent growth over poverty alleviation as a national objective. Prof Amartya Sen, in a different context, has stated in an article (in The Hindu) that it is "silly" to compare India's growth rate with China's, without comparing their performances in other spheres such as education and basic health. India should concentrate on improving the quality of life of its people by focusing energy and resources on providing food, shelter, education and health to all, even if that comes at the cost of a lower overall growth rate.

Another group of economists, led by Professors Jagdish Bhagwati and Arvind Panagariya of Columbia University, US, takes a somewhat different line. Their point is that though high growth is certainly not an objective in itself (no serious economist would ever think so), for practical reasons it is the most important means by which poverty can be reduced in a sustained manner.

## Growth and Tax Revenue

High growth helps reduce poverty through two basic channels – by directly creating productive employment and increasing the tax revenue that can be spent on education, health and various social welfare programmes (like NREGS) specifically directed at the poor. Our plans have emphasised on poverty alleviation. But the universal Right to Food or Education can be implemented only to the extent tax revenues permit.

With higher tax revenues coming out of higher growth (tax-GDP ratio typically goes up during growth) due to reforms in fiscal, trade and industrial policies, it has now become easier to spend money on providing food, education and health to the poor.

Incidentally, Prof Sen also agrees on this specific point. Moreover, NREGS – however desirable as a component of a social safety net – cannot create productive jobs in a sustained manner. For this, the growth rate needs to pick up. In fact, given that modern enterprises are using more automated technologies, the growth rate needs to be higher than before to create the same number of jobs.

Though China's achievements in poverty reduction have been far more successful than India's, these economists would attribute this primarily to China sustaining a double-digit growth rate for nearly three decades.

## Poverty and Job Creation

But the Maoist regime was not that successful in reducing poverty. That had to wait for economic reforms ushering in high growth in post-Mao China. Most poor people in India are poor not because they do not work, but because they are engaged in low-productivity jobs. Higher growth has opened up many new job opportunities (think of masons, electricians, plumbers, furniture makers, shop floor assistants, waiters in food courts, car drivers, security personnel, repair and maintenance technicians) for people from very ordinary families – not just software engineering or English-speaking call centre jobs.

Construction activities in urban areas have also induced migration from rural areas. Though the average income per person in such jobs may not have gone up significantly, family income has gone up at a higher rate since more members in a family (including women) are now able to find some jobs – though not necessarily high-income ones.

Economists also emphasise that job growth and poverty reduction would have been even higher if India (like China) had developed more labour-intensive manufacturing rather than capital and skill-intensive industries and services. This requires, among other things, reforms in labour and bankruptcy laws, which would make both hiring and firing of labour easier and remove the anti-labour bias in India.

Further, 60 percent of the Indian population still depends on agriculture, which contributes less than 20 percent to GDP. Hence, reforms in agriculture are urgently needed to improve productivity and to raise the growth rate to at least 4 percent per annum (as against the current rate of around 2 percent). This would further help the poverty alleviation process.

## Coping with Inequality

The spread of education, though desirable in itself, will not reduce poverty until growth creates more jobs to absorb these people in productive occupations.

So, the focus of the Prime Minister on double-digit growth is not due to any "growth mania". It is for the benefit of the poor.

At the same time, since much of this growth would come through the initiative of the private sector, we may very well see more Indian billionaires in Forbes list and greater inequality of income and wealth.

But, given our dismal record on poverty alleviation under the 3.5 per cent "Hindu growth rate" period when the 'licence permit raj' was in force, should we mind if, along with greater inequality, a much larger number of people are pulled above the poverty line?

Hence, according to the Bhagwati-Panagariya line of thinking, growth should occupy centrestage, rather than being a sideshow.

After Communist China moved to a liberalised economic regime and succeeded in achieving both high growth and rapid poverty reduction, most Indian economists and policymakers were persuaded to think that if China could do it, so can India.

That is why the comparison of India with China in terms of achievements in growth and other respects was and is still relevant, as we need to learn from the successes and failures of the Chinese experiment.

Most economists and policymakers in India have recognised that high growth facilitates the process of poverty alleviation.

In this quest for double-digit growth as an instrument of rapid and sustainable poverty reduction, our administrators should not get confused between the means and the end.

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# High Growth in India & China Helps Eradicate Poverty: Report

The Financial Express, April 17, 2011

Rapid growth in economies like India and China has helped millions of people escape the dungeons of poverty and based on current economic projections, the world is on track to reduce the number of extremely poor people by half, the World Bank and IMF said in a report.

"Two-thirds of developing countries are on track or close to meeting key targets for tackling extreme poverty and hunger," the World Bank and IMF report – Global Monitoring Report 2011: Improving the Odds of Achieving the MDGs, said.

On current trends, and despite the recent global economic crisis, developing countries are on track to reach the global target of cutting income poverty in half by 2015, thanks in large part to rapid growth in China and India, it added. Giving statistics, the report said the number of people living on less than US$1.25 a day is projected to be 883 million in 2015, compared to 1.4 billion in 2005 and 1.8 billion in 1990.

Regarding India, the report said in 1990 as many as 51.3 percent of Indian population was living on less than US$1.25 a day, which got reduced to 41.6 percent in 2005 and is expected to further decline to 22.4 percent in 2015. The decline in poverty has been more drastic in China, where in 1990, as much as 60 percent people were living under US$1.25 per day, which is likely to reduce to 4.8 percent by 2015, the report added.

Commenting on the findings, World Bank director of development prospects Hans Timmer said, “Reaching the MDGs is a significant achievement for developing countries. But there is still much to do in reducing poverty and improving health outcomes even in the successful countries.”

Hugh Bredenkamp, deputy director of the IMF’s strategy, policy, and review department, added that “advanced economies need to do their part to secure the global recovery, by repairing and reforming their financial systems and tackling their fiscal imbalances”.

The report calls for measures to support access to trade finance and trade facilitation to connect vulnerable low income countries, landlocked economies and lagging regions to regional and international markets.

# The Grand Illusion of Zero Growth

***Surjit S Bhalla***
The Financial Express, June 01, 2011

The Congress-led UPA-2 government has just announced the implementation of yet another of its trademark bankrupt policies – the implementation of a caste census for the first time since 1931 and the authorisation of the Ministry of Rural Development to conduct a census of families below a new seven parameter poverty line, a poverty line that would replace the existing poverty line of ₹15 and ₹20, per person per day, in rural and urban areas, respectively. Over the course of this and the next article, I will try and document the intellectual and other dishonesties that are so pervasive in India's definition of the poor and policies towards the poor.

The first indication that something is massively wrong with India's battle against poverty is that there is no other country, either in the past or in the present (or in the future), that has conducted itself in quite the same (dishonest) manner. Poverty is not exactly a newfound problem, though of late the Indian poverty industry looks much more like the lobby of corrupt cigarette manufacturers. It is fighting for protection against extinction. High growth in China, India and even Africa has meant that the world has changed drastically since the World Bank coined the slogan that it dreamt of a world free of poverty. Yet, curiously, after each decade of high growth, the proportion of World Bank poor has stayed constant at around 25 percent to 30 percent.

In 1987, according to World Bank calculations, 28.7 percent of the world's population was absolutely poor; in 2005, the proportion of world poor: 25.2 percent. During the same period, per capita incomes in the entire developing world nearly doubled! Yet poverty stayed the same? How come? Because, while ostensibly keeping the poverty line constant in real terms, the World Bank "inadvertently" increased it by close to 60 percent.

This is how dishonesty is practiced – by increasing the absolute poverty line. There is every reason to increase the absolute poverty line, and I believe that it should be further increased by about 20 percent, but one should at least be honest about it. If the World Bank were to be honest, then it will turn out that overall growth does reduce poverty, that the Millennium Development Goals of reducing poverty by half between 1990 and 2015 was achieved more than a decade before the target date, and that absolute poverty as we know it is, joyfully, in terminal decline.

Most developing countries, especially China, ignore the World Bank calculations. But not India, and especially not those who profit the most from perpetuation of the myth of ever increasing, or not decreasing, absolute Indian poverty. According to the wrong and exaggerated World Bank measure of poverty for all countries, more than 40 percent of the population in India was absolutely poor in 2005 (and, not so coincidentally, the same proportion was poor in 1983). But our intellectuals, especially those who staff the soon to be defunct Communist Party of India, and/or the National Advisory Council (NAC) headed by Congress chief, Sonia Gandhi, are ever more imaginative (and does one dare say dishonest) in their assessment of poverty in India and what is needed to redress it.

Why are our intellectuals so bankrupt – and so dishonest? One leading NAC member, Jean Drèze, documents how the Congress's flagship anti-poverty employment programme NREGA is a "loot for work" programme; loot for the administrators of the programme, the middle men and politicians. His proposed remedy — a concentrated expansion of the programme propelled with the smug belief that since a Gandhian is involved, corruption would be eliminated. Other fellow travelling Indian intellectuals want to document that the poor are getting poorer, and as evidence use the fact that the consumption of calories by the poor has barely increased, and perhaps even declined. That this is a historical worldwide pattern that is to be expected with a reduction in poverty is not relevant for these dishonest champions of the poor.

How does one prove dishonesty? By looking at the food consumption of the poor. In 1983, the consumption of fruits and vegetables by the poor was 14 percent of their total consumption of fruits, vegetables and foodgrains; in 2004-05, this ratio had doubled to 28 percent! In the West, and in Ireland, and in every rudimentary economics textbook, the discussion is about the change in consumption pattern from potatoes to meat (from more calories to considerably less calories and considerably more protein). But this pattern is an exploitation plot according to the intellectual luminaries at JNU.

Yet another NAC member (NC Saxena) feels that the public distribution system (PDS) is plagued with corruption. After correctly documenting the corruption, he, not unlike Drèze, believes that the expansion of the PDS system would considerably reduce, if not eliminate, corruption. And how does the expansion of the food subsidy system decrease corruption? By making the Right to Food an Act of Parliament! The same Parliament that has 143 out of 543 members with criminal cases against them; the same Parliament that passed the Emergency; and the same Parliament that passed the Employment Guarantee Act that Mr Drèze correctly described as "loot for work".

The intellectual corruption continues. A magazine normally known for well documented investigative research against the establishment, Tehelka, feels compelled to state that the Indian poverty line of ₹15 per capita per day in rural areas is too low to describe people as poor; it believes this poverty line is close to starvation line. (Since the Indian poverty line is very close to the new enlarged World Bank line, Tehelka believes the World Bank is also practising deception).

As evidence, it provides interviews with several poor individuals. One such individual, Riaz Ahmad Batt, of Kashmir, a helper and cook at the local government high school, states, "Buying the basic, flour, rice, dal, sugar, tea alone costs ₹38 a day for my family of six. What happens in an emergency?"

According to Batt, very basic food costs ₹6.3 per person per day and the Tehelka starvation line is ₹15 per person per day. So rather than change the poverty line *à la* the World Bank, Tehelka conveniently changes a per person expenditure to family (six person) expenditure. What are lies and dishonesty when the goal is a noble one of showing no progress for the poor despite capitalist economic growth?

*Managing Director, Oxus Research and Investment, India*

# Pro-poor Justice

***Surjit S Bhalla***
The Financial Express, June 04, 2011

The expansion of poverty programmes in India has been spearheaded by Sonia Gandhi, and her National Advisory Council (NAC). She cannot ignore the fact that by expanding old-fashioned anti-poverty schemes, she is also increasing old-fashioned "in the name of the poor" corruption. As old-fashioned as Indira Gandhi's trump card of *Garibi Hatao* in 1971. This is 2011 – does Gandhi really believe that nothing has changed in India in 40 years? Are we that poor, that backward and that incompetent?

Why is the discussion on the politically charged, and politically correct, subject of poverty almost always one-sided? The Ayatollahs of poverty policy believe they cannot possibly do anything wrong because, after all, they are designing policies for the poor. When large leakages in poverty programmes are documented (ironically, as first asserted by Rajiv Gandhi in 1985), the refrain is: why are you so worried about leakage to the poor when there are leakages to major corporations – and scams against the poor?

If the Telecom Ministry can be corrupt, why not the Ministry of Rural Development? Why do we cringe at the mere discussion that the ministry of consumer affairs (in charge of food distribution to the poor) may harbour corrupt practices? Do we really believe that the Government of India has a special screening device whereby only honest people are recruited for programmes dealing with the poor? Do we really believe that political parties that talk the most about poverty removal, i.e. the Congress, are the least corrupt? Just because the Congress talks about, and introduces one 'in the name of the poor' Act after another (for example, the Right to Food Act), does it make it less corrupt? Or does it absolve it of its corruption in non-poor related areas? Is that why the politically correct NAC was formed – to deflect, and redeem, the acts done by non-NAC members of the Congress party?

In my previous article, I had documented examples of lies on poverty masquerading as informed analysis. I want to add to that list. In a document entitled 'The Right to Food in India', Biraj Patnaik, Principal Adviser to the Supreme Court commissioners on the Right to Food Act, presents some carefully selected data.

A graph (slide 20) entitled "Net availability of foodgrains per capita per day in grams" presents data which ends in 2001; this graph shows a low level of foodgrains consumption in that year — 416 grams per person per day. The report was written in 2007 and almost all the data presented in the report ends in 2006. The author could have noted, but did not, that in 2002 foodgrain consumption shot back to a close to historical high of 494 grams, and that average consumption during the five years 2002-2006 of 453 grams was close to the historical average since 1951!

Since Patnaik is a major adviser to the Supreme Court, his views on who is poor and what constitutes poverty are particularly important. A minimum consumption level of ₹15 (rural) and ₹20 (urban) per person per day is too low; this is a "a starvation line, not a poverty line". Incidentally, in a plea for informed analysis, especially when present day consumption is compared to this poverty definition, the media should note that the official poverty line is in 2004-05 prices; today, in 2011, that same poverty line translates into a line approximating ₹28 for the average poor (₹26 in rural and ₹33 in urban India).

And who does the Supreme Court adviser consider to be the poor? Well, a telephone booth owner could be poor, as well as a person owning a two-wheeler.

Is there an objective method of measuring poverty? Traditionally, in India (and the rest of the world) the poor are classified as such according to their survey income or consumption. The major source of such data, the National Sample Survey Organisation (NSSO), has tragically declined in its efficiency. The survey is still processed with unpardonable delays, and the primary information – what is a family's total consumption – is way off the actual. One indication of how much way off is provided by the fact that the NSSO's estimate of average consumption in 2009-10 was only about 43 percent of the consumption indicated by the national accounts.

Household surveys around the world generally capture less of national accounts consumption so the fact that the NSSO estimate is less than a 100 percent is just another dog bites man story. What is truly a man bites dog (or NSSO bites dust) story is the low, low, estimate of 43 percent. To put in perspective, among all consumer surveys done by mankind since 1950, the India NSSO 2009-10 'performance' is among the five worst.

