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TOWARDS THE TWENTYFIRST CENTURY: MANAGING THE INDIAN ECONOMY*)

I.

That the Indian economy has, in recent years, moved on to a higher level of performance, and, consequently, requires a new kind of management is a theme that finds expression in many official pronouncements. Thus, the *Economic Survey 1986 – 87* begins with the following assertion: „There is strong evidence that the Indian economy is now on a new growth path. In the eighties, the average annual rate of growth has been 4 per cent which is much higher than the historical trend rate of growth. The industrial growth rate is increasing and, despite three successive weak monsoons, the food situation remains comfortable. Inflation is under control and, in the current year, the trade deficit has also been reduced significantly. These are substantial achievements, made possible by a sound and responsible macro-economic policy environment." In sum, all is well with the Indian economy thanks to a new economic policy and efficient management of the system. The claim that as we move towards the twentyfirst century what the Indian economy needs is sophisticated management, especially of money, credit and interest policy and of the external equilibrium, as a refrain that is likely to be heard frequently. I propose to submit this claim and refrain to critical analysis.

As a matter of historical interest it may be pointed out that this is not the first time that the claim has been put forward that the Indian economy is ready for the task ahead. After the general election of 1971 when *garibi hatao* was used as the leading slogan and which gave the ruling party an unprecedented parliamentary majority, one of the preparatory documents of the Fifth Five Year Plan stated that the economy was ready to take on a frontal attack on poverty. *Towards an Approach to the Fifth Five Year Plan* said: „The assumed conflict between growth and social justice in earlier plans has been premised on arguments which assert that whatever surpluses can be mobilised from the richer classes are needed for investments primarily directed at raising the future rate of growth. There might have been some justification for this view in the initial years of planning. However, *the economy now has reached a stage where larger availability of resources makes it possible to launch a direct attack on unemployment, underemployment and poverty,* and also assure adequate growth" (emphasis added). The claim then was that the economy was ready to take on growth with social justice; the claim now is that the economy is ready to move on to a new growth path. This distinction itself is significant, and more about it later.

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II.

In one sense the thrust of the new economic policy is a shift from physical to financial management. The Seventh Five Year Plan document's chapter on Framework of Economic Policy deals with the issue at some length. In a mixed economy such as ours, the document points out, the implementation of planned economic development calls for both appropriate allocation of investment in the public sector and the channelling of investment in the rest of the economy by influencing and regulating the flow of resources among the households and business enterprises in the private sector. For this the Government has at its disposal two types of instruments: direct of physical controls such als licensing and indirect or financial controls involving the use of fiscal monetary and credit policies. The choice between these two, or rather the appropriate mix of the two would have to be determined from time to time depending on the experience of the past, the stage of development and circumstances prevailing at a given time. The reasoning has been that the Indian economy is now ready to be managed indirectly through financial controls instead of directly through physical controls which was largely the pattern in the past. This reasoning is backed by two sets of considerations.

The first is related to what is considered to be the financial deepening of the economy as documented by the Reserve Bank of India's Committee to Review the Working of the Monetary System (the Chakravarty Committee). As is well known, the basic premise of the Report ist the substantial increase in the rate of savings of the economy, from around 10 per cent of GDP to the record level of about 25 per cent in 1978 – 79 and around 23 per cent in 1984 – 85. The Committee noted that this striking increase in the quantum of savings has been accompanied by many changes in the structure of savings too as follows:

a) Although the sectoral composition of savings has not changed much with the household sector continuing to contribute almost three-fourths of the domestic savings, there has been a marked shift in the composition of the savings of the household sector. Physical assets constituted 63.6 per cent of the savings of the household sector during the First Plan period with financial assets constituting the rest. By 1983 – 84 physical asset component of household savings had come down to 45.9 per cent with financial assets correspondingly going upto 54.1 per cent.

b) There has been a shift in the manner in which the household sector has been holding its financial savings. The banking sector has improved its share of the net financial savings of the households with the share of the private corporate sector going down and that of the Government remaining more or less unchanged. The shift may be thought of as the preferences of the household sector for liquid and risk-free investments.

c) „The nature, composition and growth of financial assets or claims indicate the sophistication, development and growth of the financial system and hence the overall financial development of the economy." The salient features of this development are:

– The financial structure has grown more rapidly than national income;
– The ratio of financial claims to net capital formation increased over the years in the process of development;

– The increase in the relative size of the financial structure to the real structure (physical assets) is an indication of the greater degree of separation of the functioning of saving and investment among different units;
– There has been a marked rise in the institutionalisation of saving as evidenced by increasing ownership of financial assets in the economy;
– The share of the banking system and other financial institutions taken together in the total financial claims has increased gradually over the years;
– The share of the government in the disposition of domestic saving has substantially increased.

