

Economic Growth and Human Development: India After Liberalisation

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Abstract

India dismantled the License-Permit Quota (LPQ) Raj, ushering significant spurt in Gross Domestic Product (GDP) growth rates, exports, Foreign Exchange (FE) reserves. However, our record in human development index, in terms of Infant Mortality Rate (IMR), Maternal Mortality Rate (MMR), malnutrition of children, mean year of schooling have been quite dismal. The picture on containing income inequality is also quite disappointing in the urban segment. The paper brings out contours of rural distress and our achievement so far in terms of meeting the UN Millennium Development Goals (MDG). The paper brings out role of our Supreme Court in terms of its direction to the state to implement socio-economic justice and the impact of RTE Act 2009 on quality of education and policy interventions that are needed for improvement of educational outcomes. It makes a strong case for opting for balanced growth where right priority is accorded to merit goods like quality primary education and health as public remit. A balanced growth strategy between economic infrastructure and social overheads would be the right cocktail for India's policy makers. The recommendations include introducing General Anti-Avoidance Rule (GAAR) at the earliest to pre-empt illegal parking of funds in tax havens, privatisation of Public Sector Banks (PSB) to promote better financial intermediation. It also supports strongly the case for introducing a Universal Basic Income (UBI) scheme, in lieu of plethora of subsidies presently in place, so that it guarantees a minimum standard of living for every Indian citizen. It emphasises the role of the state "as the guiding hand" for promoting socio economic justice for all and quality education at the grass root level!

Keywords: LPQ, GDP, IMR, MMR, MDG, GAAR, PSB, UBI

INTRODUCTION

Prof. Granville Austin, the noted constitutional expert, had observed "India's founding fathers have spun seamless web comprising social revolution, national unity and democratic stability". As India steps into the 71st year of its freedom, it seems to have achieved the goals of unity and democratic stability in large measure. However, the fundamental premise of achieving socio economic justice, or social revolution, as Austin would have liked to happen, remains largely unrealised. The preamble of the Indian Constitution tries to strike a fine balance between justice, liberty and equality. The directive principles set out a desirable architecture of social justice. Prominent amongst them are distribution of material resources to sub-serve the common good, avoidance of concentration of wealth, minimization of income inequality, early childhood care till age of six, just and humane condition of work & maternity relief, opportunity to children to develop in a healthy manner, a living wage to workers ensuring a decent standard of life and public assistance during unemployment, old age and sickness. However, Article 37 of the Constitution puts a caveat that these promises cannot be enforced by the courts. Nevertheless, these principles remain primordial in the governance of the country.

Prof. Amartya Sen, the Noble Laureate, was the first to underscore the importance of human development over on neoclassical economists' obsession for GDP growth. The Human Development Index, developed by him in tandem with Meghnad Saha captures per-capita income, life expectancy and mean year of schooling as the defining criteria of development since 1990, as part of UNDP report. Serendipitously 1991 is also a watershed year when India chose to take the path of economic liberalisation by eschewing the socialist approach in planning and the predominant role played by the public sector undertakings as "temples of India".

This lecture seeks to capture the story of our economic reforms since 1991, its impact on terms growth rates, sectoral shares, reduction in poverty and forex reserves and contrasts it with our experience in terms of various development parameters like literacy, IMR, MMR, malnutrition and income inequality. It also compares experience of developed and emerging market economies in terms of various HDI parameters and public allocation to education and health. While flagging the pivotal role played by our Supreme Court in ushering socio economic justice, an attempt has been made to underline the additional reforms that need to be undertaken upto bring down the chasm between development and growth. Attempt also been made to highlight the impact of RTE Act on educational outcomes.

ECONOMIC REFORMS OVER THE YEARS

First Generation Reforms (1991-2000)

The baby steps at reforms aimed at promoting industrial activities, boosting exports and encouraging foreign direct investment into our country. Delicensing of industry and abolition of Monopolies & Restrictive Trade Practices (MRTP) limit were the main stimulants for the private sector industries. In case of public sector, disinvestment became the big ticket reform, where the Public Sector Undertakings (PSUs) were becoming a drag on the economy. On the external sector, significant custom duty reduction, and having a managed float system became our predominant policy mosaic. Foreign Exchange Regulation Act (FERA) has given way to Foreign Exchange Management Act (FEMA), with foreign currency limit violation being subject to fines rather than being criminally culpable. The foreign Direct Investment (FDI) norms were significantly liberalised to encourage technology transfer and long term foreign collaboration with OEMs. Since India had become a member of World Trade Organisation (WTO) (1995), India also aimed its IP norms to conform to the requirement of Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement created under the WTO.

