

Sardar Patel Memorial Lecture
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by
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India 2020: A New Tryst with Destiny

Introduction

Shri Lamba, Shri R.N. Bisaria, Smt. Grace Kujir, Ladies and Gentlemen,

It is a privilege to be asked to deliver this lecture.

I was too young to have known Sardar Patel, or even to have seen him in action. He died in 1950 when I was only 7 years old. But mine was the first generation which started our schooling after India had gained independence and even as young children we knew that Sardar Vallabhai Patel was one of the towering figures in the freedom movement.

Later, as we began to study history, we learnt that he was responsible for securing the integration of about 500 Princely states into newly independent India. I cannot help feeling that we took this remarkable achievement a little too much for granted, primarily because it was achieved so smoothly. Looking back, it was a truly extra-ordinary feat of nation building, calling for single minded determination and also great diplomatic skill.

Sardar Patel was a nationalist and a visionary with a clear vision of a strong and united India and one where all Indian citizens, whether urban or rural, could look forward to a prosperous future. I thought it would be appropriate, to use the occasion of this lecture to look ahead at India's prospects in the year 2020. What can we expect India to be in fifteen years? What are the critical problems we face and what will determine whether we succeed.

Ideally, anyone looking fifteen years into the future should be interested in many different dimensions, of which the economic dimension is only one. It is as relevant, and in many ways more interesting, to ask what will happen to our social structure, our political system and our cultural life, all of which are likely to change over time in the future as they have in the past. However, since my comparative advantage lies in talking about economics, I have narrowed the focus of the lecture to the economic dimension.

Per Capita Income

The most commonly used indicator of the level of development is per capita income and it is therefore natural to begin by assessing what we can achieve in this dimension. Our per capita income today is Rs.23,744 per year. Converted into US dollars in terms of purchasing power parity, this amounts to

\$2880 per year. This compares with \$4990 per year for China, \$8940 per year for Malaysia, and \$37,500 per year for the United States. If we are to raise the general standard of living and narrow the gap between us and other countries, we must obviously raise our per capita income. This in turn depends upon the rate of economic growth.

What are the prospects for economic growth over the next fifteen years? I believe we are very well placed in this respect at present. There was a time when India was regarded as a slow growing economy, growing slower than most other developing countries. Our performance has improved gradually since the 1980s. The growth rate for the past few years averages above 6 percent, making India the second fastest growing developing country after China. Most observers believe the economy is now ready to transit from a phase of moderate growth to a new high growth stage where we achieve an average growth rate of about 8% over the next 15 years.

This does not mean that an 8 percent growth rate is now an automatically assured outcome for which no further effort is needed. It is a “potential” that is eminently realizable, but to realize it we need to take supportive action in many areas. I will touch on some of these steps in the course of this lecture, but first I would like to elaborate on what a growth rate of 8 percent per year implies for per capita income.

With population growth slowing down to about 1.5% over the next 15 years, an 8 percent growth in GDP means per capita income will grow at about 6.5% per year instead of around 4 percent or so in the past fifteen years. The faster growth in per capita income means that whereas per capita income, which increased by 80 percent over the past 15 years will increase by 160 percent over the next fifteen.

This will not make us a rich country. We will at best be what is today called a middle income country, but the absolute size of our economy will put us well on our way to becoming a much more significant player in the world.

This is not just because of the absolute size of the GDP. It is also because the increase in our aggregate economic size will take place in an environment where India’s economy will be much more open making us that much more relevant to the rest of the world.

This process of opening up the economy began in the early 1990s and has already brought about substantial change. The share of trade in GDP has more than doubled over the past 15 years from around 0.4 percent in 1990 to 0.8 percent today. However, this is still low and we should certainly aim to increase it to at least 2 percent, which is what it was in 1950. The fact that our trade share declined from 2 percent in 1950 to 0.4 percent in 1990 shows the effect of closing off our economy from the rest of the world.

Foreign Direct Investment, to take another indicator of international integration, was negligible in 1991. It is now about 1 per cent of GDP. China gets FDI of about 4 percent of its GDP. India can certainly do better than the present level of 1%. I expect to see significant improvement in both these areas in the next fifteen years, accelerating the process of integrating India with the rest of the world.

This process of international integration, which is also called globalisation, will have an impact on our economy, and indeed our society, in many ways. Globalisation is a phenomenon affecting the entire world and all over the world it has given rise to apprehension and concern. This is true in India also. These concerns are understandable and need to be addressed.