These changes in the quantum of saving and its characteristics are the first reason for considering the Indian economy to be ready for indirect management through financial controls. In this context it is argued that the physical management of the economy through controls and licences which had been an unavoidable necessity during an earlier phase of the development of the Indian economy is no longer necessary and, indeed, may turn out to be counterproductive when the economy is poised for a higher level of performance and growth as shown by the high rate of saving (1).

The second consideration which is claimed to favour the indirect management of the economy through financial controls is the finding of the Planning Commission that in recent years, especially during the Sixth Five Year Plan period of high growth rate, there has been a perceptible fall in the incidence of poverty. According to the Planning Commission's calculation, between the 32nd round of the NSS in 1977 – 78 and the 38th round in 1983 the percentage of population below the official poverty line declined sharply from 48.3 to 37.4. On this basis the Commission has also estimated that by the end of the Seventh Plan the percentage of people below the poverty line would come down to 25.8 and that by the end of the century it would be just 5 per cent. The Commission's reasoning is that the reduction in the incidence of poverty is being brought about by the accelerated rate of growth of the economy combined with the special poverty eradication programmes such as IRDP and NREP, and that apart from such programmes, which through budgetary operations come under financial management, nothing other than sustained growth is required for the major national objective of poverty eradication. Thus, one comes to the conclusion that what the economy needs in the decades ahead is growth which can be achieved through appropriate macro policies based primarily on fiscal, monetary and credit policies and management, and that there will be no more need to feel guilty about hungry people and empty stomachs in the country.

III.

To what extent are these assumptions, reasonings and conclusions valid? Let us begin with the claim about the „new growth path". In an arithmetic sense there is a visible upward shift of the growth rate if we consider only the period since 1980, the beginning of the Sixth Five Year Plan. But this is to a large extent because 1979 – 80, the base year for such calculations was one of exceptionally low performance when GNP at 1970 – 71 prices showed a (–) 4.7 per cent growth compared to the previous year and agricultural production a decline of 15.2 per cent. The growth rate of the eighties is, therefore, something in the nature of a recovery rate. What has made that recovery possible is, to a large extent, the steady performance of food grains production which from the 109.7 million tonnes of 1979 – 80 recovered to the previous high level of over 130 million tonnes by 1981 – 82, reached the record figure of 152.4 million tonnes by 1983 – 84 and has not fallen below 145 million tonnes since then in spite of adverse weather conditions.

But at least one aspect of this good performance should be taken note of which is that there is an element of *mal-production* in it. The impressive performance of foodgrains is substantially accounted for by *increase* in the production of wheat (from 37.5 million tonnes in 1980 – 81 to 46.9 million tonnes in 1985 – 86) and of rice (from 53.2 million tonnes to 64.2 million tonnes) but of *decrease* in the production of coarse cereals (from 31.1 million tonnes to 26.5 million tonnes). This pattern has been going on for a longer period. Thus from 1970 – 71 to 1985 – 86 the share of rice in foodgrains production increased from 38.9 per cent to 42.6 per cent, of wheat shot up from 22.1 per cent to 31.2 per cent, but of coarse cereals came down from 28.2 per cent to 17.6 per cent. A shift in the composition of foodgrains production over time is not of much significance in itself. But two aspects of the phenomenon must be noted. The first is that the increased production of rice and particularly of wheat is loading to the „comfortable" foodgrains surplus which is hold up as evidence of our self-sufficiency in foodgrains, but which is causing some embarrassments also because of the juxtaposition of surplus foodgrains on the one hand and continuing mass poverty on the other. Secondly,while rice and wheat consumed by the more well-to-do section of society are increasing and turning out to be surplus, coarse cereals which have been rapidly declining are the staple diets of the poorer sections, especially in the rural areas.