Second Generation Reforms (2001-2014)

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

Reforms Post 2014 – 2017

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

OVERALL IMPACT OF REFORMS

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

Figure 1: Impact of Reform on Growth, Poverty, Sector & FE Reserves



Source: Economic Survey 2016-2017

India's Growth Story

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

Table 1: GDP, Saving and Export: Trends

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

Source: Economic Survey 2016-2017

India's Development Story

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

Table 2: Trends of Development in India

Parameter	1988-89	2014-15
Literacy Rate	51	67
Life Expectancy	51	66
Mean Years of Schooling	3.5	4.4
IMR (1000)	53	44
MMR (1 lakh)	260	200
Total Fertility Rate	2.5	2.4

Source: Economic Survey 2016-2017

The Rural Distress

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

Table 3: Major All India Findings (Rural)

Parameter	% of Households
Land less & Casual Labour	38.3%
Illiterates	36%
Government & PSU Jobs	5%
Private Sector Jobs	3.6%
Destitute	0.4%
Income Less than Rs.5000	74.5%
Owning Mobiles	68.3%
Kisan Cards	3.6%

Source: Socio Economic Caste Census Report 2011

Plight of Anganwadi Workers

The 14th Finance Commission has made significant departure from the earlier commission recommendation by devolving 42% of central tax collection to the state as against 32% in the 13th Finance Commission. This has spurred enthusiasm amongst the states about the central government's commitment towards higher cooperative federalism. One of the ironical fall out of this, has been low allocation by the states to major flagship programmes like Anganwadi. The Anganwadi workers constitute 22lakh and work in 14lakh centres to provide coverage to nearly 7crore children and 1.5crore pregnant and lactating mothers. They receive only Rs.3000/- per month and are the critical pillar on which basic nourishment of children and lactating mother hinge on. Harsh Mander in his book "*Ash in the Belly: India's Unfinished Battle Against Hunger*" brings out how 82% of food sample tested were below the minimum weight stipulated. The nutritional content; particularly in terms of protein intake is very low.

The Supreme Court in PUCL Vs UOI 2001 case had strongly indicted the government for the poor quality of supplemental food given in Anganwadis. Consequently the allowance was increased from Rs.4/- per day to Rs.6/- and has remained at that paltry level. As the micronutrients & Vitamin A are critical for optimal brain development of the child, the sword of austerity must not be applied to budget allocation of Anganwadis.

Table 4: Anganwadi Program: Allocation, Wage and Resource Sharing

Parameter	2008-2009	2011-2012	2014-2015	2015-2016	2016-2017	2017-18
Centres (in Lakhs)	9.32	14	14	14	14	14
Workers (in Lakhs)	18	22	22	22	22	22
Allocation (in Rs. Cr.)	6300	10000	16253	15433	14560	15245
Wage of Workers (in Rs.)	1500	3000	3000	3000	3000	3000
Number of Children Covered (in Lakh)	629	700	700	700	700	700
Number of Pregnant & Lactating Mothers (in Lakh)	132	150	150	150	150	150
Central Plan Responsibility (in Rs. Cr.)	5670	9000	14627	7716	7280	7622
State Plan Responsibility (in Rs. Cr.)	630	1000	1625.3	7716	7280	7622






Source-Budget Document, 2017-18, Government of India

It would be seen that after the peak year of 2014-15, the programme has been receiving less allocation in the subsequent years; with very little increase (5%) in this year's budget. But the most distressing trend is the increasing burden on the states with a change in fund sharing from 80:20 between centre and state to 50:50. This has put many states like Orissa into severe hardship.

Millennium Development Goals

189 nations took a pledge in 2000 to ensure that extreme poverty and multiple deprivations are mitigated substantially. This pledge is encapsulated in eight MDG goals to be achieved by 2015.

Table 5: Millennium Development Goals

	Goals	India's Achievement
	Eradication of Extreme Hunger and Poverty	23.6% (BPL)
	Achievement of Universal Primary Education	Achieved
	Promotion of Gender Equality and Empower Women	Achieved
	Reduction of Child Mortality by 2/3 rd	1/3 rd
	Improvement of Maternal Health by 3/4 th	1/3 rd

Source: UN Millennium Project Goals & Human Development Report 2015

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

India & China: A Comparison

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

Table 6: Comparative Growth & Development Trends: India & China

Parameter	China	India
Real GDP in 1950 in \$	448	619
GNI at PPP in 2015 \$	12547	5497
Agricultural Growth	6.7	2.5
Manufacturing: Share in GDP	30	16
HDI	0.727	0.608
Mean Years of Schooling	7.5	5.4
IMR (1000)	12.7	52.7
Child Malnutrition	9.4	47.9
MMR (1 lakh)	32	190
% Below Poverty Line (\$1.25 per day)	6.3	23.6