If the NSSO 2009-10 estimate of consumption were higher, more reasonable and more in line with comparable surveys in the 1960s, 1970s and 1980s, measured average consumption would be closer to 80 percent of the national accounts estimate, rather than 40 percent – and poverty levels to be half that 'documented' by the NSSO (Supreme Court please note). Is the Indian policymaker, and especially those belonging to the huge (and hugely corrupt?) poverty industry, ready to accept that poverty in India is approximately half that stated by the government?

Related to the level of poverty is an equally important policy variable – the amount of expenditure needed to remove poverty. Notwithstanding this importance (tax money is freely available for noble causes), the discussion on poverty removal in India never discusses the minimum expenditure needed to remove poverty. The average poor today need about 16 percent extra income to become non-poor, i.e. go above the poverty line of ₹28 per day. In today's prices, that is an extra ₹4.5 per person per day. If there are 25 percent poor in India in 2011-12, then the cost of removing poverty in the entire population – P49,000 crore. With an estimate of 20 percent poor (200 million poor), the cost goes down to ₹39,000 crore.

No one claims, or should claim, that perfect targeting is possible; though everyone should believe that with today's technology, anything more than 20 percent 'leakage' is pure poverty corruption. Given that we are spending ₹1,30,000 crore in 2011-12 on just food and NREGA poverty programmes, it is likely that poverty corruption is annually more than the once in decade 2G scam, and annually more than double the amount actually needed to remove absolute poverty.

*Managing Director, Oxus Research and Investment, India*

# A Distorted Poverty Debate

Mint, May 26, 2011

The latest stunt by some members of the influential National Advisory Council (NAC) headed by Sonia Gandhi is silly. Jean Drèze, Aruna Roy and Harsh Mander – the Gang of Three – led noisy demonstrations outside the offices of the Planning Commission, whose estimate about how much it would cost an average Indian to stay out of poverty these worthies find too low. This is perhaps a sign of where policy debates have sunk to in a regime torn between a hapless Prime Minister and a domineering party leader.

Disagreements about how to define poverty are not new to India. The economist Angus Deaton had even edited a volume on an earlier round of debates, which had been eloquently entitled, 'The Great Indian Poverty Debate'.

Over the years, every poverty line has been criticised for either overestimating the number of poor people in India or underestimating it – be it the very first estimates by the Planning Commission in 1979 based on how much it would cost to buy a minimum level of calories to the latest ones by the Suresh Tendulkar committee that has pegged poverty rates across the country to income levels at which average national urban consumption levels can be attained.

Estimating the number of poor is burdened with statistical nuances, including variances in data between different sample surveys and the weights assigned to various items of consumer expenditure in the price indexes used to calculate minimum income levels. There is also the little problem of survey respondents having incentives to under-report incomes so that they can get access to subsidies. This is why ideology often invades debates about what is actually an empirical exercise.

The current stand-off on poverty numbers between the government and NAC is important because it sets the backdrop for a larger debate on what needs to be done for the poor. This newspaper has no doubt that every decent society needs a robust welfare system, as long as it does not distort markets and make a mess of public finances. Policy has to balance the immediate goal of making millions of lives more tolerable and the long-term goal of keeping economic growth on track. Why? The most potent weapon against mass deprivation is economic growth.

In the late 1980s, Amartya Sen had compared "growth-mediated security" with "support-led security". His two favourite examples of the latter were China and Kerala. Two decades later, China has pulled hundreds of millions off poverty because of double-digit growth while more dynamic states have closed the human development gap with Kerala. NAC and Sonia Gandhi do not seem to understand this.

# Equity and Growth in India

*Natalie C. F. Gupta*

Income distribution has emerged as an increasing concern in the last two decades, due to rising inequalities and a sharp decline in the wage share in many countries. A declining wage share represents a decline of the wage bill relative to total income (or capital incomes).

This raises important questions. Firstly, to what extent is a declining wage share a necessary feature of economic growth, or a consequence of inadequate policies? Secondly, to what extent does a declining wage share signal declining real incomes for different groups of workers?

These questions are particularly relevant for India. The country is witnessing a sharp decline in its wage share, despite a strong macroeconomic performance (annual growth rates have averaged 6.7 percent at constant prices between 1991-1992 and 2007-2008). One explanation for the declining wage share in Indian factories, in particular, has been an increase in the capital intensity of employment (and hence labour productivity).

Drawing on this hypothesis, our research examines the relationship between technical change, wage share variability, and labour incomes in two industrial areas. The case studies include a relatively capital-intensive production cluster (auto-components) and a labour-intensive production cluster (handicrafts).

A key finding is that the inequalities generated between and within income categories are not a necessary outcome of technological change, but a consequence of a widening gap in the balance of power between different income categories more generally. Another key finding is that the wages paid to most industrial workers (including in large/modern factories) lack any substantial relationship to rises in labour productivity (see Figure 1).

In addition, a lack of industry-level bargaining, and the replacement of unionised workers by non-unionised (and hence lower paid) workers to do the same jobs, have led to an unequal distribution of productivity gains within the labour income category.

Moreover, while capital can move to other economic activities in search of expected/higher returns, most workers do not have this option. These factors lower the bargaining power of many sections of the industrial workforce in India to command levels of pay in line with increasing needs.

The research finds that the benefits of growth do not automatically 'trickle' down to the labour income category. The issue of income distribution between capital and labour, at the level both of workers as workers (e.g. wage bargaining, employment generation) and workers as consumers (e.g. prices, public services) needs to be addressed more directly.

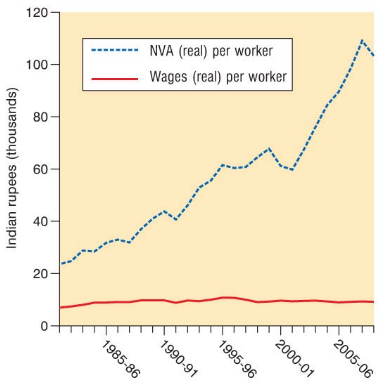


Figure 1: Trends in net value added (NVA) and real wages, Indian factory sector.

Source: Government of India, *Annual Survey of Industries*, various years.

## Key policy points

- Income distribution needs to be addressed as a policy dimension in its own right, and not simply as an 'appendix' to the issue of how to increase accumulation and growth.
- Public policy has a major role in improving the bargaining power of poor workers (through rights, labour laws and economic and social policies), to facilitate sharing in the gains from growth.
- Since a declining wage share implies a rising capital share, other important policy dimensions are how capital incomes are invested, and taxation policies. These seem to be crucial for promoting investment priorities and public policy.

## Further reading

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# PART – IV

## Selective Scholarly Writings on Growth and Poverty

# Poverty and Public Policy

*Jagdish Bhagwati*

The problem of poverty is particularly acute in India. With 14 percent of the world's population, we have the misfortune of having almost twice as large a share of the world's poor. Indeed, as I shall presently underline, the question of poverty and its amelioration has been at the centre of our concerns from the beginning of our planning efforts almost four decades ago. Little therefore can be said on it that some distinguished Indian economist has not already said. In some ways, therefore, to talk on the design of public policy for poverty to and Indian audience is to carry coal to suck eggs. Nonetheless, I hope to provide a fresh perspective by putting the problem into an explicit analytical framework that permits alternative policy designs to be sharply defined and contrasted. I also intend to draw on international experience to put our efforts and problems into both historical and comparative perspectives.

## 1. Alternative Policy Designs: Indirect versus Direct Routes

It is possible, and perhaps even interesting, to speculate whether poverty would increase or diminish if governments followed a regime of *laissez faire*, letting poverty and all else take a natural course. Few will dispute however the proposition that, except in singular circumstances, public policy should assist in accelerating the amelioration of poverty.[1]

The key question relates rather to the appropriate design of such public policy.

Economics trains us to think of ends and means, of targets and policy instruments. With the amelioration of poverty as the target, the policy instruments designed to achieve that target can be divided into two main classes: (1) the *indirect* route, i.e. the use of resources to accelerate growth and thereby impact on the incomes and hence the living standards of the poor, and (2) the *direct* route, i.e. the public provision of minimum-needs-oriented education, housing, nutritional supplements and health, and transfers to finance private expenditures on these and other components of the living standards of the poor.

The primary distinction between the two approaches is between creating income (and hence consumption) and providing consumption (in kind or through doles). The latter necessarily involves redistribution between different groups unless the financing comes from external resources; the former need have no such component, though complementary policies to bias the creation of income toward the poor, which I discuss, will often involve redistributive elements. Indeed, within both approaches, the direct and the indirect, we can consider the question of "biasing" or "targeting" the policies in favour of the poor.

Thus, the indirect growth-oriented route may be supplemented by policies facilitating borrowing and investment by the poor or by redistributive land reform, whereas the direct route may be explicitly targeted towards the poor via means tests or choice of health and nutritional programmes that overwhelmingly benefit the poor.[2]

The optimal policy designing should generally involve a mix of these two approaches unless the "productivity" of either in achieving the target substantially dominates that of the other. Thus, for instance, if growth will concentrate increased incomes entirely among the non-poor and there is no upward mobility either, the relevant rate of return to the indirect route is zero. Indeed, if growth can be shown to be immiserising to the poor. This return would be negative. In this event, the case for exclusive reliance on the direct route becomes overwhelming, with two critical and compelling provisos: first, that is should be shown that the factors.

Both economic and political that constrain the effectiveness of the growth process in indirectly reducing poverty do not simultaneously and equally afflict the direct route and prevent it as well from effectively providing benefits to the poor, and second, that the neglect of the growth process, even if its indirect impact on poverty through increased incomes for the poor is negligible or harmful, would impair in the long run the ability of the state to sustain the expenditures required to finance the more productive direct route, especially in an economy with a growing population.

In economic thinking and in economic policy, the pendulum can swing with astonishing regularity. In the 1950s and 1960s the growth-based indirect route to attacking poverty was the more fashionable, though the direct route was both recognised and far from neglected. By the 1970s however, one growth was ineffective and worse still, harmful to the poor, and only the direct route in the shape of a Basic Needs strategy was the answer.

By the 1980s, the indirect route was restored to grace and seen in a more favourable light, the alarmist assertions of experience with it were being discredited, and the matching difficulties that attend on travelling the direct route were being increasingly appreciated.

Before I proceed to an analysis of the lessons that we have learnt in consequence of this extensive debate, and what they suggest for Indian public policy on poverty let me turn to two fallacies that have plagued this debate, making it captive to fractious and misplaced ideological confrontations.

**Growth: Target or Instrument?**

The first fallacy asserts that growth was a rival target to poverty rather than an instrument to ameliorate it. Indeed, in the 1970s it was common place to claim that we had been preoccupied in the 1970s and 1960s with growth rather than the alleviation of poverty, as our objective. This was the central theme of writings on developmental economics, originating with varying degrees of explicitness from international agencies such as the International Labour Organisation (ILO).

Let me confess that this contention may be both true and false. I say this, not in the frolic spirit of my good friend, the philosopher Sidney Morgen-besser. On being asked by one of his radical students during the Cultural Revolution whether he thought that Chairman Mao was right in arguing that a proposition could be both true and false he instantly replied: I do and I don't. Rather, I wish to enter the *caveat* that developing countries form such a mosaic ranging from city states such as Hong Kong to sub-continents such as China, or from democracies, such as India to dictatorships such as today's Chile and yesterday's Argentina, that almost everything is valid somewhere and almost nothing is true everywhere.

I must confess that the enormity of this problem was brought home to me when I, coming from India with its population of over 750 million, recently visited Barbados with a population of 250,000. Asked to talk at the Central Bank, I found myself in the governor's office on the top floor, only to realise that you could practically look out over the island. There was evidently no sensible distinction here between partial- and general-equilibrium analysis! So, to shield myself, 1 reminded my audience of the famous Mao-Nasser story. On a visit to Peking, Nasser looked unhappy. Concerned, Mao inquired what was wrong. Nasser answered: I am having trouble with my neighbours, the Israelis. How many are there, asked Mao. About two million Nasser replied. Oh, said Mao, which hotel are they staying at?

I have no doubt that *somewhere* growth became an objective in itself during the early postwar years. Indeed, it may well have in countries where elites identified GNP, and associated size of the national economy, with respectability and strength in the world economy and polity. But, in influential developmental planning circles,[3] GNP was simply regarded as an *instrumental* variable, which would enable one to impact on the ultimate and *central objective* of reducing poverty.

In fact, in India, which was the focus of intellectual attention during the 1950s for several reasons, reduction of poverty was explicitly discussed during the late 1930s and early 1960s as the object of our planning efforts. In the Planning Commission, where the great Indian planner Pitambar Pant headed the Perspective Planning Division, work was begun at this time on this precise issue. How would we provide 'minimum incomes' for meeting the basic needs of all?

The objective being to provide such minimum incomes or to ameliorate poverty, rapid growth was decided upon as the principal instrumentality through which this objective could be implemented. Let me explain why we came to focus on growth as the central weapon in our assault on poverty.

I can speak to the issue, as it happens, from the immediacy of personal experience. I returned to India during 1961, to join the Indian Statistical Institute which had a small think tank attached to Pant's Division in the Planning Commission. Having been brought in by Pant to work as his main economist, I turned immediately to the question of strategy for minimum incomes. I assembled such income distribution data as were then available for countries around the world, both functional and personal, to see if anything striking could be inferred about the relationship between the economic and political system and policies and the share of the bottom three or four deciles. You can imagine the quality of these data then, by looking at their quality now almost a quarter of a century later. Nor did we have then anything systematic on income distribution in the Soviet Union. And we had admittedly nothing on China which was an exotic reality, about to make its historical rendezvous with the Cultural Revolution, but already suggesting to the careful scholar that its economic claims were not to be taken at face value.

The scanning of, and reflection on, the income distribution data suggested that there was no dramatic alternative or raising the poor to minimum incomes except to increase the overall size of the pie. The inter-country differences in the share of the bottom deciles, where poverty was manifestly rampant, just did not seem substantial enough to suggest any alternative path. The strategy of rapid growth was therefore decided upon, in consequence of these considerations, as providing the only reliable way of making a *sustained,* rather than a one-shot impact on poverty.

I will presently discuss this strategy and its success or failure in some depth.[4] However, let me return to stress the theme that growth therefore was indisputably conceived to be an instrumental variable, not as an objective *per se*. It is not surprising therefore that the strange assertions to the contrary by institutions and intellectuals who belatedly turned to questions of poverty in the 1970s have provoked many of us who were "present at the creation" to take the backward glance and then to turn again to stare coldly and with scorn at these nonsensical claims.