Evidences of malproduction can be seen in other spheres as well. During the decade from 1976 – 77 the sectoral growth rates show some conspicuous imbalance. During this period the rate of growth of the primary sector led by agriculture was 2.5 per cent per annum and of the manufacturing sector 4.0 per cent per annum, but the rate of growth of the service sector has been much higher. Indeed, the fastest growing sector of the economy has been public administration, defence and other services which increased at a rate of 7.2 per cent per annum. Consequently the share of physical goods sector in GDP came down from 65.4 per cent in 1976 – 77 to 58.8 per cent in 1985 – 86 while that of the service sector increased from 16.5 per cent to 21.2 per cent during the same period. The shift to the service sector may appear to be in conformity with the experience of the present day „advanced" countries and may thus be interpreted as evidence of the progress that the Indian economy has been making. But in a country where the vast majority of the people do not have the basic physical goods required for tolerable levels of living, one must ponder whether this again is a case of malproduction rather than of healthy growth.

There is a further aspect to be noted. If the fastest growing sector of the economy has been public administration, the high level of growth witnessed is to

that extent a contrived one. Expand public administration and defence and GDP gets on to a „new growth path"! And this power of the Government to make a direct contribution to the growth of GDP has been liberally used in the recent past. In constant prices the contribution of public administration, defence and other services increased from Rs. 4,304 crores in 1976 – 77 to Rs. 9,110 crores in 1985 – 86, an increase of 112 per cent in a decade. The direct contribution of the Government to the growth of GDP has been increasing at a more rapid rate since 1980 – 81, at over 10 per cent per annum. Also, if a part of the growth of the tertiary sector one be shown to be deliberately engineered, another part of it is a reflection of the addition that comes to the „service" sector resulting from the rapidly growing marginalisation of the labour force, especially the many rural artisans and those from the household sector who have been thrown out of their traditional occupations to become wage workers both in the rural and urban areas.

These considerations show that a „new growth path" in terms of numbers alone can turn out to be quite illusory and growth must be evaluated more in terms of content than quantum. It is also evident that financial management of the economy, especially the fiscal weapons that the Government has at its disposal can be cleverly used to give the appearance of a new growth path.

The phenomenon of the high saving rate of the economy must also be submitted to critical scrutiny. While the Chakravarty Committee looked into many aspects of national savings, there is a crucial question that the Committee did not examine. If the household sector accounts for almost three fourths of domestic savings, what proportion of households in the economy account for these savings? In fact this question has not received the attention it deserves and there are no official estimates for the economy as a whole. But some indirect inferences are possible. It is admitted that even according to official estimates around 40 per cent of the population comes below the poverty line, and it may be reasonable to assume that another 20 or 30 per cent of the populationcan only be marginally above it. On this basis it may not be wrong to infer that some 70 or 75 per cent of the population – and hence of households too – may not be savers at all, or at least do not make any major contribution to what is represented as the savings of the household sector. The evidence available from a countrywide sample survey conducted by the National Council of Applied Economic Research lends support to these speculations. According to the survey, the share of the bottom 70 per cent was only a little over 6 per cent, while that of the top 10 per cent was about 68 cer pent and of the top 5 per cent alone 50 per cent of the savings of the household sector (2).

We have looked into some aspects of what has been described as the „new growth path". It is seen to be based on the overproduction of some goods, and the artificially boosted performance of some sectors and to be confined to a small segment of the population. It can also be shown to be limited to some geographical regions of the country. It is one of the contributions of modern economics that it can use some simple numbers to hide all such distortions and come to the aid of forces that are eager to show that the nation as a whole is doing very well.