Source: An Uncertain Glory: India & its Contradictions

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

LANDMARK SUPREME COURT JUDGEMENTS ON SOCIO-ECONOMIC JUSTICE

The Supreme Court has played a stellar in ensuring that the promise of socio economic justice does not remain as pious platitudes. To quote Justice Krishna Iyer "social justice is gibberish when inhuman poverty is wide spread and accumulated inequality is wearing the armour of wealth". For Justice P.N. Bhagwati, the father of PIL in India: "The dynamic provisions of directive principles fertilize the static policies of fundamental rights". It is thanks to these socially sensitive judges, right to livelihood and shelter have been accepted as part of right to life and life with dignity as a fundamental right in Olga Tellis Case (1989). In the Bandhua Mukti Morcha Case (1981), the court indicted the state for engaging child labour in Asian games project and not paying minimum wage. The Unnikrishnan judgement decreed that right to education is a necessary precondition to Right to Life. This has ensured that right to primacy education from the age of six to fourteen has now been incorporated as a new fundamental right (Art 21A). The Sarva Shiksha Abhiyan (SSA) has become a flagship national program. In a recent judgment, Justices Karol and Sharma of Himachal High Court have decreed that citizens of the country have a fundamental right "to have civic amenities and medical aid during the course of their travel in a state/national high way". They have also expanded the scope of "Right to Life" under Article 21 of the Indian Constitution in terms of Stockholm Declaration of UN on Human Environment, 1972 as per which "Man has the fundamental right to freedom, quality that permits a life of dignity and protects the environment for present and future generations".

Impact of RTE Act

The tripod of India's education policy is equity, access and excellence. The Annual Status of Education Report (ASER) 2016 (Rural), while acknowledging that near universal access to primary education has been achieved transcending caste, religion and gender in India, it flags the myriad concerns that afflict the primary schools run by the government in different states and all India in terms of infrastructure and outcomes. Table below brings out the serious academic deficit that bedevils this critical sector.

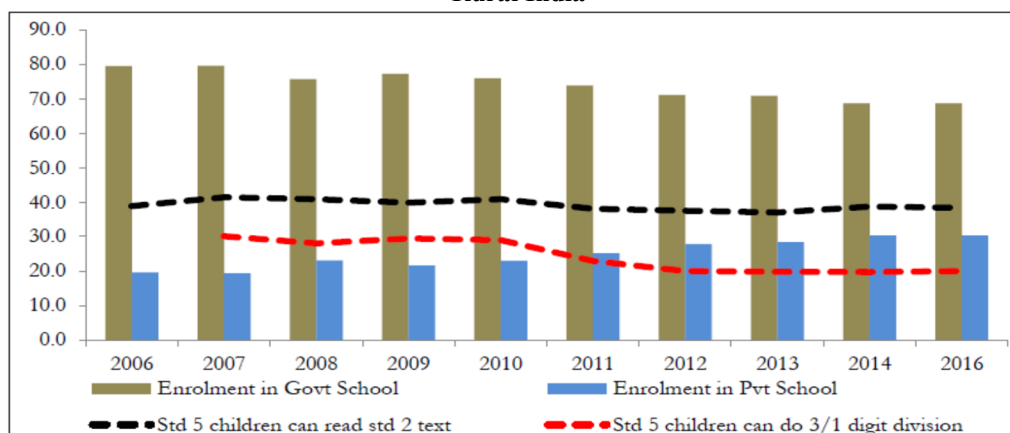
Table 7: Outcome Deficits

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|---|
| <ul style="list-style-type: none"> • Only 42.5% children enrolled in Std. III can able to read at least Std I level text • 27.7% of Std. III children could do a two-digit subtraction. • The proportion of Std. VIII students who could correctly do a 3-digit by 1-digit division problem is 43.3% • 32% children in Std. III could read simple words in English. • 24.5% of children enrolled in Std. V could read simple English sentence. |
|---|

Source: ASER Report 2016

The most distressing finding of ASER (2016) is in terms of learning status in rural India as the following figure would show:

Figure 2: Trends in Enrolment and Learning Status in Primary Schools (%) - Rural India