Gilbert Etienne, the well-known sociologist-cum-economist, whose heretical and brilliant work on India's Green Revolution I shall soon cite, has exclaimed. 'The claim that development strategies in the 1950s and 1960s overemphasised growth and increases of the GNP at the cost of social progress is a surprising one!... Equally peculiar is the so called discovery of the problem of poverty' (1982, pp. 194, 195). T N Srinivasan and B S Minhas, both of whom have worked with great distinction on questions of poverty and who followed me to join Pant's think tank, have been even more critical. I am afraid that I have also been moved to write (1984) in a personal vein: "…on hearing the claim that poverty had only recently been discovered and elevated as a target of development, I fully expected to find that chapter 1 of my 1966 volume on *The Economics of Under-developed Countries* would be titled Growth; behold my surprise when it turned out to he Poverty and Income Distribution"!

**Growth and Ideology: Pull-up versus Trickle-down**

The more egregious fallacy, however, has been for several economists and ideologues to assume that the growth-oriented indirect route must necessarily be a conservative option. The more liberal and radical among them have therefore tended to rush to their computers and their pens each time any evidence suggests that the indirect route may be productive of results, seeking to discount and destroy any such inference.

I have never quite understood this phenomenon, for the growth strategy was conceived by us at the start of our planned assault on poverty as an *activist*, interventionist strategy. The government was to be critically involved in raising internal and external savings, in guiding if not allocating investment, in growing faster so that we could bring gainful employment and increased incomes to more of the poor. Whether the policy framework we worked with in India to use the indirect growth-based approach was an appropriate one, and whether therefore this route was efficiently exploited, is a different but critical issue which I will presently address.

Since therefore, the growth strategy was an activist strategy for impacting on poverty. I have always preferred to call it the '*pull up*, rather than the *trickle-down* strategy. The trickle-down phrase is reminiscent of "benign neglect", and its use in the first Reagan administration to accompany efforts at dismantling elements of the welfare state has imparted yet other conservative connotations to it. The pull-up phrase on the other hand, correctly conveys a more *radical* interventionist image and the intellectual context in which it emerged was defined by the ethically – attractive objective of helping the poor.

Lest you think that words do not matter, remember your Orwell or the endless battle for the dominant ground between euphemisms and calling a spade a spade. My favourite example from economics is the business schools' preferred use of the word "multinationals," nudging your subconscious in the direction of multilateralism and hence evoking the image of a benign institution, and the radicals' insistence on calling these international corporations "transnationals", strongly suggesting transgression.

## 2. The Indirect, Growth-Based Route: Experience and Lessons

Let me then turn to the experience with the indirect, growth-based route.

**Immiserising Growth?**

It should be conceded immediately that it is easy enough for economists to construct cases where growth will bypass or will even harm the poor. The pious know that affluence can impoverish one's soul; the economist need not be surprised that it can impoverish one's neighbours too. In fact, in my any scientific work in the late 1950s, I developed a theory of immiserising growth which established the conditions which yielded a yet stronger possibility: growth would immiserise oneself.[5] The precise demonstration concerned an economy where increased productivity led to a sufficiently large deterioration in the terms of trade whose adverse effect outweighed the primary gain from growth. Thus, imagine that extension work leads to farmers raising grain production but this, in turn, lowers the grain price so much that the farmers' income falls instead of rising.

As it happens, the paradox that affluence can immiserise oneself possible to demonstrate even if the affluence comes from transfer payments. Thus international trade theorists have examined conditions under which the recipient of aid may be immiserised rather than enriched so that a gift horse turns out to be a Trojan horse instead.[6]

Such self-immiserising possibilities naturally require more stringent conditions than the possibility that *your* affluence causes *my* misery (even when envy is wholly absent). Thus, consider the scenario where the more affluent farmers adopt the new seeds, grain prices fall and the marginal farmers who have not adopted the new techniques find their stagnant output yielding less income in consequence. In such a situation, the green revolution immiserises the poor and, the radicals would hope, may usher in the red revolution.

It is not true that we were unaware of such possibilities, that growth could be a disturbingly uneven process. But the key question was: What should this awareness imply for policy? Evidently, you would first need to assess both how such unacceptable outcomes would arise in your specific circumstances and the probability of their arising in practice. Next, the policy set would have to be augmented to include, in addition to growth, further suitable instruments to prevent these unpleasant outcomes. The former requires judgment, based on empirical assessment, the latter, the possibility of finding suitable and feasible policy instruments.

Let me illustrate by reference to the possibility of immiserising growth that I cited earlier. In the international context, my 1958 model of immiserising growth was widely considered relevant, including by the distinguished Ragnar Nurkse in his 1950 *Wicksell Lectures*, because of the generally shared empirical assessment that the export markets of the developing countries were extremely tight, implying that the terms of trade would deteriorate sharply as a consequence of growth in the developing countries. But this assessment, not validated by subsequent analysis and events, did not imply that growth policy had to be abandoned. Rather the growth policy had to be supplemented by an appropriate policy of import substitution, so that we would have what Nurkse called "balanced growth."[7]

At least in the Indian context, the view taken was that, in the *long haul* such adverse possibilities could not be the probable, central result of expanding incomes for any sizable group of the poor, but that rather the process would pull up increasing numbers into gainful work.

While, as I have remarked, the limited and sketchy income distribution data revealed little of any consequence on how to improve this pull-up process, there was awareness that the pull-up effect on poverty would improve, ceteris paribus, if institutional mechanisms such as special credit facilities for the poor were developed, necessary land reforms were implemented, and the access of the scheduled and backward classes (which have disproportionate numbers among the poor) to the opportunities provided by a growing economy were enhanced through preferential schemes.

Policy-induced pro-poor bias was thus to be introduced into the growth process, to offset and outweigh and bias in the opposite direction that the market, interacting with inherited political and social forces, may imply.[8] The concern, therefore, was not with sustained immiserising outcomes and how to cope with them but rather with the devising of policy instruments to bias the growth process towards greater efficacy of the pull-up effects.

There was also a distinct component, in the strategy, of the *direct* route, in the public provision of services such as clean water, sanitation, health services, and education. The primary thrust of the Indian strategy, however, was to rely on the indirect route. This decision reflected the constraints imposed by the appalling dimensions of India's poverty, and the democratic politics of the country, on our ability to finance a significant reliance instead on the direct route over a sustained period.

Nothing the former constraint on our planning and fiscal efforts, the famous Polish economist, Michal Kalecki, whose left-wing credentials were never in doubt, had remarked during his visit to India in the early 1960s: "the trouble with India is that there are too few exploiters and too many exploited."

**The Efficacy of the Growth Strategy**

India was the focus of interest and attention in the 1950s; distinguished economists and intellectuals descended on it the way they do on China today. Our ideas were influential and came to be shared widely in the efforts by many developing countries to accelerate their growth rates. I have argued elsewhere (1984) that there was a definite optimism during the 1950s and 1960s both that growth could be rapid and that it would indeed impact on poverty. But by the early 1970s and later, there were increasing claims that called the efficacy of this strategy into doubt. The criticisms took two different forms:

1. Growth was irrelevant and poverty had increased regardless. A 1977 ILO study (quoted by Etienne, 1982. P.198) asserted that "The number of rural poor in Asia has increased and in many instances their standard of living has tended to fall. Perhaps, surprisingly, this has occurred irrespective of whether growth has been rapid or slow or agriculture has expanded swiftly or sluggishly."
2. Growth had in fact accentuated poverty: it made the rich richer and the poor poorer. Ghose and Griffin argued in 1979 that "it is not lack of growth but its very occurrence that led to deterioration in the conditions of the rural poor" (quoted by Etienne, 1982, p. 198).

In assessing these claims of increasing immiserisation, or mere stagnation in living standards, of the poor, it is necessary to examine not just the evidence and its plausibility, but also whether there was indeed satisfactory growth for the pull up strategy to work where it is alleged to have failed. I am persuaded that the evidence is far less alarming than what is claimed, that where growth has been rapid it has impacted on poverty, that in the Indian case the growth strategy has produced inadequate results because the policy framework for producing growth has produced inadequate growth in the first place, and hence that the Indian experience suggests lessons in favour of superior growth-producing policies rather than lessons against using the growth-based indirect route to affecting poverty.

*International Experience*

Let me first stress that countries such as South Korea and Taiwan which have grown much faster than us in the postwar period to date, have had a substantial impact on their living standards. To see the force of the argument, that India's poor growth performance has affected its prospects for raising living standards, it is useful to understand the force of compound interest.

"Had India's GDP growth as rapidly from 1960 to 1980 as South Korea's, it would stand at US$531bn today rather than US$150bn – surpassing that of the UK, equal to that of France, and more than twice that of China. India's per capita income would have been US$740 instead of US$260; even with the benefits of growth inequitably distributed, it is not unreasonable to believe that most of the poor would have been substantially better off."[9] I shall, therefore, return to the question of our policy framework for promoting growth, especially as the moves toward a New Economic Policy were designed to remedy the deficiencies which afflicted that framework.

*Indian Experience*

But, even with the relatively dismal growth rate we have had, the evidence is more compelling that some dent has been made on poverty than the doom-and-gloom analysts have often suggested.

The evidence of the National Sample Surveys of consumption is an important source of information here. So are household income and other surveys. Before, I sketch what these imply, it is pertinent to remark that many noneconomist observers have been skeptical of the reliability of this type of evidence.

Distinguished social and economic anthropologists such as M N Srinivas, Louis Dumont, and Polly Hill have remarked, with varying degrees of candidness, on the quality of Indian data on the subject, and, mind you, these are generally regarded as possibly the best statistics in the developing world. The concepts are inadequate; the implementation yet poorer.

Polly Hill (1984, p. 495) has written in frustration and with evident exaggeration that, India's pride, "the All India National Sample Survey is perhaps the most remarkable example of wasted statistical effort in the entire world!" Srinivas has complained of the brilliant mathematical statisticians who devise and direct the massive questionnaires to be filled out by field investigators that "this kind of study cannot be left to the hit and run method of an inferior class of investigators who commute from the cities to nearby villages." It is not entirely unreasonable therefore to rely, at least for an alternative view of the matter, on the results from the "naked eye" anthropological-cum-longitudinal approach to make the required inferences.

Here, I must confess that I have been much impressed by the analysis of Gilbert Etienne (1982), who has argued convincingly from firsthand evidence from extended stays in a number of Indian villages, which he surveyed earlier, that poverty has indeed been impacted on, and that to where agricultural growth has occurred. Etienne's technique is to do what I call "doing in India what you do in China," i.e., disregard the numbers (which in any case are not available in a reliable fashion for China which has only recently opened itself to a measure degree of external and internal scrutiny and independent analysis) and carefully assess what you see. He has gone back over time to several villages that he had looked at intensively, often more than a decade earlier. And he observes, asks, examines, and records: much like Jan Myrdal (1996) in his celebrated Report from Liu Ling, but with more anthropological, sociological, and economic discipline and less poetry. The results are what we did expect: growth has indeed pushed several of the poor on in life.

Doubtless, some poor have been left behind; others have been impoverished even further. But then, as Arthur Lewis has wisely remarked, it is inherent in the developmental process that some see the opportunities and seize them, leaving others behind until they wish to and can follow. Politics and economics can both constrain the capacity of the laggards to follow.

Thus, for instance, the green revolution in some instances may well have polarised the distribution of property in the countryside, enriching the farmers with access to credit, fertilisers, and irrigation and immiserising those who did not. But, if Etienne is correct, this has not happened in anything like a significant degree in his cross section of villages in India. Of course, what Etienne observes may be true only for "his villages." But his unscientific sample is compensated in some degree by the closer scrutiny and care that the scientific surveys evidently do not possess. What do the latter show?

As it happens, even the statistical evidence from these surveys is corroborative, if not wholly conclusive, of the fact that the proportion of the poor below an accepted poverty line has diminished and strongly suggestive of the hypothesis that growth has been a proximate cause of the reduction in poverty.

The recently published estimates of a team headed by B S Minhas, who has distinguished himself for pioneering work on estimating poverty along with other noted economists such as Dandekar and Rath (1971), are perhaps the most carefully constructed sets of poverty statistics on the subject.[10] They utilise new consumer prices for updating the base-year poverty lines and re-examine the recent calculations of the Planning Commission which had suggested a dramatic decrease in the proportion of the poor in the last decade.[11]

It is noteworthy that, while their calculations reduce the degree of improvement estimated by the Planning Commission, they conclude that "the incidence of poverty in 1983 in terms of proportion of people below the poverty line was substantially lower than the corresponding estimates for the 1970s" (Minhas et al., 1987, p. 47), though there is no evidence of a fall in the absolute numbers below the poverty line and, if anything, there may be a small rise in these numbers, reflecting of course the dual pressure and double squeeze of a low growth rate and a rising population.

Again, I must note that Minhas's early work (1970, 1971) had drawn attention to the fact that the incidence of poverty goes down in years of good harvests and up in years of bad harvests. This phenomenon is reconfirmed in his recent estimates (Minhas et al., 1987).

My distinguished former student, K Sundaram of the Delhi School of Economics, who has done notable work with Suresh Tendulkar (1983a, 1983b, 1983c) on the poverty problem, has correctly reminded us (1986) that this relationship requires us to be cautious in inferring any trend in decline of the poverty ratio from the two observations for 1977-78 and 1983 on whose basis we have had to work as far as the estimates based on the NSS Consumer Expenditure Surveys as concerned.[12]

The poverty ratio has fluctuated sharply with agricultural production and the time-series evidence suggests that no trend should be inferred unless more data points are available: the two pleasant observations may simply be reflective of good harvests rather than a better trend.

But this very critique or cautious reminder implies that indeed, as Minhas had noted, there is some evidence for the favourable impact of growth on poverty, at least in the rural sector where 80 percent of the poor are to be found.

In fact, Montek Ahluwalia's classic 1978 paper on rural poverty and agricultural performance had analysed all-India time-series data to underline this precise link. This work has also provoked controversy, with the radical response being provided by Saith (1981) who has drawn the opposite conclusions while working with the same data set.

Careful analysis of the two papers by Subodh Mathur (1985), examining both the econometrics and the economics of the issue, reaches the conclusion that "aggregate all-India data support Ahluwalia's contention that agricultural growth reduces poverty."

However, Srinivasan (1985), who has raised several compelling objections to the econometric procedures and inferences in Saith's analysis, also cautions that Ahluwalia's results, which are only confirmed by inclusion of additional data which have become available since 1978 (Ahluwalia, 1985), should not be treated as a decisive test of the pull-up hypothesis. For, the data show that "there was no upward trend in net domestic product of agriculture per head of rural population – there was very little to trickle-down at the all-India level." Discussing also the related work by Bardhan (1982), utilising some state-level data of still less reliability, Srinivasan has concluded that meaningful tests with more and better longitudinal data than have been available are necessary, by regions or areas differentiated by high and low growth rates, before firm conclusions can be drawn on the issue. But the existing analyses do favour the presumption, for the present, that the effect of growth is to reduce, rather than to bypass or exacerbate, poverty.