Two kinds of concerns about globalisation are usually raised. One is that globalisation operates to the advantage of industrialised countries and has a harmful effect on economic growth in developing countries. This may have been the experience of some developing countries, but not all. China has clearly benefited hugely from globalisation. I would say that India too has benefited. There were fears on this score earlier, but the evidence suggests that we have done fairly well out of globalisation and could do even better if we could take care of critical policy constraints.

The second concern about globalisation is somewhat different. It concedes that globalisation may be good for economic growth, but it focusses on distributional outcomes which could be adverse. This is a valid concern that needs to be addressed. It matters who gets the benefits of growth, and it is relevant to consider how we are likely to perform in this dimension.

There are several types of distributional concerns which we must address. Let me list just four of them:

- (i) Poverty reduction
- (ii) Inequality
- (iii) Regional balance
- (iv) Perceptions about fairness

An ideal growth pattern would be one in which the outcome on each of these concerns would be positive. In other words, we should have high growth for the country as a whole; the growth should benefit the poor leading to elimination of poverty as quickly as possible; the growth should also be of a kind that does not lead to increase in inequality; it should be regionally balanced so that all states participate in the process; and finally, the whole process must be seen as “fair” and inclusive.

How far can we be confident on all those counts?

Poverty Reduction

Let me begin by considering what we can expect in the area of poverty reduction. The persistence of poverty in India has long been a matter of concern in public debate. We have made progress in this dimension, over time in the sense that the percentage of the population in poverty has declined gradually. However, the scale of the problem remains very large. The most recent official estimate of poverty indicates that as many as 26% of our population, or about 260 million people, were living below the poverty line in 1999-2000. This is a huge number – larger than in any other country. What is more, the poverty line on which it is based also represents a very low level of consumption. Those below it cannot even expect to achieve a minimum nutritional standard, let alone access to other basic requirements of health and education. It is therefore very relevant to ask whether the growth prospects I have outlined will have a significant impact on poverty and can we do something to accelerate the process?

To address this question we need to distinguish between two distinct aspects of poverty. The first is the income aspect – will income levels of the poor rise to take them above the poverty line? The second is the provision of public services. Some of the critical elements of basic needs for the poor, especially health and education, have to be delivered as essential public services. Overcoming poverty therefore means not only ensuring an adequate flow of income but also access to the essential public services.

On the income side, the critical issue is whether the growth process is “inclusive”, reflecting a wide spread of benefits, with incomes rising all along the income spectrum. Such a process will be associated with larger reductions in poverty whereas a process which is not inclusive, in which the poor are left out of the growth process, will have a less favourable impact.

What can we expect on this front? The simplest approach is to project from our own past experience. Although there is widespread and legitimate concern about the persistence of poverty in our country, it is also a fact that the kind of growth we have had has led to a steady decline in the percentage of population living in poverty. The percentage was as high as 56% in 1973-74 it declined to 39% in 1987-88, then to 37% in 1993-94 and finally to 26% in 1999-2000. There are disputes about the latest figure because of changes in definition, but scholars who have adjusted the official figures to reflect the impact of definitional changes have concluded that the percentage of population below the poverty line in 1999-2000 should be adjusted up from 26 percent to around 28 percent. Even if we choose the higher figure, it implies a reduction of about 1.0 percentage points per year since the late 1980s.

If this trend were to continue, poverty can be projected to fall to around 8% by 2020. However, if economic growth indeed accelerates from around 6%

in the past fifteen years to 8% in the next fifteen, the rate of reduction of poverty can be expected to be greater. Against this there is the point that as poverty falls, it gets more and more difficult to reach the “hard core” poverty groups through growth alone.

On balance, I have no doubt that if we can accelerate growth to 8% there is a very good chance that the percentage of poverty will go down to around 6%. In other words, the kind of severe poverty we see in so many parts of the country today will be a thing of the past. Poverty in India as a whole would be reduced to the level that it is now in Punjab.

This outcome is not simply based on a mechanical reliance upon “trickle down” processes. It is based on a recognition that the strategy for accelerating growth to around 8 percent per year envisages a substantial acceleration in agricultural growth, which will have a major impact on incomes in rural areas and therefore have a favourable impact on poverty. The Planning Commission has recently completed the Mid Term appraisal of the Tenth Plan and one of the messages coming out of this process is that the agricultural sector has suffered from some neglect in recent years. Our agricultural growth was around 3.2% per year from 1980 up to the mid 1990s, but it decelerated substantially thereafter to less than 2 percent. It is necessary to accelerate agricultural growth to around 4 percent or so. This is technically feasible and has been achieved in many other countries.