Source: Economic Survey, 2016 & ASER, 2016

Infrastructure Deficit

Table 8: Infrastructure Facilities: Comparative Picture

Parameter	All India		Kerala		Gujarat		Odisha	
	2010	2016	2010	2016	2010	2016	2010	2016
Library Books Available	62.6	75.5	83.1	93.6	83.8	87.8	65.3	82.1
Drinking Water Available	72.7	74.1	85.7	80.5	79.4	84.6	70.3	77.7
Girls Toilet Available & Usable	32.9	61.9	43.9	78.8	49.9	81.1	34.7	65.8
Computer Available	15.8	20.0	82.8	89.0	52.2	75.2	7.1	15.5

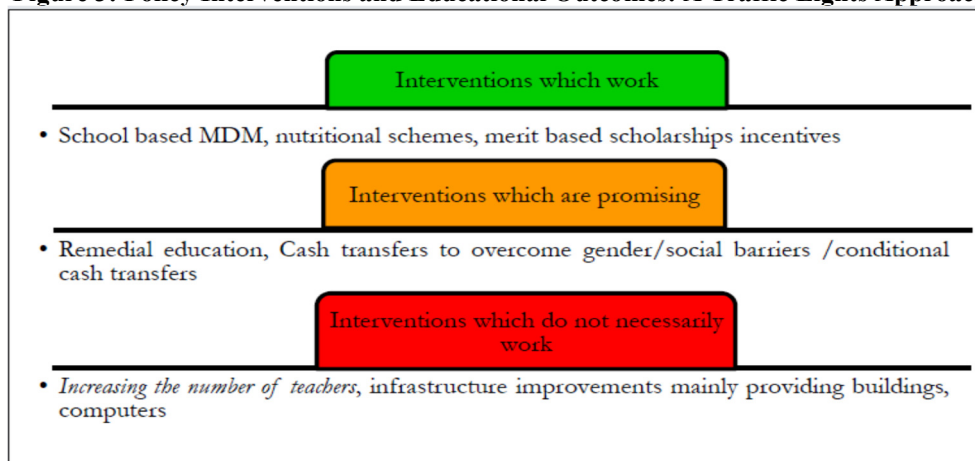
Source: ASER Report 2016

This clearly underscores the fact that while some states like Kerala, Gujarat, Tamil Nadu and Himachal Pradesh are extremely progressive and sensitive to the need of the education at the grassroots, the concern of the other states remains superficial and ‘totemic’ at the last.

A Traffic Lights Approach

The Economic Survey 2016-17 has flagged the following approaches for improving learning outcomes.

Figure 3: Policy Interventions and Educational Outcomes: A Traffic Lights Approach



Source: Economic Survey, 2016-17

Reforms Awaited

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

But the real paradigm shift could be if we can bring in Universal of Basic Income Scheme to usher a just society, where every individual is guaranteed a minimum income. This idea has been mooted in our recent Economic Survey, which has assessed that the cost of UBI would be a little over 1% of all existing subsidies which

is around 5% of the GDP. This will cut down all leakages and pre-empt non targeted beneficiaries. It will ensure that every Indian has the right to live with dignity, which is part of “Right to Life” as per the UN Human Rights Declaration in which India is a signatory.

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

CONCLUDING THOUGHTS

It was Franklin D. Roosevelt who had famously said in 1944: “Freedom from fear is eternally linked with freedom for want. A decent standard of living for all individual men and women in all nations is essential for peace”. He was instrumental in bringing in a slew of measure for ensuring freedom from hunger, protection against illness and vagaries of nature. This has ensured that USA is a substantially inclusive society where public commitment to human development and socio economic justice extended to all. The universal basic income scheme, which has been strongly advocated by this year’s Economic Survey, is a tryst to realise Gandhi’s dream of “Wiping tears from every Indian’s eye”. Sadly the present thrust of economic reforms which believes that the unseen hands of the market will promote welfare of all has failed miserably in ensuring basic nutritional requirement for 40% children, made our children and mothers vulnerable to premature death. Our health care and sanitation levels are also extremely unsatisfactory. In this backdrop, that wise advice of Jeffrey Sachs, who pioneered the MDGs is very apt “Our greatest illusion is that a healthy society can be built on mindless pursuit of wealth”. Prof. Joseph Stiglitz also could have been more prescient about our Constitutional goals of socio economic justice when he says “Unfettered markets will lead to more monopoly power, more abuses of the financial sector. It will be only through reforms of our democracy, making government more accountable to all people that we will be able to heal the great divide”. India needs the guided handed of the state to promote socio economic justice for all, foster competition and pre-empt crony capitalism. The present disconnect between growth and development need to be contained quality primary education in public schools would be the swiftest elevator to higher learning and modern Indian power for all our children.

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