Other sources of evidence also suggest that, while poverty remains appalling in its dimensions, it has diminished at least as a proportion of the population. Thus, a careful examination of the estimates of income distribution for India by Bhalla and Vashishtha (1985) concludes that household income surveys (as distinct from NSS-surveys-based estimates discussed above) indicate that if households are ranked by per capita incomes, neither the bottom 20 percent nor the bottom 40 percent exhibit any significant change in their share of income between 1964-65 and 1975-76.

At the same time, of course, per capita income had increased, so that a constant share would imply a higher absolute level, indicating a decline in poverty. Again, however, these surveys suffer from serious difficulties of comparability, arising from differences in definitions and coverage. Comparable data sets relate only to 1970-71 and 1975-76 for the large rural sector, and these indicate favorable conclusion again.

Furthermore, the two recent NCAER longitudinal, nationwide surveys of identical households for 1970-71 and 1981-82 have suggested that, even in the lowest three deciles, there has been a significant rise of households across the poverty line. The proportions who did so are as high as 46, 41 and 54 percent for the lowest, the second-lowest, and the next deciles. The results are indeed remarkable, suggesting both that poverty can be impacted and that it has been. Again, however, trends cannot be inferred from two observations, and there are problems, noted by Dr Sundaram (1986, pp. 21-28), with the sample size relating to the poor households and with the fact that there is no way one can infer whether the households changed their fortunes due to increased productivity and income or due to demographic factors. But, when all this is noted, the fact remains that these surveys yield results that do not provide support for the hypothesis of stagnation or immiserisation in the living standards of the poor.

*Growth and the New Economic Policy*

If then much of this evidence, with all warts duly registered, suggests some success in assaulting poverty, and this too with only our limited success in enhancing growth, the key question rather becomes. Why has our growth been so disappointing?

Our record of growth is admittedly one of acceleration over the pre-Independence period and compares well with that of countries in the nineteenth century. But we need to remember that this is the case with most of the developing countries in the postwar period and that, compared to them, we appear as unfortunate laggards.

In fact, most of us were pleasantly surprised, despite our optimism, at the remarkable growth rates turned up by the developing countries after World War II. The reasons are probably self-evident. Whereas the pre-Industrial Revolution growth rates were dependent largely on capital accumulation, they increased in the post-Industrial Revolution period because of unprecedented technical change. The developing countries, by contrast, could combine increasing rates of external and internal savings with influx of off-the-shelf technology and thus grow very rapidly. Many did.

The productivity of the increased rates of investment has, however, varied, depending on the policy framework within which the economy operated. There is sufficient evidence, in my judgment, that our policy framework degenerated by the early 1960s on critical fronts, confining us to a trend growth rate of roughly 3.5 percent per annum or about 1.5 percent per capital growth rate annually.[13]

Despite an almost three-quarters increase in our fixed investment rate over the period 1950-84, we had little improvement in the growth rate. If we break the period into 1951 to 1965 (coinciding roughly with the Nehru and pre-wheat-revolution era) and 1968 to 1984 (omitting the two severe drought years of 1965-66 and 1966-67), the trend growth rate is 3.88 percent in the former period and 3.75 percent in the latter, there being no statistically significant difference between the two rates of the 1950s (3.59 percent), 1960s (3.13 percent), and 1970s (3.62 percent) are also similar. Evidently, we got our policy framework wrong.

Economic analysis is often unable to detect unique causes of the phenomena being explained. In this instance as well, the contributory factors are by no means the only two I shall cite, but they are certainly among the most important.[14] The first relates to the excessive and explosive growth of controls over industry and foreign trade until the most recent changes;

the second concerns the failure to exploit the advantage of foreign trade.

The growth of controls turned our governmental intervention, so necessary in a developing country, into a counterproductive one. A government of "don'ts" will stifle initiative; it will also divert entrepreneurial energies into a number of wasteful rent-seeking and other directly unproductive profit-seeking (DUP) activities. By contrast, a government of "do's," such as the one which the successful countries of the Far East have had, is likely to harness its people's energies more productively, even if its prescriptions are mistaken from time to time. It is an increasing appreciation of these questions, and the sense that our Kafkaesque maze of controls could not possibly be sensible, that led me and others during the late 1960s, and recently many others still, to call for a progressive dismantling of this monstrous constraint on our economic efforts. I may remind you in particular that I G Patel, who oversaw our economic policy with distinction for much of this period, recently took the occasion of the Kingsley Martin Memorial Lecture to join us in our corner and ask dramatically for a "bonfire" of the industrial licensing system.[15]

As for the inability we have exhibited in exploiting the gains from trade in a world economy that grew at unprecedented rates in the 1950s and 1960s and which still continues to absorb expanding exports from the developing countries, the explanation lies in what social scientists call the "self-fulfilling prophecy."

Despite all evidence to the contrary, our planning and policy framework was continually based on what economists call "export pessimism." The failure to use the exchange rate actively to encourage exports as in other countries, the inflexibilities (introduced by the pervasive controls) which must handicap the ability to penetrate and hold fiercely competitive foreign markets, the protection and hence attractiveness of the home market: these policies produced a dismal export performance, while other successful countries expanded their exports rapidly and gained in economic growth greatly.[16]

How dismal our export performance has been can, in fact, be understood readily by nothing that our share in world exports was only 0.41 percent by 1981, having fallen almost continually since 1948 when it was 2.4 percent. This certainly affected even our industrial sector's growth. Other countries which began with a much smaller industrial base are not only exporting more manufactures than India but, what is more striking, catching up with India in the absolute size of their manufacturing sector. The size of Korea's manufacturing sector, for example, was less that 25 percent of India's in 1970 (measured as value added). By 1981, it was already up to 60 percent. Korea's manufactured exports, negligible in 1962, amounted by 1980 to nearly four times those of India's![17] Simply put, we missed the bus.

I agree that we could not have grown as fast as the Far Eastern economies, the Gang of Four (as I christened them with success many years ago) or the Four Tigers, because we had a much larger agricultural base. Our agriculture, I agree again with Professors Dantwala (1970) and Srinivasan (1982) among others, grew about as fast as could be expected and charges of its neglect are seriously exaggerated.[18]

But to infer from this that India could not have grown much faster than it did is to forget again the force of compound arithmetic: non-agricultural growth, in an economy geared to rapidly expanding trade and non-agricultural production, would have provided a growing impetus to the economy, steadily overwhelming the agricultural sector's importance in both value added and employment.

### *Growth Patterns*

How would such a shift to an export-promoting strategy have affected the pull-up process of creating more gainful employment? The proponents of the import-substituting strategy, on which we continued to place total reliance instead, have suggested that the export-promoting strategy would have been less productive of employment, even if it may have produced more efficiency. Quite aside from the fact that the empirical evidence suggests that the export promoting strategy implies in practice faster growth and impact on poverty, there is yet further evidence that, even in the short run, export promotion has been associated with more labour intensive investment and production. I refer here to the important findings of Professor Anne Krueger (1983) and her associates in her major three volume study of this subject. The export promotion strategy has not merely led to more rapid income growth but also produced greater increase in demand for labour, ceteris paribus. A major reason is the labour intensiveness of export industries in the export strategy led countries.

### *Growth and Political Economy Constraints*

Why did these serious deficiencies afflict our planning efforts? The question belongs to the new field of political economy. In particular, my theory of the causes and consequences of proliferation controls is that initially they were the product of ideas and ideology, then they led to the growth of interests, and now as the ideas and ideology have shifted these interests pose a critical obstacle to the desired shift of strategy.

At the outset, few of us realised that controls could proliferate in the way they did. In the early 1950s industrial controls appeared to be sensible instruments, to allocate resources in directions worked out in the Planning

Commission. Industrial licensing would eliminate excess capacity by regulating entry; scarce resources would be channelled in optimal directions. Pretty soon, however, the promotional agencies such as the DGTD had largely turned into restrictive and regulatory agencies instead; and in no time we were operating in a regime where one could not even exceed licensed capacity or diversify production lines in any way without retribution. A straitjacket had evolved from what seemed like a reasonable economic approach to investment allocation.

This economic regime spawned its own economic interests. The rentier society it yielded, with entrepreneurs enjoying squatters' rights, created a business class that wanted liberalisation in the sense of less hassle, not genuine competition. The bureaucrats, however idealistic at the outset, could not but have noticed that this regime gave them the enormous power that the ability to confer rents generates. The politics of corruption also as politicians became addicted to the use of licensing to generate illegal funds for elections, and then for themselves. The iron triangle of businessmen, bureaucrats and politicians was born around the regime that economists and likeminded ideologues had unwittingly espoused.

As ideas have now changed, through the process of "learning by undoing," these interests now stand in the way of rapid, if any, change. While the erstwhile partnership of the Prime Minister Rajiv Gandhi and the then Finance Minister Vishwanath Pratap Singh was apparently determined to take necessary steps to start on a programme of removing the straitjacket on the Indian economy, and their leadership was evidently of great importance in defining sharply a promise of new policies, the hesitations and obstacles from both the intellectuals of the older vintage and the interests of the iron triangle have been manifest, raising acutely the question whether the early momentum for change can be politically maintained.[19]

*Pro-Poor Bias Policies and Political Economy Constraints*

I am afraid that pro-poor-bias policies have equally run into difficulties, arising from unequal asset distribution and hence unequal political power at the grassroots level. The degree of success of policies aimed at improving the pull-up effects of the growth process is evidently a function of the extent to which "countervailing power" is available to the poor through the presence of social action groups and politically viable political parties.[20]

Here again, however, I should like to emphasise that, in the longer run, substantial growth itself is a factor generating the necessary countervailing power through the marketplace, by raising the demand for labour and increasing its opportunity cost. I hypothesise that the relative success of tenancy reform in Gujarat must have also some relationship to the fact that many of those who "lost their lands" to it had little incentive to fight and evade the reform in view of the fact that they already had shifted to urban careers and transaction costs of the efforts at evasion were in consequence just too high.

*Radical Restructuring: Why Not?*

Let me add some remarks about radical restructuring of the asset structure and transition to fuller socialism *à la* China and Cuba as possible alternatives to our policies for creating a sustained impact on poverty.

I am afraid that the skepticism that marked the enthusiasm for the Chinese experiment appears to have only been reinforced by later developments. In the 1950s it was often thought that, if only a Chinese revolution could be ushered into the developing countries, its triumphs in eliminating poverty could be replicated. The skepticism lingered because systematic scrutiny of the Chinese claims was not possible, and one legitimately wondered whether absolute poverty had truly been reduced and also whether growth could be sustained within the new framework raising questions about the sustainability of the immediate impact on poverty. Now, after the window has steadily opened wider in the aftermath of the Cultural Revolution and the failures of the Great Leap Forward, we are not sure at all.

We know now that the barefoot doctors generally wore shoes, that their professional competence occasionally exceeded only marginally that of the average grandmother, and the doctors have dragged their feet almost as successfully as elsewhere when assigned to go to the country side, indeed to the point where Liu-Shao-Chi's major crimes were declared by the Red Guards and official pronouncements to include sabotage of the campaign to carry doctors to the rural areas. We are further told that the Chinese concept of equality was intra commune, not between communes: the rich communes did not generally share their affluence with the destitute ones. And we are now told by the new regime that more than 10 percent of the Chinese population may be below a rather austere poverty line.

These tantalising glimpses into China's assault on poverty will almost certainly not be allowed to develop into a fuller picture as in other developing countries, since careful and unfettered scholarly scrutiny is unlikely to be possible in the degree necessary. I am afraid therefore that we shall have to reconcile ourselves to the uncomfortable situation where we do not know for certain the extent to which China's *ex ante* egalitarian methods failed *ex post*, and whether the failures were due to discordance between their announced and their true objectives or rather due to the limitations of the methods used to achieve the announced objectives.

### *Equitable Asset Distribution*

On the other hand, the proposition that the more equitable distribution of assets at the start of the growth process will generally imply that the new incomes will, in turn, be distributed better is of course quite plausible. In the end, over a longer period, the forces that generate inequality will tend to unequalled the outcomes. But over a generation or two, the net outcomes would be more equal than if we were to start with unequal distribution of assets.

The experience of South Korea and Taiwan, where Japanese occupation is largely credited with having brought about the initial asset-ownership equalisation, underlines this near-truism well. Also the experience in India, where several micro-level studies have shown the link between asset-ownership and new-income distribution to be a significant factor in a fair number of cases, only underlines the wisdom of supplementing the growth-oriented approach with policy measures that counter this bias (Tendulkar, 1983).

A policy of "redistribution with growth", where the redistribution of assets *precedes* the growth that is designed to impact on poverty, has therefore been advocated by several distinguished economists.[21] If such redistribution can be undertaken politically, and its implementation is not disruptive economically (as was the case with Soviet collectivisation),[22] we can only rejoice.

### *From Income to Consumption*

We also face, even when incomes have reached the poor, a final set of dilemmas.

First, as the sociologists of poverty have long known, the poor may spend their incomes on frills rather than on food. As the Japanese proverb goes: each worm to his taste; some prefer nettles. Perhaps you have heard of the seamen's folklore that recounts the story of the sailor who inherited a fortune, spent a third on women, a third on gin, and "frittered away" the rest.

In fact, there is now considerable econometric evidence, reviewed splendidly by Behrman and Deolalikar (1987c), that supports the common sense view that increases in income do not automatically result in nutritional improvement even for very poor and malnourished populations.[23] Their high income elasticity of expenditure on food reflect a strong demand for the non-nutritive attributes of food (such as taste, aroma, status, and variety), suggesting strongly that income generation will not automatically translate into better nutrition.

For those of us who feel that certain basic need ought to be satisfied, this tragic assertion of what economists have come to call rather extravagantly "consumer sovereignty" leaves us confronting a familiar moral-philosophical issue. Should we actively intervene so that the poor are seduced into better fulfillment of what we regard as their basic needs? I do. In fact I see great virtue in quasi-paternalistic moves to induce, by supply and taste-shifting policy measures, more nutrient food intake, greater use of clean water, among other things, by the poor.

In thus compromising the principle of unimpeded and uninfluenced choice, for the poor and not for others, evidently I adopt the moral-philosophical position that I do not care if the rich are malnourished from feeding on too many cakes do if the poor are malnourished from buying too little bread, when their incomes can buy them both proper nourishment if only they were to choose to do so.

In this, I am in the ethical company of Sofya (Sonia) Marmeladova in Dostoevsky's *Crime and Punishment* who, in turning to prostitution to support her destitute mother, sacrifices virtue for a greater good.