Let us also take a quick look at the claim that the incidence of poverty has been drastically reduced and that as a nation we are well on the way to the total elimination of poverty. Several scholars have already disputed the procedural veracity and the conclusions arrived by the Planning Commission and hence I can afford to be brief on this issue (3). First, 1983, the last year for which poverty figures are quoted was also the year of the record foodgrains output. Studies on poverty in the past have fairly clearly established that there is a negative correlation between agricultural production and the incidence of poverty – that is, and quite simply, during years of good foodgrains production agricultural labourers and marginal farmers who constitute the bulk of those below the poverty line come to have a little more to eat. However, it has been noted also that such periodic good performances have not succeeded in establishing any clear trend in reducing the incidence of poverty over time and that therefore it is not valid to arrive at any longterm projections on the basis of the performance of a single year (4). Secondly, if certain factors in the economy tend to bring some people above the poverty line, other factors tend to push some from above the poverty line to go below it. If proof for this statement is required it is provided by a recent study conducted by the NCAER which studied some 4300 rural hoseholds in 261 villages spread over the country in 1970 – 71 and resurveyed the same households in 1981 – 82 (5). The 1970 – 71 survey had shown that 56.9 per cent of the households were below the poverty line which got reduced to 48.5 in 1981 – 82. In the bottom five deciles of the sample between 36.3 and 59.5 per cent of households had come up above the poverty line, but from the sixth to the tenth decile between 17.0 and 51.1 per cent households which were above the poverty line in 1970 – 71 were pushed below it in 1981 – 82. Thirdly, the calculation of the percentage of population below the poverty line depends on three key factors, namely, the norm used in arriving at the poverty line, the expenditure vector taken into account and the price deflator. It has been shown that depending upon the choices made of these factors the percentage of population below the poverty line in 1977 – 78 would range between a low of 29.5 and a high of 58.9 and similarly in 1983 the range would be from 20.1 to 56.5 (6). There is reason to believe that the Planning Commission has set aside the conventional procedures in calculating the percentage of population below the poverty line and has chosen a set of figures for 1977 – 78 and 1983 which shows the kind of sharp fall referred to earlier. The rationale for the Planning Commission's calculations have not yet been made public.

If such be the nature of calculatons about the incidence of poverty and poverty eradication it may appear that many of these so-called „precise" calculations are but subjective assessments highly amenable to conscious or unconscious manipulations. Unfortunately so they are. But that does not mean that there are no other procedures to understand with greater confidence the nature of the reality on the ground. We may, for instance, go directly to the manner in which people make a living. Since those below the poverty line are drawn largely from agricultural labourers and marginal and small farmers we may concentrate on them. It is well known that agricultural labourers as a percentage of the total workforce in the country increased from 17.2 according to the 1961 Census to 26.9 according to the 1971 Census and remains about the same level according to the 1981 Census as well. Agricultural wage rates have not gone up much in real terms and the evidence on availability of work and other sources of earning is ambiguous. But overall there is hardly any evidence that suggests that the earnings of agricultural labourers may have improved significantly. On the other hand the evidence that we have suggests that there has been a perceptible increase in the numbers and proportion of wage labourers and of casual wage labourers among them.

Turning now to farmers, the 37th round of the NSS shows that in 1982 as high as 55 per cent of landed rural households own less than 1 hectare of land. Another study based on operational holdings assessed by the Agricultural Census of 1970 – 71 and 1980 – 81 draws the following inference: "A significant feature which is apparent ... is the phenomenal increase in the number of marginal operational holdings from 36.20 million in 1970 – 71 to 50.52 million in 1980 – 81. Of course, distribution of ceiling surplus land to 3.24 million beneficiaries has to be accounted for in this figure. Even deducting the number of 3.24 million new beneficiary marginal landholders the net figure would be 47.28 million – an increase of 11.08 million over 10 years. It means on an average 1.1 million marginal holdings are coming into existence annually. The annual rate of marginalisation was 3.98 per cent or 4 per cent which was significantly higher than the 1.9 per cent annual rate of growth of rural population between 1971 and 1981. It, perhas, indicates that marginalisation was more due to immiserisation rather than normal devolution of property." (7)

We can now sum up the picture emerging from these data pertaining to different aspects of the modes of living of the people. About half of the cultivators who constitute 42 per cent of the workforce operate less than one hectare of land and must make a living substantially from what it yields. Around 25 per cent of the workforce consists of agricultural labourers with little assurance of daily work and with work opportunities limited to the seasonal variations in agriculture. We know also that other traditional forms of making a living are rapidly disappearing and modern industries are not able to absorb those thus thrown out. The number and proportion of wage workers – or more precisely those seeking wage labour – is increasing, but wage labour is primarily of a casual nature. All told at least 50 per cent of the members of the workforce and their families, and thus of the total population, must be considered to be in a situation where the level of living can only be abysmally low and the mode of living highly insecure and precarious (8).

This somewhat inexact assessment is likely to be a more reliable indication of the state of affairs than the meticulous calculations on the extent of poverty.