The corrective policies needed to achieve this acceleration in agriculture are complex and I will not go into them in detail. There is general agreement that it will be necessary to step up public investment in irrigation in those areas where irrigation is possible, and in schemes for watershed management which are crucial for optimum water use in the arid areas. It is also necessary to invest in rural roads to improve access and connectivity. These are essential investments in creating rural infrastructure and will contribute to raising rural productivity. The Government proposes a major effort in this area through a variety of programmes including Bharat Nirman programme, the Rural Employment Guarantee Scheme and the Backward Regions Grant Fund.

We also need to improve credit delivery in rural areas, strengthen extension services which have deteriorated almost everywhere, and finally we have to revitalise agricultural research. More generally, Indian agriculture must move beyond foodgrain production and towards the next stage which will have to focus on horticultural crops, dairy and poultry development and associated downstream value addition through better marketing and agro-processing. This shift is necessary because of changing composition of domestic demand and also from the point of view of exploiting globalisation opportunities since India could potentially become an exporter of certain fruits and vegetables.

Marketing of perishable horticultural produce poses special challenges. We need to build a value chain from the farm to the customer, tailored to the specific requirements of different customers such as the agro-processing industry, the retail domestic consumer, or exports. This calls for development of improved post harvest technology, cold chains, refrigerated transport, grading of produce, and meeting phyto-sanitary standards in world markets. There is need for a much closer involvement of the corporate sector to provide value enhancement for the farmer through contract farming arrangements.

If this strategy works, it will generate a large increase in incomes in rural areas. Comparing two scenarios, one where GDP in agriculture grows at 2 percent per year and another where it grows at 4 percent, GDP in agriculture in the year 2020 would be 36 percent higher if we achieve 4 percent growth instead of only 2 percent. Higher agricultural GDP will spill over into higher demand for non-agricultural goods and services a good portion of which would be produced in rural areas adding a further stimulus to rural income. The total impact on income generation in rural areas would therefore be substantial. This will not only help to reduce rural poverty, it will also provide a stimulus to the economy in general.

Faster agricultural growth must be combined with efforts to accelerate non-agricultural growth to achieve the target growth rate of 8 percent for the economy as a whole. I estimate that to achieve 8 percent growth of GDP, we need to achieve double digit growth in the manufacturing sector. While we have done very well in services in recent years, we have not done as well as we should have in manufacturing and this must be corrected. Rapid growth in manufacturing is absolutely necessary if we want to achieve 8 percent growth. It will also provide the new and increasingly educated young entrants into our labour force with the high quality employment opportunities they legitimately expect.

The growth strategy for the future must therefore pay special attention to what is needed to achieve double digit growth in manufacturing. The reforms implemented in the industrial sector over many years have begun to yield fruit in several respects. Indian industry is showing a new confidence in dealing with competition. It is upgrading its technology and cutting costs. Fears of domestic products being swamped by cheap imports have evaporated. Indian products are making their presence felt in world markets. This is true not only of software, but also of many manufactured products especially pharmaceuticals, auto components and certain areas of textiles.

While this is encouraging, there are two critical areas where action is needed to ensure that Indian industry can grow by 10 to 12 percent growth in the next fifteen years. The first is better quality infrastructure.

Any visitor to India also familiar with East Asia is immediately struck by the fact that India's infrastructure services, are far behind East Asia. This is true of the availability and quality of electric power from the utilities, the road network, ports, airports, rail transport etc. The government is paying special attention to infrastructure development. The Prime Minister has established a Committee on Infrastructure, under his Chairmanship, to systematically review policy issues in each of the infrastructure sectors, and to determine an agenda for policy change and monitor implementation.

The investment required to upgrade our infrastructure is massive and all of it cannot come from the public sector. The strategy being adopted therefore is to increase public investment towards infrastructure development as much as possible, but simultaneously devise ways of attracting private investment in these areas. This strategy can be implemented in all the major infrastructure sectors – roads, ports, power, airports and even railways. The scope for private investment in individual sectors will vary, depending on circumstances but a great deal can be done.

The second requirement for encouraging an expansion of employment in the manufacturing sector is greater flexibility in labour laws. This is clearly a sensitive issue which arouses apprehension among labour representatives. The Government has rightly taken the stand that while some flexibility is necessary, we should discuss the matter with labour representatives and evolve a consensus on this issue. I should emphasise that flexibility does not mean arbitrary hire and fire practices. What investors say is that we have much less flexibility than is available in other countries. Unless we provide comparable flexibility it is unlikely that Indian industry will expand employment as rapidly as might otherwise occur.