*Whose Consumption: Gender*

Next, in addition to the first, is the other dilemma that even when households have consumed what is desirable and adequate on a per capita basis, its distribution within the household may be such as to deprive the weaker members, such as females, of an adequate access to the consumption basket. In the 1970s I was somewhat isolated (Bhagwati 1973) as an economist in being seriously interested in the sex-bias that was visible in the statistics on educational enrollments, literacy, infant mortality, and nutritional levels, much of the evidence coming from anthropological findings and other surveys.[24]

Now, almost a decade later, many others have followed and are actively analysing the problem so that we now know more, though not enough, about this key component of our problems in living standards. Among the important findings, I should note the Behrman and Deolalikar (1987b) result that the intra household discrimination may not merely be in the form of lower quantities of food/nutrients allocated to weaker members such as females but may also occur in the form of greater fluctuations in the quantities allocated to them in response to adverse food price changes.

Additional policy instruments are evidently necessary to offset this bias if the elimination of poverty is to occur more rapidly and equitably. The task here is clearly harder than simply generating more income, and progress is the matter may have to depend on the spread of education in the first place.

## 3. The Direct Route: Experience and Lessons

What then have we learned about the direct route, its efficacy, and productivity?

It is important to enter the *caveat* immediately that the key issue is not whether this route produces results but rather its productivity relative to that of the indirect route. It would be astonishing indeed if greater public health expenditures or direct income transfers did not produce some improvement in the living standards of the poor, even though it is not beyond the ingenuity of economists to produce paradoxes of immiserisation in this area as well.[25]

**Eating your Cake and Having It too**

At the outset, it is worth noting that there are significant externalities for growth itself from expenditures on publicly provided services. Many of us have been surprised, though pleasantly this time, by the realisation that we exaggerated our early fears about the trade-off between "consumption" expenditures (such as financial education and health) and investment expenditures aimed at growth and hence ultimate impact on poverty. It is difficult today to appreciate the widespread notion in the 1950s that primary education was simply a "nature right", whose implementation reflected the availability of resources and that it could therefore be justified also on consequentialist ethics, was a later phenomenon. This holds equally for health expenditures which were viewed with inhibited enthusiasm also for fear that they would exacerbate population growth. Only later were they considered to have a possible productivity-enhancing effect on populations that could otherwise be working at impaired efficiency or even to lead to a lowering of the birth rates if, by reducing infant mortality and increasing survival rates, they enabled parents to produce fewer babies to wind up with their target family size in a steady state.

Much of the currently available indirect or "macro" evidence on this issue has recently been ably reviewed by Bela Balassa (1983). Thus, for instance, Correa (1970) has argued that improvements in health (proxied by reductions in death rates and in work days lost) and nutrition (measured as increases in calorie intake) added 0.12 to 0.93 percentage points, and improvements in education (measured as the average level of education of the working force) added 0.05 to 0.53 percentage points to the rate of economic growth in nine Latin American countries during 1950-62. Again, Norman Hicks (1980) has estimated that a ten-year increase in life expectancy raises per capita GDP growth rates by 1.1 percentage points and a 10 percentage point increase in literacy rates by 0.3 percentage points.

But, of course, health and education expenditures affect growth *and* the other way around. Simple regressions therefore can be misleading and simultaneous estimation is necessary. David Wheeler (1980) and Robin Marris (1982) have done precisely this, the former for 88 developing countries for 1960-73 and 1970-73 as well as pooled data for the whole period, the latter for 37 middle-income and 29 low-income countries for 1965-73 and for 1973-78. Wheeler's findings indicate significant impact on growth rates from increases in calorie intake and in literacy rates. Marris's study found that primary education enrollments had a favourable effect on growth rates of per capita income whereas increased life expectancy and family planning helped through reductions in the rate of growth of population (Balassa, 1983, pp. 10-11).

But more compelling is the direct, "micro" evidence linking health, in particular, to productivity. I should note here the recent econometric work on Indian data by Deolalikar (1988), though there is by now a substantial literature that analyses the issue both theoretically and econometrically.

More is known now, therefore to wean us away from the fear that such educational health expenditures are *necessarily* at the expense of growth. What is equally pleasurable is the fact that many of these arguments apply with yet greater force when the expenditures are addressed to the poor segments of the population. The case of undertaking more such expenditures, with focus on the poor, consistent with being engrossed in the growth strategy, is therefore now seen to be stronger than ever before.[26]

I think we have learnt that, within reasonable margins, we may then be able to eat our cake and have it too. Social expenditures could improve the welfare of the poor directly and also indirectly through growth which in turn would impact on poverty. But beyond these margins, the trade-off remains an issue.

**Political Economy Constraints**

At the same time, as Lakdawala (1986) has recently emphasised, income expansion itself can be a precondition for utilisation of the publicly provided services. For, such income can "take care of the incidental expenditure incurred in using these facilities" (p. 392).[27]

In fact, this observation underlines the fact that the political economy factors that have prompted and also constrained the measures to offset the antipoor biases in the growth-based indirect route are unlikely to disappear when we turn to the direct route. Thus, nutrition programmes through schools go to those who attend schools and therefore will not seriously impact on the poor whose children do not get to school: a phenomenon already noted by researchers in the 1970s. The successful impartation of a pro-poor bias in direct expenditures for living standards improvement is, in our experience, likely therefore to face difficulties somewhat parallel to those faced in the pursuit of the pro-poor-bias policies in the direct, growth-based route.[28] In the 1970s, when the indirect growth-based route's productivity was being significantly understated in the international discussions, as I have already argued, the productivity of the direct route was being overstated by ignoring the political-economy constraints that afflict the latter as well.

*Overstated Productivity?*

The productivity of the direct route may have been overstated also through an overoptimistic inference from two allegedly outstanding success stories widely cited in this literature: Sri Lanka and Costa Rica.

As it happens, however, a brilliant analysis by Bhalla (1985a, 1985b) and then by Bhalla and Glewwe (1985, 1986) has called this story into question. Apparently Sri Lanka's claim to attention consisted in substantial direct expenditures and also splendid performance on indices such as literacy, life expectancy, and infant mortality rates which were then assumed to be a result of these direct expenditures. But these indicators were already remarkably high by 1948 it: a fact that was not allowed for in the argumentation which relied astonishingly as single-time-period cross-country comparisons.[29] When changes in these indices are considered for 1960-78, it turns out that Sri Lanka's performance on these criteria shrinks into mediocrity. Of six indicators analysed, for only two – life expectancy and the death rate – does Sri Lanka do better than average, and, if a strict statistical test is used, only the death rate survives to fit this bill.

With this reversal of conclusions based on changes in rather than on levels of, the performance indicator,[30] the question arises whether the low performance of Sri Lanka in this recent post war period reflects low growth rates, reinforcing exactly the opposite conclusion to what is presumably being contended! As it happens, estimates of Sri Lanka had a negative annual growth rate of 1.2 percent along with only five other countries including Burundi, Benin and Angola!, Can it be that the diversion of expenditures away from growth to ("social") direct expenditures affected growth adversely and hence impacted on the poor, and increased direct expenditures had to be undertaken to offset the adversity for the poor?

In short, the mediocrity of Sri Lanka's recent performance on the living standards of the poor may be explainable by hypotheses that only sustain the advisability of assigning primacy to the growth-oriented route the ameliorating poverty.

Of course we can still speculate as to what made Sri Lanka in 1948 such an impressive performer on living standards. Was it high growth rates or high social expenditure? Was the productivity of the latter high due to specific, manageable problems such as malaria which could be eradicated relatively easily with public-health anti-malaria programmes and therefore has little value in inferring general prescriptions? Only detailed historical analysis, carefully shifting among different hypotheses, can throw light on the issue at hand. In the meantime, the ready overoptimism that the early writings on Sri Lanka's postwar experience reflected and spread must be suspended.

## 4. Concluding Observations

In the end, therefore, I see no quick fix to our immense poverty problem. We can debate whether resources can be moved further at the margin from the indirect, growth-based route to the direct, minimum need route. But the most important lesson seems to be that, within each route, we can and must get significantly more returns than we have to date.

Within the indirect route, the New Economic Policy initiatives point in the right direction and, if successfully brought to fruition, promise a significantly greater impact on poverty in the next two decades than we have had with our inappropriate policy framework and dismal economic performance. Within the direct route, there is continual improvement being sought of course and an economist has little expertise to offer. Efforts such as integrated, block-level development programmes and the introduction of the village community health workers, etc., are the fruit of ongoing processes of learning by experience: they ought to yield result over time.[31]

I have to further thought to conclude my lecture. That our low growth rate seems to have reduced our poverty ratio but left the absolute numbers of the poor at an appalling level of over 300 million, suggests not merely that we must pursue doggedly the New Economy Policy initiatives. It also underlines the critical role of a successful population control programme. Derailed by the draconian measures during the emergency, this programme needs to be pushed vigorously if the fruits of growth are not to be squandered increasing numbers rather than improving the well-being of fewer people.

At the same time, the political economy constraints on both the indirect and direct routes' ability to reach the poor more effectively, despite governmental attempts at offsetting these biases, underline the overreaching importance of the role of voluntary agencies and social action groups. The *ex ante* intention of the enlightened sectors of our governments will not effectively translate in many instances into *ex post* outcomes in our assault on poverty without the active association of such agencies.

These social action groups do not merely aid the poor directly but also by acting as watchdogs that assist the poor in securing effective access to the programmes designed by the government for their benefit. This is the lesson, for example, of the Legal Aid Programme in India where the coopting of such agencies has turned out to be an essential ingredient in making the programme more productive.

Indeed, private and public altruism have, therefore, a critically complementary role in creating a shared success in the assault on poverty.

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## Endnotes

1 Such a singular circumstance could be a Myrdal-type "soft" state or predatory state; the former would preclude effective action whereas the latter would guarantee malign intervention

2 There are two main "antipoverty" programmes in India, the Integrated Rural Development Programme (IRDP) and the National Rural Employment Programme (NREP). Both of these are targeted at the poor and would classify as part of the indirect growth-based strategy in my typology since they are intended to bias the creation of assets and income in favour of the poor. Thus, for instance the IRDP aims at targeting the poor in the growth process by providing them with opportunities, in terms of transfer of assets, training etc. for income expansion The NREP, on the other hand, creates rural employment to build assets such as roads and therefore can be seen as an attempt at biasing the income expansion process in favour of the poor by promoting labor intensive technologies and activities and also, insofar as the assets in turn create income differently in favour of the poor, via the resulting capital formation as well. In practice, however, the asset formation, such as road building may he negligible as when the new roads are immediately washed away, reducing therefore the result in this instance as to what it would have been under a transfer payment to the poor as in my direct route. There is, therefore, an extensive debate in India whether the operation of the IRDP and NREP programmes, while intended as part of the pro-poor indirect (growth) strategy, are not *de facto* reducing to the pro poor bias direct (transfer) strategy. On this issue, see the interesting articles by Rath (1985 and Sundaram and Tendulkar (I985). I am indebted to Sundaram and Tendulkar for drawing my attention to these questions.

3 Here I refer to economists such as myself. B. S Minhas, K N Raj, and T N Srinivasan who were actively involved in planning efforts within the institutions such as the Indian Planning Commission, and to planners such as Pitambar Pant. That some of the purely academic development economists were preoccupied with the models that addressed growth *per se*, and would discover poverty as an explicit target and as an issue for analysis many years later, is an observation compatible with the fact that some of us at the centre of planning efforts were not so afflicted.

4 1 have dealt with the growth strategy at much greater length in my 7th Sir Purshotam Thakurdas Memorial Lecture (Bhagwati, 1987) which should therefore be read as a companion piece to the present 1ecture.

5 See Bhagwati (1958). The model used was developed earlier by Johnson (1955 to examine the interactions between growth and trade.

6 Such a paradox may be described as implying an Invisible Shakedown (by the donor). See Bhagwati, Brecher and Hatta (1984)

7 In economic jargon, one has a case for an optimum tariff here. Again, later developments in the theory of immeriserising growth show how it can be ruled out if optimum tariffs are imposed; see Bhagwati (1968, 1986c)

8 On Indian policies with regard to biasing credit facilities towards the poor, see Tendulkar's (1983) excellent review.

9 This graphic comparison and scenario come from Myron Weiner's (1986) interesting analysis of the political economy of India's appallingly slow growth rate, with much of which I am in agreement. I should stress that, in using South Korea's growth rate to make this comparison compelling, I do not mean to imply that we could have improved our economic performance quite that much!

10 Minhas, Jain, Kansal, and Saluja (1987).

11 These estimates continue to use the definition of poverty line adopted by the Indian Planning Commission in the mid-1970s.

12 These surveys are available on an annual basis almost continually up to 1973-74 but only for 1977-78 and 1983 thereafter.

13 Many statistical tests have cast continuing doubt on the question whether our growth rate has finally accelerated in the last decade. All plausible ways of splitting the period 1950 to 1984 turn up conclusions that suggest unchanged trends. See Bhagwati and Srinivasan (1984) and Joshi and Little (1986), among other analysis of these trends.

14 I have discussed this and other explanations at greater length in the 7th Sir Purshotam Thakurdas Memorial Lecture (Bhagwati, 1987).

15 See Patel (1986). He is fully aware, of course, that the elimination of this system is a *goal* whereas the *process* will require extremely careful management. Whether the growth of interests, supportive of this system, over its existence in the past three decades will pose insuperable obstacles to its removal is an issue in political economy that I discuss at greater length elsewhere: Bhagwati (1986a, 1986b, 1987).

16 This is not the place to report yet again on the numerous research projects that shown in the 1960s and 1970s how export pessimism had been unjustified but had led to dismissal export, and in turn to dismal economic, performance in many countries. Useful reviews of this research are now available: see Bhagwati (1986b) and Balassa (1986).

17 See Bhagwati and Srinivasan (1984)

18 *Ibid.*

19 That the interests followed the ideology and now constrain a shift in the ideology is a thesis different from that of Professor Pranab Bardhan (1985) who differs from me both in starting from the interests and also in relating them wholly to public sector losses and therewith to slow growth. I have discussed the role of public sector saving's in India's slow growth at some length in the Sir P T Memorial Lecture, again emphasising the early role of ideas and the *subsequent* role of interests.

20 Evidence on the relationship of party politics to the successful implementation of antipoverty programmes have been ably analysed recently by the Princeton political scientist Atul Kohli (1987).

21 See Adleman and Morris (1973) and Chenery et al, (1974). In this generic class of strategies, I would also include an altogether different kind of proposal that I made for Indian planner to consider in 1973 in the Lal Bahadur Shashtri lectures. I argued for a frictional nationalisation of land in each village (or similar unit), which could be set apart to form of Chinese-style commune. Those destitute who wished to follow the slow and protracted route offered by the Indian strategy of predominantly relying on growth to impact on poverty, would take their chances there; but those who wished to gain employment and some income right away would have immediate access to the commune *à la* China. The combination of both strategies, and access to either *by choice*, would mean that the destitute were not forced into the Indian option of freedom but slow poverty alleviation or into the Chinese option of freedom through forced removal to the communes but more rapid and, one hoped, sustained removal of abject poverty.