IV.

It must be evident that from the point of view of the conditions of life of the vast majority of the people, no major change has taken place and hence the official claim that the Indian economy has entered a "new growth path" is something of an illusion. But then it is important to know why such illusion is entertained and attempted to be propagated.

One of the reasons is fairly obvious. The numbers seem to suggest that something new and significant is happening. For those who think of growth solely in terms of numbers and who were beginning to become disheartened that the Indian economy could not rise above the "Hindu Rate of Growth" of 3.5 per cent are greatly encouraged by the appearance of an upward movement of the number. They would want to believe that finally something very different is happening. This belief and the evidence (though illusory) to support it may also prevent them from searching beneath the surface. I would say that those who accept the scientific accurancy of economic calculations as self evident will belong to this category. They will also be convinced on the basis of the evidence they have, that the economy is now ready to be managed essentially through financial measures — fiscal instruments, monetary and credit controls, interest rate regimes and the like.

But the situation is not a matter of a naive error alone. The celebration of the "new growth path" is also a way of providing official sanction to a pattern of growth and associated socio-economic transformation quite different from what was envisaged during the days of the freedom movement and the immediate post-independence period. Even at the time of the drafting of the Second Five Year Plan the officially stated view was that "the task before an underdeveloped country is not merely to get better results within the existing framework of economic and social institutions but to mould and refashion these so that they contribute effectively to the realisation of wider and deeper social values". These wider and deeper social values consisted, among other things, of the view that "the basic criterion for determining lines of advance must not be private profit, but social gains, and that the pattern of development and the structure of socio-economic relations should be so planned that they may result not only in appreciable increase in national income and employment, but in greater equality of incomes and wealth". It was also felt that the accent should be on "the raising of living standards, the enlargement of opportunities for all, the promotion of enterprise among the disadvantaged classes and the creation of a sense of partnership among all sections of the community". A few years later these noble objectives came to be concretised as the political and economic slogan, *garibi hatao,* the eradication of poverty.

But soon it came to be realised also that the achievements of that objective called for very specific physical management of the economy such as radical land reform measures, strictly disciplined investments priorities to determine the product-mix of growth, conscious decisions about technology-mix such that the twin objectives of mass employment opportunities now and sustained growth over time are realised and a carefully organised pattern of involvement in an interaction with the global economic system. The political will to carry out such a clearly thought out socio-economic programme was wanting and yet the expectations of an aroused population could not be suppressed.

It is this context that has led to a different pattern of growth. Its main plank has been to let the character of growth be determined by the small minority that wields economic power in the system because of their ownership of and control over resources. The drive of this group for a more comfortable and modern pattern of life and for continuing accumulation is accepted as the driving force of that pattern of growth. Stimulating the economy through the growing incomes of this group and sustaining the momentum through the production of goods and services required by its members is the main strategy of the new pattern. Link up with the global economy, particularly the global capitalist economy for this purpose, is one of the main characteristics of the pattern. Within the domestic sphere, fiscal and monetary policies are shaped to meet the requirements of those involved in this pattern of growth. It is from such a perspective that "the economy" appears to he ready for indirect management through fiscal and monetary measures.

But the new pattern of growth has certain other advantages also. First, though it is by and for a very small, but affluent minority in the country it can be interpreted and propagated as a national policy, representing an increase in national production, an upward shift of national growth, and augmentation of national savings and a modernisation of the national economy. Secondly, the effects of the new pattern of growth are quite visible — more and different kinds of goods, not only in metropolitan cities, but even in remote villages; goods Indian and foreign crowding the shops all over the country; progress and modernisation for all to see. Hence the semblance of a rapidly growing and changing economy can be projected however illusory it may be beneath the surface and in the long run. Thirdly, the new pattern of growth will also have some trickle down effect. Some employment may be directly generated and the growing incomes of the few may also give rise to some growth in the demand for services of various kinds. It will also be possible to increase budgetary allocations for beneficiary oriented programmes, thus to give the impression that the many who are poor are not neglected.