Public Services

While this strategy of growth, which emphasises government efforts at rural development combined with rapid expansion of industry will take care of the income deficiencies associated with poverty, we will need to pay special attention to providing health and education services to the poor, especially in rural areas.

These are areas where we lag behind other East Asian countries. They are important not only because they directly affect the welfare of the poor, but also because, in the longer run, they affect the ability of the poor to benefit from growth. The Government has committed itself to major increases in expenditure in those areas and a start has already been made with the Sarva Shiksha Abhiyan and the National Rural Health Mission. Much more will need to be done in the years ahead. As important as the ability to finance these sectors is the ability to ensure that the money is effectively spent. This will be a test of our strategy in the years ahead.

Inequality

Thus far, I have focussed on our prospects for growth, poverty reduction and employment generation over the next 15 years. Let me now say a few words about inequality which is also an important distributional issue. It is perfectly possible for growth to take place, and also lead to a reduction in poverty, but with a sharp increase in inequality, because the richer groups benefit more than the middle groups and the poorer groups.

Available data for China show that rapid growth in China has been accompanied by a sharp increase in inequality. Fortunately India's experience thus far does not show any such pattern. Is there a danger of such a trend emerging in India as growth accelerates? I suspect not, because growth in China was probably far more regionally concentrated, at least to begin with. China also began with a much more equal distribution so the increase in inequality is from a lower base.

The major area of inequality we should worry about is the inequality in access to essential public services especially education and health. The distribution of these service, including those provided by the public sector, is heavily skewed in favour of the higher income groups. Adequate access to health and education is a vital element of equity and much needs to be done in this area. I have already mentioned the problem in these areas when discussing poverty. So I will not elaborate further.

Regional Balance

The third distributional dimension relates to regional balance. In a democratic federal structure, where the states are important political units with elected assemblies, it is inevitable that what happens to different states is important not only for state politics but also for national politics. It is not enough to say that growth in the country as a whole has accelerated. It is relevant to ask whether it is reflected adequately in growth experienced by all states or whether it is concentrated in some states. The available evidence for India in the 1990s does show the emergence of regional imbalance. The acceleration in growth witnessed in the country as a whole was not experienced by all states.

Some states in the South and the West have done very well. Some of the most populous and poorest states in the heartland have had relatively low rates of growth.

Much of what needs to be done to benefit from the new policies of liberalisation and economic reforms has to be done by state governments and corrective action therefore lies largely at the state government level. This is certainly true for critical sectors such as agriculture or power. Fortunately there

is evidence that more and more states realise the importance of state level initiative and states are beginning to compete in these areas.

A general problem facing the poor performing states is the inadequacy of infrastructure both rural and urban. This is an area where the Central Government can help and is indeed doing so. The focus on increasing agricultural productivity will also help backward states.

Perception of Fairness

Finally let me comment on the last dimension of distribution and that is “perception of fairness”. This is the most difficult to define but from a socio-political point of view. In a democracy, it is the dimension that matters most of all. One can easily imagine a situation where growth is taking place, poverty is declining, there is no change in overall measures of inequality and there is also regional balance in the sense that all states are experiencing similar rates of growth, but the outcome is still not perceived as fair for a variety of reasons. An obvious reason is that people may no longer be satisfied with the pace of progress because their expectations have changed. Knowledge of what is happening in urban areas may raise expectations in rural areas setting in motion demands for closing the rural urban gap at a faster pace than the system can deliver. Hitherto excluded groups such as the Scheduled Castes and Scheduled Tribes, may feel that there has been insufficient progress in meeting their long standing aspirations. The young, who are traditionally the most impatient, may feel that not enough is being done to meet their aspirations for being absorbed in high quality jobs in line with their rising levels of skill and education.

Fairness also has to do with opportunities as much as with outcomes. An unequal outcome as measured in income distribution statistics may be accepted as fair if it emerges from a situation where opportunities are equal or at least seen to be becoming more equal. For parents in particular the assessment of what the future holds for their children is a powerful determinant of judgements on fairness.

Once again opening up access to quality education is a critical element in promoting social mobility and increasing the perception of fairness in society.

Ladies and Gentlemen, I hope this brief review of our prospects over the next 15 years persuades you that we are indeed at a new jumping point. Our economy has matured greatly over the past two decades. It is today well set for its next tryst with destiny.

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