22 These are hazards that do not seem to have afflicted China since the elimination of the kulaks seems to have occurred principally during the long civil war itself, see Desai (1975).

23 For a fine review of India's experience with interventions to fill nutritional gaps at the household level, see Subbarao (1987).

24 See, for instance, Sundaram (1973), Rosenzweid and Schultz (1982), Sen (1984) and Kakwani (1986).

25 A successful anti-malaria programme, for example, may increase population pressure, reduce real wages, affect nutritional intake of the poor, and disproportionately depress their living standards inclusive of their own life expectancy. Economists who like immiserisation paradoxes on the indirect route should look out for them on the direct route as well.

26 On the other hand, the difficulties of directing the expenditures on primary education and health effectively to the poorer classes when the elites control the political system need to be recalled again. Questions

such as the relative priority attached to primary and higher education in state spending and its relationship to the class nature of the state have been discussed at length by economists such as Samuel Bowles and myself. See the extended analysis in my "Education, Class Structure and Income Equality" (1973a).

27 This observation is also corroborated by the careful study of the regional variations in the impact of India's antipoverty programs by Subbarao (1985).

28 This is evident also from the important in-depth analysis of the working of the NREP programme in Gujarat State by Indira Hirway (1986a, 1986b).

29 This argument was advanced by Isenman (1980) and Sen (1981), among others.

30 The lack of availability of data on changes in levels of direct expenditures prevents us from drawing more compelling inferences here, as noted by Bhalla (1985) himself. Also, such evidence as is available in changes in educational expenditures does not help the critics of Bhalla either; see Bhalla and Glewwe (1986) and the later animated comments by Pyatt (1987) and Isenman (1987) and the riposte by Glewwe and Bhalla (1987).

31 See the excellent review of these problems and their possible solutions in Lakdawal (1985), based on his tenure as Deputy Chairman of the Planning Commission.

# Poverty and Reforms: Friends or Foes?

*Jagdish Bhagwati*

As reforms in economic policy – generally centred on dismantling inward-looking policies and international trade and attracting equity investment – and the privatisation of many public-owned enterprises have swept across the developing world, critics have charged that these reforms are inimical to the reduction of poverty. Thus, it is not unusual for a long-standing proponent of these reforms like myself to get into recurring debates on the question. Only a few months ago, I and Martin Wolf of *The Financial Times* teamed up to face two rather impassioned opponents in a BBC debate. Our opponents claimed that pro-globalisation polices are responsible for the accentuation of poverty, while we argued exactly the opposite.

In fact, this debate is only a replay of the debate that we Indian economists and planners had almost four decades ago, with occasional argumentation thereafter, when we began planning for national poverty amelioration. India at the time had (and still has, precisely because of the policies that presently call for pro-globalisation reforms) the misfortune of having a comparative advantage in poverty. Since policy economics is like literature and reflects the immediacy of one's experience, Indian economists have not surprisingly been at the forefront of debates about how to reduce poverty.

As I shall presently argue, this debate in India was precisely between those who maintained that growth reduced poverty and those who argued that it bypassed or even increased it. Proponents of the pro-growth strategy were divided into those who came to see the inward-looking import-substitution (IS) model toward trade and foreign direct investment (FDI) as the culprit that crippled growth and hence accentuated poverty (a minority in the 1960s and 1970s), and the vast majority that continued to cling to the increasingly implausible notion that these anti-globalisation strategies were in fact pro-growth policies, despite compelling theoretical arguments and a growing body of evidence suggesting the opposite.

Since the 1980s, a majority of policy economists around the world have begun to favour economic reforms that increase global integration, in the strong belief that such reforms would, *ceteris paribus,* promote growth and would, both directly and indirectly (by raising resources for spending on social programmes and in other ways), help to improve living standards among the poor. Today, the widespread view among Indian intellectuals and policymakers is that the absence of pro-growth economic policies for nearly three decades only served to accentuate Indian poverty. Ironically, the growth-retarding and hence poverty-enhancing policies in place throughout this time were adopted at the urging of those very economists who claimed that they were the virtuous ones who wished to attack poverty, while the rest of us were interested in growth for itself.[1]

Against this backdrop, I argue that pro-globalisation and pro-privatisation economic reforms must be treated as complementary and indeed friendly to both the reduction of poverty and social agendas. I maintain that poverty reduction and advancement of social agendas require not merely a policy focus on schooling, public health, etc., but also *simultaneous* attention to reform aimed at improving the economic efficiency and growth of the economy. More precisely, I shall argue specifically in this chapter that:

- Growth (or "development") has been regarded for several decades as a principal *instrument* for reducing poverty, rather than as an *objective* in itself. Hence the contention in some influential developmental circles and international agencies that poverty reduction has only recently been designated as an objective of development, displacing the earlier preoccupation with growth *per se*, is totally off the mark. The falsity of this argument is a cause for concern insofar as it encourages the harmful ethos that somehow growth is irrelevant, if not inimical, to poverty reduction and to the promotion of social agendas. Growth is, in fact, an important force for poverty alleviation and has been regarded as such at least in Indian planning and policy circles, since the 1950s.
- Growth is properly regarded as an instrumental means of reducing poverty because, generally speaking, it moves poor unemployed and underemployed people into gainful employment. Growth can still have varying degrees of efficacy in terms of its impact on poverty, depending on the "*structural*" forms that poverty and growth take and on the political and social contexts in which the growth process unfolds.
- Increased integration into the global economy (through trade and FDI) and other reforms (such as privatisation) currently being proposed in poverty-ridden countries can be fully expected to assist in poverty eradication.
- Growth attacks poverty in yet another way: economic prosperity alone increases tax revenues which, in turn, can be used to finance conventional anti-poverty programmes such as the building of schools and the provision of clean water, electricity and health faculties for the poor. Without revenues, these expenditures cannot be sustained, let alone

expanded. But this requires that these agendas be on the radar screen of governments: the availability of funds is no guarantee that they will be used for the right purposes.

- In this respect, there is a clear role for democracy to guarantee effective political participation among peripheral groups, non-governmental organisations (NGOs) and social activists. There is also a profound need for a combination of government and private NGO work to maximise the impact of governmental expenditures on social and economic programmes that target the poor. Growth will also support social and poverty reduction agendas, since it will enhance the effectiveness of legislation aimed at helping the poor.

Thus, in conclusion, those who viscerally oppose economic reforms today as anti-poor are misguided and unfortunately accentuating poverty instead. We need to build bridges between economic reformers and anti-poverty campaigners, not burn them.

## Growth as an Anti-Poverty Strategy, Not as an Objective in Itself

In the mid-1970s and 1980s, I began to encounter assertions, from the International Labour Organisation (ILO) and elsewhere, that growth had long been the primary objective of development planning and that poverty had been recognised as worthy of attention only recently. Such claims profoundly surprised me. A few dramatic examples of some of the untrue statements I was exposed to are illuminating.

First, I remember reading a biographical sketch of one of the South Asian architects of the Human Development reports of the United Nations Development Programme (UNDP). The thrust of these reports is that the UNDP deals with human beings, and hence with poverty and social agendas, whereas those of us who have worked at encouraging growth over the years are somehow tangential or inimical to those objectives. Such assertions prompted me once to mischievously inform the affable any dynamic UNDP head, Gus Speth, when he asked me at a party what I did, that I worked on Inhuman Development. The biographical sketch amusingly claimed that this particular economist had "dethroned the goddess of GNP from her pedestal."

I recall another example that took place several years ago when I was giving the keynote address at the twenty-fifth anniversary celebration of the Centre for Development Studies in Antwerp, Belgium. In response to my comments on poverty, the Dutch economists Louis Emmerij (who had run the programme on poverty at the ILO) said somewhat sarcastically that it was good to see Professor Bhagwati finally talking, not about free trade and growth, but about poverty and inequality. I could not resist retorting that I might have agreed with the statement were it not for the fact that, apropos of my speech that day, I was reading my best-selling 1966 book, *The Economics of Underdeveloped Countries*. The first chapter of that book is entitled "Poverty and Income Distribution."

In fact, many social scientists have responded with strongly disapproving commentary to the claim of some early development economists that pro-growth economists and policymakers ignored poverty. To cite one eminent sociologist, Gilbert Etienne, who has worked for decades of India's villages: "The claim that developmental strategies in the 1950s and 1960s overemphasised growth and increase of the GNP at the cost of social progress is a surprising one! ... Equally peculiar is the so-called discovery of the problem of poverty."[2]

## Growth: A Pull up, not Trickle-down, Strategy for Removing Poverty

So, let me explain why we perceived growth at the time, and must continue to do so almost four decades later, as an effective anti-poverty strategy. This is because in countries such as India, where the poverty is immense, there are no simple answers like income redistribution (even if feasible politically) to bring poverty down. The problem is that redistribution would have little impact on poverty, even in the short-term. As the eminent Polish communist economist Mikhail Kalecki told me in India in 1962, the trouble with India is that there are too many exploited and too few exploiters. Moreover, governments need to pursue a sustained attack on poverty rather than a one-shot approach. With a rising population and stagnant growth, any favourable effects of redistribution on poverty would quickly erode.

Hence, Indian planners saw rapid growth as the principal component of an anti-poverty strategy. The idea was an activist programme which would raise domestic savings and investment, assisted where order to achieve accelerating growth that would move increasing numbers of people into gainful employment. The theoretical rationale was embodied in the well known Harrod-Domar growth model, in which employment rises with increasing capital stock and the chief policy instrument is a fiscal strategy to raise domestic savings.

All this was a far cry from the conventional liberal view in domestic debates within OECD countries, where growth is often presented as a *passive,* "trickle-down" process. Indeed, we thought of our strategy as an *active,* "pull up" strategy requiring extensive savings mobilisation, with the state playing a major (interventionist) role in that effort. Clearly, this was no conservative option.

Of course, not all growth has identical effects. Economists are ingenious enough to construct all kinds of scenarios. Thus, I am known for having demonstrated that growth can actually diminish economic well-being, as when it leads to losses from worsened terms of trade which outweigh the primary gains from growth.[3]

To take another example, if rich farmers implement technical change, output increases and prices fall – and the poor farmers who did not innovate are hurt. For this reason, we used to say that the Green Revolution (which brought in new high-yield seeds) might lead to the Red Revolution! But these downside scenarios can be ruled out by suitable accompanying policies: in the former instance, an optimal tariff is the answer; in the later, the government could adopt a price maintenance programme or a policy to raise national investment, which would lead to a matching increase in demand for the added output of the high-yield grains.

Then again, it is obvious that growth may simply bypass certain pockets of poverty. Thus, for example, if tribal areas in India are not integrated into the main economy, growth occurring in the latter will not touch the former. This may well be the case internationally if an impoverished nation is not linked to the growing world economy and hence to profits from either trade or FDI. Indeed, such is the situation for many of the smaller, impoverished nations today (though, I would say, these "non-linkage" afflictions are, at least to some extent, a result of bad inward-looking policies over the years, and not an unfortunate external calamity of which poor countries are simply victims). Once again, supplementary programmes are needed to accompany growth, so that it can act more effectively as a locomotive lifting people out of poverty.

If the efficacy of the locomotive depends on the nature of growth, there is enough evidence by now that the IS strategy harmed the poor, not just by slowing growth but also by affecting the horsepower of the locomotive. In a project for the National Bureau of Economic Research (NBER) that I and Professor Anne Krueger directed in the 1960s , we found that the IS strategy tended to reduce employment by biasing growth toward capital-intensive projects and choice of techniques, seriously limiting the assault on poverty as a result. This finding was reinforced by Krueger in a subsequent NBER Project, which focused more directly on the employment effects of the IS and the export promoting (EP) strategies.[4]

Thus, the Far Easter economies, with striking growth rates over nearly three decades, had a substantial positive impact on the living standards of the poor because the development was based on labour-intensive production and exports. In India, on the other hand, the impact on poverty was handicapped, not merely by abysmally low growth rates, but also by the fact that the Indian economic planners – under the impetus of counterproductive theorising that legitimated the use of capital-intensive techniques and the promotion of huge white elephants in heavy industry – biased the growth of the economy away from employment-creation.[5]

We may still ask whether the evidence demonstrates that in India, for instance, growth has pulled people out of poverty. After much debate, it seems that by now evidence of a favourable link has become more compelling. In the 1980s, when the Indian growth rate picked up from a range of 3 to 3.5 percent to around 5 percent, poverty reduction accelerated.[6] Evidence on the Green Revolution's spread has also shown it to be linked to improvements in poverty.

## Pro-Growth Reforms: Globalisation, Privatisation, and Market Reforms

Against this backdrop, the recent wave of economic reforms in much of the developing world and in formerly socialist economies is to be regarded as an important long-run input toward the elimination of poverty. There are, however, two important caveats. First, the short-term effects of a *transition* to globalisation, in which economies are opened up to integration into the world economy, may well exacerbate poverty. This is sometimes glossed over by ideologues. See, for example, the World Bank's 1996 *World Development Report* on the transition problems that the former-socialist countries face, entitled *From Plan to Market*. This report virtually dismisses, and even ignores, the problems concerning unemployment and income distribution that attend such transitions. Moreover, it asserts without any serious response to the arguments advanced by scholarly opponents of the shock therapy model propounded by Jeffrey Sachs that these effects are desirable.[7]

On the other hand, serious scholars of such transitions – chief among them Padma Desai of Columbia in her recent book, *Going Global: Transition from Plan to Market in the World Economy,* and John McMillan of the University of California at San Diego – have insightfully analysed these problems associated with attempts at global integration.[8]

The second caveat is that all forms of globalisation are not equally desirable, even from the viewpoint of efficiency and growth. Thus, it has become evident recently that the IMF's determination to push for capital account convertibility around the world has been hasty and, in fact dangerous. The Asian financial crisis since 1997 has radically shifted opinion in the direction of halting the aggressive spread of such convertibility. Hence, the IMF is now conscious of what I have always argued, that free trade in widgets is not the same as free trade in dollars.[9]

Unfortunately, public perception has likewise confused these two forms of globalisation (goods vs. dollars); and now that the latter has once again caused a crisis, with incalculable economic and political consequences for the countries, caught in the aftermath, there has been a tendency to condemn globalisation *per se*, condemning the good form of globalisation for the sins of the bad one.[10]

I would stress that the postwar experience has amply demonstrated the mutual gains to be made from trade liberalisation. This is also true of equity investments, which bring into a country the benefit of capital, skills and technology. I would add the caveat, however, that energetic regression-prone economists such as Harvard's development experts Robert Barro and Sachs do not help us by turning out endless cross-country associations between growth rates and trade indicators. They even persuade financial journalists to reproduce these results as if they "proved" that globalisation in trade, for instance, is immensely beneficial to liberalising countries. In fact, they do not really do this.[11] My faith in the advantages of freer trade and eased restrictions on FDI inflows derives instead from sophisticated and nuanced studies of countries in which trade liberalisation and FDI inflows are put into the appropriate context.

