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*India's Unfinished Journey Transforming Growth into Development**

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Abstract

This paper situates the economic performance of independent India in historical perspective to evaluate the past and reflect on the future. It shows that the turning point in economic growth was *circa* 1951 in the long twentieth century and *circa* 1980 in India since independence. Thus, it is not possible to attribute the turnaround in India's performance to economic liberalization beginning 1991. During the period 1950–1980, economic growth in India was respectable, for it was a radical departure from the past and no worse than the performance of most countries. During the period 1980–2005, economic growth in India was impressive, indeed much better than in most countries. The real failure in both these periods was India's inability to transform this growth into well-being for all its people. And India's unfinished journey in development cannot be complete as long as poverty, deprivation and exclusion persist. Even so, with correctives, it should be possible to reach the destination.

This essay is about independent India's unfinished journey in development. The destination not yet reached is the well-being of its people. The object is to assess the performance of the economy, since independence, situated in the wider context of polity and society. In doing so, the paper evaluates the past and contemplates the future, to analyse the implications for economic development and social progress in India. The structure of the discussion is as follows. Section I outlines the dramatic changes in perceptions about the story of economic development in India, in retrospect and prospect, to set the stage

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before the play begins. Section II examines the turning points in India's economic performance during the twentieth century by situating it in historical perspective, to provide a comparison with the colonial era. Section III provides an assessment of economic growth in India since independence, with reference to the past and compared with the performance of other countries, to suggest that it was respectable to begin with and impressive thereafter. Section IV shows that India did not succeed in transforming this growth into development, for there was almost no improvement in the living conditions of a large number of people and a significant proportion of the population. Section V explores the opportunities and the challenges of bringing about this transformation in the future. Section VI discusses some essentials that have been forgotten. Section VII draws together some conclusions.

I. The Context: Retrospect and Prospect

The second half of the twentieth century witnessed remarkable swings of the pendulum in perceptions about economic development in independent India. In the early 1950s, India was a path-setter, if not a role model. And the optimism extended beyond those who had a dream about India.[1] For some, its mixed economy was an answer to the challenge posed by communism in China. For others, its strategy represented a non-capitalist path to development. For yet others, who recognized the problems of industrial capitalism, India was on the road to their ideal of a social democracy and a welfare state. Just 25 years later, in the mid-1970s, perceptions were almost the polar opposite. India became an exemplar of everything gone wrong.[2] For some, the slow growth and the persistent poverty in the economy represented failure. For others, the inefficient industrialization was a disaster. For yet others, the political democracy was unaffordable if not unviable. Another 25 years later, in the early 2000s, there was a dramatic change in perceptions once again. The same India came to be seen as a star performer, if not a role model.[3] For some, rapid economic growth turned the lumbering elephant into a running tiger. For others, the

[1] For a discussion on perceptions about India in the early 1950s, see Nayyar (1998).
[2] This strongly critical view of India is articulated by Lal (1998).
[3] Such optimism about India is more characteristic of international business and captured attention in the media following the study on BRICs by Goldman Sachs (Wilson and Purushothaman, 2003). But it is beginning to find mention in the academic literature on the subject.

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impressive economic performance combined with strong institutions which have matured over time in a political democracy mean that India may be the next Asian giant competing with, if not displacing, China.[4] For yet others, India's economy is the latest poster child to demonstrate the virtues of markets and openness.

These are, of course, caricatures of perceptions. Even so, these do reflect the popular mood at each of the junctures in time. It would be natural to ask: what has changed? In part, the process of development has changed realities in India over five decades. But, in part, changes in thinking about development have shaped perceptions over time. And it needs to be said that perceptions have changed more than realities.

The present juncture, strongly influenced by the dominant ideology of our times, has not only shaped thinking about the future but has also reshaped thinking about the past. In caricature form, the orthodox story about the economy of independent India, half a century later, runs as follows. The era of planned development, which began life in 1950, was characterized by misguided, possibly counterproductive, economic policies. The strategy of industrialization, which protected domestic industries from foreign competition and led to excessive state intervention, in the market, was responsible for high costs and low growth in the economy. The prime culprits were inward-looking policies, particularly in the sphere of trade, which stifled competition, and extraordinarily cumbersome licensing with controls on domestic economic activity that suffocated entrepreneurship and initiative in the private sector.[5] Some blame the first Prime Minister, Jawaharlal Nehru, who was strongly influenced by the colonial past and the socialist present, in this error of judgment. Others lay the blame at the door of post-colonial elites who were followers of Fabian socialists in Britain. And a few blame the political process in which mobilizing the poor through rhetoric was seen as more important than resolving their problems through growth.[6] In this worldview, which almost ignores the significant achievements of that era, more than four decades were simply wasted. For them, the economic liberalization in the early 1990s, which reduced the role of the state to rely more on the market, dismantled controls to rely more on prices, cut back on the public sector to rely more on the private sector and increased the degree of

[4] See, for example, Khanna and Huang (2003).

[5] Bhagwati and Desai (1970) developed this view in their elaborate critique of the industrialization experience in India.