The new financial managerial strategy that is being brought in, would appear to be the obverse of the planning strategy of the early years when it was thought that a regime of physical allocations was to be the crux of the Indian development model. Professor Mahalanobis, for instance, was quite explicit on this point. After putting forward his model for the long-term development of the economy he said: "On the question of raising adequate financial resources for investment, our theoretical model cannot give any specific guidance ... At this stage our main task has been to work out a tentative solution in real terms, leaving it to the financial experts to work out the details of the monetary counterpart. *We have taken our stand on the obviously true proposition that if something can be shown to be feasible in physical terms, then financial and fiscal machinery can always be adjusted to supply a satisfactory monetary counterpart* (provided there is no difficulty in makingnecessary institutional changes." (9) We seem to have come full circle now, insisting, in reverse, that if the economy can be managed in financial terms, the real sector will adjust itself to the new managerial drive.

But in the days of the euphoria of physical planning in the country I had argued that what Mahalanobis assumed to be "an obviously true propositon" was not valid in the Indian context and that given the institutional structure of the economy and the intentions of the policy makers, the physical planning he had proposed could not be carried out effectively (10). If the possibility of physical management is equally illusory today because the physical system is not what policy makers and official documents assume it to be. And it has to be insisted that if the structure and functioning of the economy are not what they are glibly taken to be, the proposed managerial strategy cannot give the economy the direction that is envisaged.

Elsewhere I have tried to indicate the implications and inherent weaknesses of the new economic strategy and hence shall not go into those aspects here (11). Although it is meant to gear the economy to the new vistas of the twentyfirst century, it is quite possible that it may not last that long as it is built on false premises. Indeed, in the few years left of the present century, the economy is likely to experience the painful consequences of the effort to deal with complex problems through deceptive characterisations. The concept of the "economy" in this case is too much of an abstraction. What we are likely to witness in the coming years is the growing affluence of the few and the continuing, and possibly deepening, misery of the many.

NOTES

(1) This view was flagged off in the early eighties by L. K. Jha, Economic Strategies for the 80s (New Delhi, Allied Publishers, 1980).

(2) National Council of Applied Economic Research, Household Income and its Distribution (New Delhi, National Council of Applied Economic Research, 1980).

(3) B. S. Minhas, L. R. Jain, S. M. Kausal and M. R. Saluja, "On the Choice of Appropriate Consumer Price Indices and Data Sets for Estimating the Incidence of Poverty in India", Indian Economic Review Vol. XXII, No. 1, January – June 1987.

(4) See for instance, Montek S. Ahluwalia, "Rural Poverty in India 1956 – 57 to 1973 –74" World Bank Staff Working Paper 279, Washington, 1978.

(5) National Council of Applied Economic Research: Change in Household Income, Inter-class Mobility and Income Distribution in Rural India – A Longitudinal Survey 1970 – 71 to 1981 – 82, (New Delhi, NCAER, 1986) quoted by Malcom S. Adiseshiah, Mid Year Review of the Economy: 1986 – 87 (New Delhi, Lancer International, 1987), pp. 127 – 28.

(6) S. Subramanian, "Poverty Statistics: Real Phenomena or Arithmetical Illusions?" Unpublished paper, Madras Institute of Development Studies, 1986.

(7) B. Bandyopadhyay, "Land Reforms in India: An Analysis", Economic and Political Weekly, Review of Agriculture, June 21 – 28, 1986.

(8) A. Vaidyanathan, after surveying available statistical evidence on a variety of aspects relating to poverty comes to the following conclusion: "The above review suggests that estimates of the overall incidence of poverty derived wholly from NSS consumer expenditure surveys, or by combining the NSS distribution with official estimates of mean consumption, cannot be relied upon to judge the trends in poverty incidence. Other evidence – largely relating to the growing importance of wage labour; growth of employment being slower than population; and fall in real wage rates – seem to suggest that incidence of poverty may have increased." A. Vaidyanathan, "Agricultural Development and Rural Poverty", paper presented at the Boston University's seminar on the Indian Economy, October 1986 (brought out as Madras Institute of Development Studies, Offprint No. 11).

(9) P. C. Mahalanobis, "The Approach of Operational Research to Planning in India", Sankhya, December 1955, p. 50, emphasis added.

(10) C. T. Kurien, Indian Economic Crisis – A Diagnostic Study (Bombay, Asia Publishing House, 1969).

(11) C. T. Kurien, "1987 – 88 Budget and New Fiscal Strategy", Economic and Political Weekly, April 11, 1987.

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