I should also add that privatisation is now widely seen as conducive to economic efficiency. This view is not ideological, as it was when we were embarking on development and many of us had not pondered the deep-seated incentive problems that public enterprises would face, given the political context within which they would be operating, especially in developing countries. Political staffing, often excessive and of middling quality, the ability to ride out losses by resorting to subsidies and the absence of effective incentives for workers and managers to perform are among the key and ineradicable defects of public enterprises. Some unreformed proponents of the Marxist and Fabian preference for public ownership insist that suitable reforms could still salvage public enterprises as efficient economic entities. This logic, however, is like saying that if we put stripes on an elephant, it will become a zebra.[12]

## Growth: Added Revenues to Support Anti-Poverty and Social Agendas

Let me then turn to another reason why growth, aided and accelerated by reforms like those outlined above, can help. Without prosperity, the government will fall short of the funds needed to advance literacy, secondary schooling, health, sanitation, and a host of programmes aimed directly at the poor and conventionally described as "anti-poverty" programmes in donor agencies and recipient countries. Of course, because it pulls the poor into gainful employment, growth is also to be seen as an indirect anti-poverty programme, as I have already argued, and it is wrong to think otherwise. Indeed, to those who use the cliché of "development with a human face," I respond: "Yes, indeed. But remember that the face cannot exist by itself, except as a mask in a museum. It must be joined to the body; and if the body is emaciated, the face must wither no matter how much we week to humanise and make it pretty."

For those who doubt this, it is perhaps necessary to reflect how, faced with a budget deficit, President Clinton turned away from social programmes requiring funding, enraging in the process his liberal supporters who concluded that he had abandoned liberalism. As soon as the budget turned into a surplus, however, his liberal voice became loud and clear.[13]

### *Growth, Poverty, and Social Agendas: All Bedfellows*

Though revenues resulting from prosperity allow for spending on anti-poverty programmes and on social agendas, this does not guarantee that they will be so spent. For this, it is necessary to identify processes and institutions that will generate and sustain the right "preferences," not just culturally but in terms of effective political demand. This is where we recognise the importance of democracy, with effective participation among the poor and minorities. Their vote enables their voice to be heard.[14] The introduction of democratic politics into poor countries should therefore be seen as "political reform" that complements the "economic reforms" that I have discussed so far.

The specific forms that such democratic politics may assume can be diverse. One important aspect is the growth of NGOs, which Indians call Social Action Groups. These NGOs help to ensure that in poor communities, still emerging in some cases from feudal social and political structures, the voice of peripheral groups is not silenced by intimidation despite formal democratic practices. I might add that the role of female education in the development of civil society has been phenomenal.

In the early 1960s, when I was working on poverty at the Indian Planning Commission, I recall discussing with the great Indian Planner, Pitambar Pant, the immense growth of women in higher education and wondering where they would all go and with what consequences. We came up with images of women engineers, doctors, scientists and scholars. But we had no idea that several of them would wind up as active members of NGOs, pushing social agendas in all directions. Indeed, both in rich and in poor countries (with higher education), NGOs are increasingly dominated by women.

In addition, it is important to emphasise that growth seriously enhances the efficacy of social legislation and anti-poverty programmes. Take literacy, for instance. Political scientist Myron Weiner has beautifully noted that literacy has usually required that the incentive of poor parents to put children to work rather than sending them to school is outweighed by countervailing values. In the Lutheran religion, for example, everyone needed to know how to read the Bible instead of relying on a priest to act as a liaison to Got. For economists, this countervailing pressure can come from the prospect of earning higher income as a result of education.

Higher income, however, will come only when growth provides economic opportunities that allow increasing numbers of children to travel down the educational road. The few schools that do exist in India have had problems with attendance and thus work below potential output, largely because low growth over the decades has drastically reduced the chances that improved incomes will result from sending children to school.[15]

Moreover, in some instances, it can be argued that social agendas follow economic growth. Thus, for example, many political scientists and sociologists, among them Barrington Moore and Ralf Dahrendorff, have maintained that democracy emerges when growth has produced a middle class that seeks democratic rights. Similarly, movements for environmental protection, for children's and women's rights, etc., seem to gather steam as economies grow and their populations acquire information and ideas from other countries further up the development ladder.

I should note that this tendency is sometime used by economists to argue, totally without justification, that economic growth will eventually take care of social and poverty concerns and that we therefore do not need to address them directly. I have a simple answer to that. If a hapless woman is being beaten by her husband and screams for help, it would be a bit ludicrous to say to her to hang in there, because growth will eventually change values and laws so that husbands are no longer able to abuse their wives. What you will want to do is immediately nail the guy to the wall. And so must social agendas for the poor and minorities move ahead, hand in hand with the growth process.

One final remark on the positive relationship between growth and poverty reduction is worth making. Sometimes, expenditures aimed at removing poverty can in turn promote growth. Thus many economists have recently argued that if credit market imperfections prevent the poor from investing in health, education and enterprises, then this can impede growth. Again, a malnourished labour force cannot be conducive to higher productivity: then this can impede growth. Again, a malnourished labour force cannot be conducive to higher productivity: the "efficiency wage" theory, associated with economists James Mirrlees and Harvey Leibenstein, formalises the idea that firms will sometimes pay more than the going wage if a productivity boost results from better nutrition enabled by higher incomes.

## Concluding Observations

And so, in many ways, the current reforms in developing countries must be seen as significant inputs into the important fight against world poverty. Unfortunately, in countries that face serious poverty, this is still not understood and reforms are considered to be a luxury for the rich and irrelevant to the poor. Having begun this essay with relevant reminiscences about India in the 1990s, let me conclude it with pertinent remarks about India in the 1990s.

Specifically, as we Indians try to move ahead with economic reforms to finally reduce poverty through rapid growth, let me express my astonishment, anguish and outrage over the following all-too-familiar criticism of reforms made by two influential economists:

Debates on such questions as the details of tax concessions to multinationals, or whether Indians should drink Coca Cola, or whether the private sector should be allowed to operate city buses, tend to "crowd out" the time that is left to discuss the abysmal situation of basic education and elementary healthcare, or the persistence of debilitating social inequalities, or other issues that have a crucial bearing on the well-being and freedom of the population.[16]

Mindful of the damage that such attitudes have done to the cause of poverty reduction in India over a quarter of a century, I was moved to respond, in a review essay:

Much is wrong here. No one can seriously argue that there is a crowding out when the articulation of Indians is manifest in multiplying newspapers, magazines and books and the expression of a whole spectrum of views on economics and politics; this reviewer has noticed no particular shyness in discussing social issues, including inequality and poverty in India.... But, more important, the put-down of attention to multinationals misses the point that India's economic reforms require precisely that India join the Global Age and that India's inward direct investments were ridiculously small in 1991, around US$100mn, and that this was an important deficiency that had to be fixed. The reference to Coca Cola is no better, serving as a cheap shot against multinational investment; but it also betrays the assumption that Coca Cola is drunk by the elite or the Westernised middle class, not by the truly poor. It is more likely, however, that the former derive their caffeine from espresso coffee as well whereas the poor are the ones who must depend on Coke instead![17]

In fact, the contemptuous reference to the privatisation of bus transportation in cities could only come from elitist economists who travel by private car and are unaware that the common people (especially the poor) travel by buses whose efficiency needs to be improved by privatisation. In short, we confront here the spectacle of economists, who espouse the cause of the poor, becoming unwitting accomplices in the perpetuation of poverty. Ironic indeed.

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## Endnotes

1 See my critique of these economists and the hugely deleterious effects they had on India's poverty even as they were identified in the public eye as economists "more genuinely" concerned about poverty, in Bhagwati, "A Machine for Going Backwards," in *Times Literary Supplement,* reprinted in Bhagwati, *A Stream of Windows: Unsettling Reflections on Trade, Immigration, and Democracy* (Cambridge: MIT Press, 1998) chapter 56.

2 The Etienne quote is cited in my 1987 Vikram Sarabhai Memorial Lecture on Public Policy and Poverty, printed in *World Development,* 16, no.5 (1988) pp. 539-555 and reprinted in Bhagwati, *Political Economy and International Economics,* ed., Douglas Irwin (Cambridge: MIT Press, 1991) chapter 25.

3 Bhagwati, "Immiserising Growth: A Geometrical Note", *Review of Economic Studies,* 25, no. 3 (June 1958) pp. 201-205.

4 The volumes from the first project were published in 1978 by Ballinger and for the second project by University of Chicago Press in 1982. In addition, much important research-project-based work along these lines was done, in particular, by I.M.D. Little, Maurice Scott and Tibor Scitovsky for the OECD Development Centre in the 1960s and by the late Bela Balassa for the World Bank. The findings of these projects and other research have been reviewed in Bhagwati, "Export-Promoting Trade Strategy: Issues and Evidence," *World Bank Research Observer,* 3, no.1 (1988) pp. 27-57, reprinted in Bhagwati, *Political Economy and International Economics,* Chapter 24.

5 Here, I have in mind the work on the choice of techniques in the 1960s by economists such as Amartya Sen, which did incalculable harm to the cause of growth and hence of poverty reduction by emphasising the role of capital-intensive techniques in accelerating the growth rate by increasing savings. These conclusions came, of course, from the assumptions underlying the models built. But logical rigour is no substitute for wisdom; and, as the Oxford economists Thomas Balogh, adviser to Prime Minster Harold Wilson, used to say, rigour can lead to rigour mortis.

6 For a generally favourable assessment of the effect of growth on poverty reduction in India, see the recent World Bank Country Study, "India: Achievements and Challenges in Reducing Poverty" (Washington DC: 1997).

7 In fact, one looks in vain even for references to the contributions of academic scholars who have opposed shock therapy.

8 Padma Desai, Going Global: Transition from Plan to Market in the World Economy, (Cambridge: MIT Press, 1997).

9 See Jagdish Bhagwati, "The Capital Myth," *Foreign Affairs,* 77, no.3 (May/June 1998) pp. 7-12. In explaining why free trade in widgets and

in dollars were equated without justification, I also advance the view that a role has been played by what I call the "Wall Street-Treasury complex," an idea that has been picked up by the political scientists Robert Wade and others and needs further scholarly investigation.

10 A particularly good example of this is a recent *Los Angeles Times* story by Tom Plate (May 12, 1998), citing my Foreign Affairs article on "The Capital Myth" and saying: This Columbia University professor still swears allegiance to free-market philosophy in other respects [than free capital flows as with capital account convertibility], but his defection on this issue is on the order of a Vatican bishop turning up at a Presbyterian pulpit." The irony is that, not merely are the two forms of globalisation, in free trade and in free capital flows, quite distinct from each other, but I have always been skeptical of free capital flows (as distinct from the advantages of equity investments).

11 In fact, such regressions are double-edged, since those opposed to trade can also play around with them, often leading to reversals of the "findings" by adding more variables, changing proxies, altering time periods or country coverage, etc. We are faced then with mutually assured destruction by opposed groups, each claiming scientific rectitude that serious econometricians and scholars would find unacceptable.

12 None of this is to say that all forms of privatisation are good. Recently, for example, there has been much criticism of the Russian privatisation. But few of the critics have faced up to the problem that all privatisation programmes must be politically and economically feasible, and unless they offer a better and feasible alternative, their critiques are not compelling. See, for example, Desai, "Russian Privatization: A Comparative Perspective," *The Harriman Review,* 8, no.3 (August 1995) pp. 1-34; and her review of Maxim Boycko, Andrei Shleifer and Robert Vishny, *Privatizing Russia* (Cambridge: MIT Press, 1995) in *Journal of International Economics,* 42, no. ½ (February 1997) pp.244-246.

13 Of course, nothing is uni-casual in the world of politics. Clinton's personal problems may have also intensified his need to rally the liberal Democrats around him. But he simply could not have done that without the necessary revenue surplus.

14 See my Rajiv Gandhi Memorial Lecture on "Democracy and Development," reprinted in Bhagwati (1998) chapter 40.

15 As is always true, the full explanation of India's appalling illiteracy is more complex. Thus, in some cases, it is the teachers who do not turn up.

16 Jean Dreze and Amartya Sen, *India: Economic Development and Social Opportunity* (Oxford: Clarendon Press, 1995) p. vii.

17 Jagdish Bhagwati, *Economic Journal,* 108 (January 1998) pp. 198-199.

# Growth is Not a Passive "Trickle-Down" Strategy

*Jagdish Bhagwati*

James Wolfensohn, President of the World Bank, appears twice with Joseph Stiglitz, his chief economist, in the *Financial Times* of September 22, once pointing a finger at him ("Economist rebuked over views on Russia") and the other time joining hands with him in an assault on your editorial writers and on your columnist Martin Wolf ("Growth is not enough"). But whatever the merits of Mr. Wolfensohn's critique of Mr. Stiglitz's "open-mouth" proclivity, the demerits of their joint critique cannot be ignored.

I find it puzzling that these distinguished gentlemen, whose acquaintance with developmental issues is relatively recent, think that they are to be complimented for departing from "the old approach of an exclusive focus on growth" and on "trickle-down" economics. This is no more than the old fallacy of putting up a straw man. Or perhaps the answer is simpler: it is plain ignorance.

Growth, from the 1950s, was seen in India, to take one notable example, as an instrument that world actively "pull up" the poor into gainful employment, not as a passive "trickle-down" strategy. Nor was it treated in isolation from land reforms, spending on education and public health, extensive community development schemes and the promotion of progressive social agendas through for development. Where the World Bank today can be faulted, as the leader rightly does, is in continually losing sight of the fact that growth is a critical and hugely important component of any strategy to promote development in the poor countries.

The protestations of Messrs. Wolfensohn and Stiglitz are hardly credible. And your leader does ask property; is not something lost by taking the Bank in all sorts of directions, however important in themselves, under the umbrella of slogans such as a "holistic" approach to development? Once can end up doing all things badly and nothing well. And is there not something like what I call "appropriate governance" in terms of what different international institutions should be doing? Thus, many of us want labour rights to be addressed; but many of us equally oppose their inclusion in the World Trade Organisation rather than the International Labour Organisation.

In regards to the World Bank and Mr. Wolfensohn, I was surprised to learn from Thomas Friedman's recent book on globalisation, *Lexus and the Olive Tree,* which I recently reviewed for the *Wall Street Journal,* that Mr. Wolfensohn was now handing out moneys for supporting local cultures. But is that not what Unesco, aided by bilateral programmes and foundations, with real expertise in the area, is supposed to be doing?

Should Mr. Wolfensoh, like Evita Peron and President Taubman of Liberia, be handing out (our) moneys to his favoured cultural programmes and whatever else he considers worthy of support? These are serious questions which cannot, should not, be swept under the carpet by pretending that those who raise them are "narrow, growth-only" ignoramuses.

*Originally published as a letter to the editor of the Financial Times (September 27, 1999). Reprinted with permission.*

# Growth, Inequality, and Poverty Reduction in Developing Countries: *Recent Global Evidence*

***Augustin Kwasi Fosu***

The study presents recent global evidence on the transformation of economic growth to poverty reduction in developing countries, with emphasis on the role of income inequality. The focus is on the period since the early-mid-1990s when growth in these countries as a group has been relatively strong, surpassing that of the advanced economies. Both regional and country-specific data are analysed for the US$1.25 and US$2.50-level poverty headcount ratios, using the most recent World Bank data.

It finds that on average income growth has been the major driving force behind both the declines and increases in poverty. The study, however, documents substantial regional and country differences that are masked by this 'average' dominant-growth story. While in the majority of countries, growth was the major factor behind falling or increasing poverty, inequality, nevertheless, played the crucial role in poverty behaviour in a large number of countries.

And, even in those countries where growth has been the main driver of poverty reduction, further progress could have occurred under relatively favourable income distribution. For more efficient policymaking, therefore, idiosyncratic attributes of countries should be emphasised. In general, high initial levels of inequality limit the effectiveness of growth in reducing poverty, while growing inequality reduces poverty directly for a given level of growth.

It would seem judicious, therefore, to accord special attention to reducing inequality in certain countries where income distribution is especially unfavourable. Unfortunately, the present study also points to the limited effects of growth and inequality-reducing policies in low-income countries.

The last two decades have witnessed the economic emergence of developing countries, which have as a group exhibited relatively high GDP growth rates, in excess of those prevailing in the developed countries. The gap has been particularly apparent since the middle 1990s. Much of this 'shifting wealth' has, furthermore, been translated into increasing human development, such as poverty reduction. Global poverty has fallen substantially, with a major portion of the decline attributable to China.

Even when China is omitted from the sample, poverty reduction is still considerable (Ravallion and Chen, 2008). This record of achievement has, however, been far from uniform. A number of countries have experienced little poverty reduction or even increasing poverty. Part of the disappointing performance is attributable to dismal growth, as experienced by many African countries in the 1980s and early 1990s, for example. High and growing income inequality, evident in several Latin American countries historically, could also prove to be a major culprit.

Even in China, which has experienced tremendous poverty declines, further reduction could have arguably still occurred in the absence of the increasing income inequality accompanying growth (Ravallion and Chen, 2007).

Furthermore, among African countries, where the lack of growth appears to have been the main culprit generally, there are considerable disparities in terms of the ability of countries to translate growth into poverty reduction (Fosu, 2009). For example, Botswana has experienced tremendous income increases, even by global standards, but the growth has been transformed into only a minimal decline in poverty. In contrast, Ghana has succeeded in translating its relatively modest growth into considerable poverty reduction. The difference in the levels of income inequality between the two countries appears to explain much of this disparity in performance (*ibid*.).

Similarly, in Latin America, Costa Rica reduced its US$1-level poverty from 21.4 percent in 1981 to 2.4 percent in 2005.[1] Over the same period, however, Brazil cut the poverty rate from 17.1 percent to 7.8 percent. Although a major part of this disparity was due to the fact that Costa Rica's GDP growth was more than twice that of Brazil, an appreciable portion could be attributed to the higher Gini coefficient of 0.58 for Brazil, as compared to 0.47 for Costa Rica. Bolivia's case is even more illustrative. While the country's mean monthly income increased slightly from 175.1 (2005 PPP-adjusted) dollars in 1990 to 203.5 dollars in 2005, its poverty rate (US$1 standard) actually rose from 4.0 percent to 19.6 percent over the same period. The main culprit was the considerable increase in income inequality, with the Gini coefficient rising from 0.42 to 0.58 between 1990 and 2005 (World Bank, 2008).

Thus, in explaining how the substantial growth in developing countries may have contributed to improving human development, particularly poverty reduction, it is crucial to understand the role of (income) inequality in the growth-poverty nexus (e.g., Bourguignon, 2003; Epaulard, 2003; Fosu, 2009; Kalwij and Verschoor, 2007; Ravallion, 1997; World Bank, 2006b). That inequality influences growth's transformation to poverty reduction, furthermore, suggests that even with the same level of growth, countries would face different likelihoods of attaining goal 1 of the Millennium Development Goals (MDG1) of halving poverty by 2015.

Indeed, instead of the current seven percent average annual GDP growth that is generally accepted as the required rate for many developing countries to attain MDG1, there would be country-specific thresholds depending on the distribution of income inequality across countries (Fosu, 2009).

Based on the most current global panel data from the World Bank (see Chen and Ravallion, 2008), the present paper presents regional and comparable country evidence on poverty reduction. It explores the extent to which the recent generally strong growth of developing countries may have been translated into poverty reduction. In particular, the paper provides country estimates of the relative contributions of inequality and income to the inter-temporal behaviour of poverty for a large global sample.

Since the 1980s, the poverty rate has been trending considerably downward globally (World Bank, 2006a). A strand of the literature maintains that growth has been the main driver of this decline, with income distribution playing no special role (e.g., Dollar and Kraay, 2002). Nonetheless, attention to the importance of income distribution in poverty reduction has also been growing (e.g., Bruno et al., 1998; World Bank, 2006b).

At the country level, a number of studies have decomposed the effects of inequality and income on poverty (e.g., Datt and Ravallion, 1992; Kakwani, 1993). Both Datt and Ravallion (1992) and Kakwani (1993) estimate substantial contributions by distributional factors as well as by growth. Regionally, based on cross-country African data, Ali and Thorbecke (2000) find that poverty is more sensitive to income inequality than it is to the level of income.

Several papers, furthermore, emphasise the importance of inequality in determining the responsiveness of poverty to income growth (e.g., Adams, 2004; Easterly, 2000; Ravallion, 1997). Based on the specification that the growth elasticity of poverty decreases with inequality, Ravallion (1997) econometrically tested the "growth-elasticity argument" that while low inequality helps the poor share in the benefits of growth, it also exposes them to the costs of contraction.

Similarly, Easterly (2000) evaluated the impact of the Bretton Woods Institutions' programmes by specifying growth interactively with inequality in the poverty-growth equation and found that the effect of the programmes was enhanced by lower inequality. Moreover, while focusing on appropriately defining growth, Adams (2004) nonetheless provides estimates showing that the growth elasticity of poverty is larger for the group with the smaller Gini coefficient (less inequality).[2]

Despite the above and other related studies, there appears to be limited recent comprehensive comparative global evidence on the transformation of growth to poverty reduction in developing countries. The few recent exceptions include Kalwij and Verschoor (2007), who present estimates for the major regions of the world. They find that there are considerable differences across regions in the income elasticity of poverty, mainly as a result of cross-regional disparities in income inequalities. They also report substantial regional differences in the inequality elasticity.

That study, however, is based on a much smaller and earlier sample that ends in 1998. Moreover, the poverty rate at the US$2-per-day standard was the only measure analysed by Kalwij and Verschoor, mainly because of the authors' interest in maximising the representation of countries from Eastern Europe and Central Asia, where the poverty rate at the US$1 level has been minimal. Nor do Kalwij and Verschoor explore possible country-specific differences.

Fosu (2009) fills the above gap somewhat with evidence for African countries. Using 1980-2004 data from World Bank (2007), the author provides estimates for both the income and inequality elasticities at the US$1 poverty level for SSA versus non-SSA. He finds substantial differences between the two regions.

Perhaps more interestingly, Fosu additionally uncovers a large variation in the estimates of the income elasticity across sub-Saharan African (SSA) countries, thanks mainly to country differences in inequality levels. Most recently, Fosu (2010b) presents comparative evidence also based on the Word Bank (2007) data; however, that study does not provide country-specific results.

The current paper first sheds light on growth versus poverty performance for all the major regions of the world since 1980, using the most recent World Bank (2009a) data. It then focuses on the more recent period, starting in the early-mid-1990s when developing countries have grown relatively fast.

A primary thrust of the paper is to explore how the strong income growth may have been translated into human development in the form of poverty reduction. This exploration is conducted for both the major regions of the world and a global sample of 80 countries for which sufficient comparative data exist. Of particular interest is the role of inequality, as well as income, in the transformation process at the country level. Results are provided for both the US$1.25 and US$2.50 standards.

The present exercise should, thus, inform the policy debate on MDG1, for instance. More generally, though, the paper's country-specific results provide a useful comparative analysis that transcends the usual cross-country and regional analyses. After all, the challenge is at the country level, where policymakers must seek the optimal mix of emphases on economic growth versus inequality, in order to maximise poverty reduction. The findings of the current study should, therefore, prove useful for both focused research and policymaking, not only regionally but especially at the country level.

The paper finds that, except for EECA, poverty measured at both the US$1 (US$1.25 2005 PPP adjusted income) per day and US$2 (US$2.50 2005 PPP-adjusted income) per day decreased for all regions during the entire 1981-2005 period. Similarly, with the exception of MENA, all regions exhibited greater poverty declines in the latter sub-period. Two regions, EECA and SSA, showed increases in poverty rates during the earlier sub-period; however, poverty has declined for all regions since the mid-1990s.

The greatest poverty reduction during 1981-2005 occurred in EAP, LAC, EECA, SAS, SSA and then MENA, in that order at the US$1.25 level; at the US$2.50 standard, the order was EAP, EECA, LAC, MENA, then SAS and SSA (about the same). Qualitatively, the observed patterns of poverty decline at the regional level appear to correspond well with the GDP growth over both sub-periods. During 1981-1995, EECA and SSA experienced rising poverty rates in response to negative per capita GDP growth, while the remaining regions registered both positive GDP growth and poverty reduction.

In the latter sub-period, per capita GDP increased for all regions. Moreover, those regions experiencing higher GDP growths also exhibited greater declines in poverty. The rate at which GDP growth was translated to poverty reduction, however, differed across regions. The transformation rate was particularly low for SAS, especially at the US$2.50 standard.

As the two most populous nations and 'emerging giants', the performance of China and India has received special attention in the present study. While both countries have registered substantial poverty reductions since 1981, the rate of decrease is much larger for China than for India. Income growth in India has been rather minimal, despite its substantial per-capita GDP performance. Once this phenomenon is noted, India's relatively modest poverty reduction, especially during the mid-1990s to the present, is not unusual.

In contrast, income growth in China more closely reflects its GDP growth. Moreover, while relatively large in both sectors, the bulk of poverty decline in China was in the urban sector, rendering current poverty essentially a rural phenomenon. To a lesser degree, a similar observation holds for India, where the urban bias is observed at the US$2.50 standard; at the US$1.25 level, however, the rate of poverty reduction was actually larger in the rural than in the urban sector during the more recent period.

The study then concentrates on the global sample of 80 countries for which sufficient data were available for the early-mid-1990s to the present (2000s). We find that there is a wide range of observed relationships between income growth and poverty reduction. For the majority in the sample, income growth seemed to be a reasonable reflection of the observed poverty reduction. A number of countries, however, exhibited strong income growth but low poverty reduction, and conversely. Apparently, income inequality was a major mediating factor for these countries.

Also of importance was the level of income (relative to the poverty line), which tended to increase the responsiveness of poverty reduction to both income and inequality changes. Indeed, the measure of 'relative income-poverty transformation efficiency' vectors presented in the current paper suggests that there is qualitatively a large cross-country variation in the transformation of economic growth to poverty reduction.

Estimating the income and inequality elasticities based on the latest year for which data were available for the 123 countries in the World Bank database, we find a large cross-country variation of responsiveness of poverty to both income and inequality growths. The elasticities were also computed for the early-mid-1990s for 80 countries with comparable data. We observe a large range of cross-country values for both elasticities.

Initial income inequality differences and disparities in income levels crucially determined the responsiveness of poverty reduction to income and inequality growths in many countries. Lower-inequality and higher-income countries exhibited greater abilities to transform a given growth rate to poverty reduction. Such countries would also enjoy larger inequality elasticities, suggesting that increasing inequality would be more deleterious to poverty in these countries than in their low-income counterparts.

In particular, low-income countries would conversely require greater efforts on both income growth and decreases in inequality to reduce their poverty levels. Yet it is these countries that must urgently decrease their poverty levels. This quandary suggests not only that low-income countries must try harder internally, but also that a reasonable case can be made for external assistance.

Despite major differences in the roles of income and inequality in changes in the poverty picture since the early-mid-1990s, some generalities seem in order. First, most of the 80 countries (about 75 percent) registered poverty reduction. Second, on average, nearly all of this success could be attributable to income growth, rather than inequality changes. Third, among the countries experiencing rising poverty rates, most of this record was, on average, due to income declines: 74 percent (85 percent) to income versus 26 percent (15 percent) to inequality for the US$1.25 (US$2.50) standard.

The above 'average' results are in concert with previous studies that extol the dominant virtues of growth (e.g., Dollar and Kraay, 2002). While analytically appealing, however, this growth dominant story is inadequate, for we have also documented herein major differences across countries globally. In some sense, our findings are consistent with Ravallion's (2001) that looking beyond the averages can uncover country-specific differences in what happens to inequality during growth. We have gone a step further, however, by estimating the implications of such differences for poverty reduction by region and for a large number of countries, using the most recent poverty dataset from the World Bank.

The current results suggest that adopting the appropriate pro-poor growth strategies requires some understanding of idiosyncratic country attributes.[3] After all, policies are by and large country-specific, and the present study does indeed find that there are substantial differences in the abilities of countries to translate economic growth into poverty reduction, based on their respective inequality and income profiles.

By shedding light on this transformation process by country, these findings, at least, provide a 'road-map' for undertaking country studies to uncover the underpinning idiosyncratic factors. Understanding such country-specific profiles is crucial in crafting polices for most effectively achieving poverty reduction globally.

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## Endnotes

1. The poverty rate analysed herein is the headcount ratio and is at the 'US$1 standard', defined as the daily US$1.25 2005 PPP-adjusted income currently adopted by the World Bank as representing the US$1 standard (Chen and Ravallion, 2008; Ravallion et al., 2009). Similarly the 'US$2 standard' is the daily US$2.50 2005 PPP-adjusted income. The US$1 and US$1.25 (US$2 and US$2.50) standards will be used interchangeably herein.

2. We adopt here the convention of an *absolute-valued* elasticity.

3. There is a large volume of the literature on pro-poor poverty; for a recent review, see Grimm et al. (2007).

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