[6] These perceptions, which border on rhetoric, are summed up nicely by DeLong (2003).

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openness of the economy at a rapid pace, represented a new dawn. It is almost as if the economy began life in 1991. And the ideologues are convinced that the economic reforms of the early 1990s unleashed economic growth and led to the superb economic performance that is now much admired.[7]

This worldview is also beginning to shape thinking about the future. It has led to many aspirations for India 2025. The incorrigible optimists hope for a developed India that has caught up with industrial societies. Political leaders aspire for recognition as a nuclear power in the P-5 club, membership of the Security Council in the United Nations, and a seat at the dinner table with the G-8. Their ultimate aspiration is India as a superpower in the world. The corporate elite hope for dynamic entrepreneurship, technological capabilities, and wealth creation. Their ultimate aspiration is India as a lead player in the global market with its own transnational firms. The pink pages of our newspapers and the electronic media have similar, even if somewhat more nuanced, hopes for India two decades hence. Such beliefs about India in the world stem primarily from aspirations about the economy in 2025: that it would become the third largest economy in the world in terms of national income at purchasing power parity; that it would become a middle-income country in terms of per capita income; and that poverty would be banished from the republic. And if China is the world's factory, India would be the world's office.

In my view, this belief system about the story of economic development in independent India is open to serious question for two reasons. First, it represents a misreading, if not a misinterpretation of the past. Second, it rests on over-simplified thinking about the future.

II. The Long Twentieth Century

In seeking to establish turning points in the performance of the economy, or structural breaks in the pace of economic growth, most studies focus on the period since 1950. This is not quite appropriate. Indeed, any meaningful assessment of economic performance in independent India must situate it in a long-term historical perspective to provide at least some comparison with the colonial era. Therefore, it would be logical to consider the performance of the economy before and after independence during the twentieth century.

[7] India's impressive economic performance is attributed to the economic reforms of the early 1990s by several economists. See, in particular, Ahluwalia (2002), Srinivasan and Tendulkar (2003), and Panagariya (2004).

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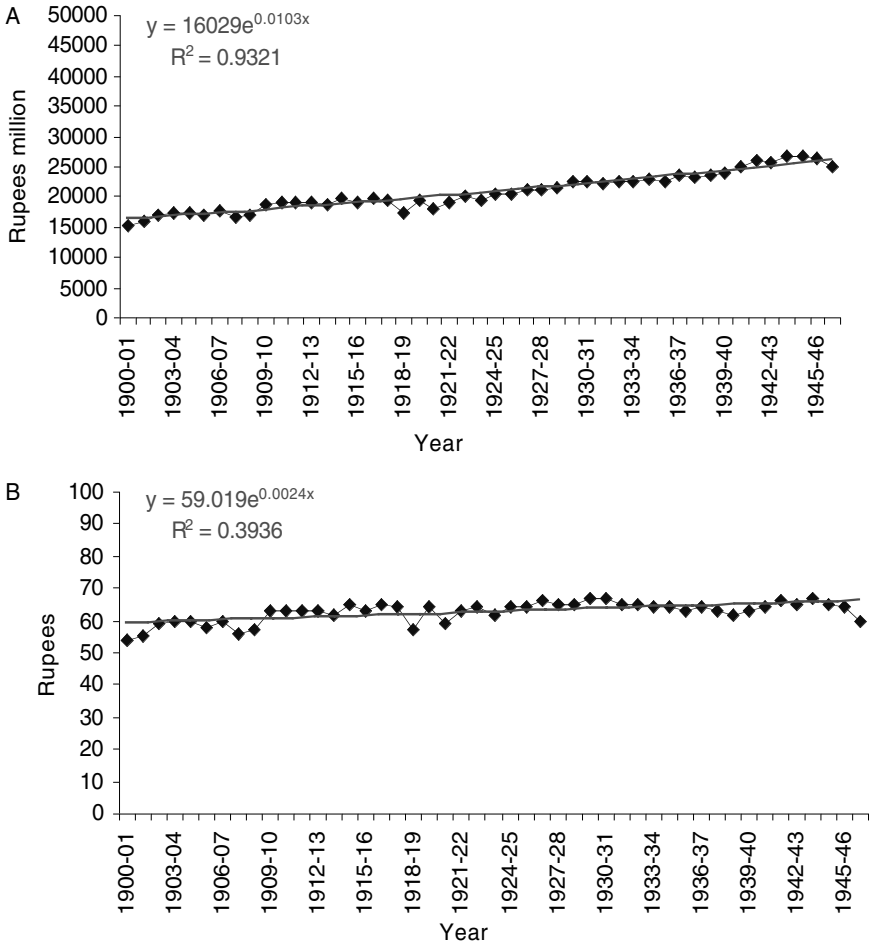


Figure 1. (A) Trends in National Income: India: 1900–01 to 1946–47 (in Rupees million at 1938–39 prices). (B) Trends in Per Capita Income: India: 1900–01 to 1946–47 (in Rupees at 1938–39 prices).
Source: Sivasubramonian (2000).

In this historical perspective, available evidence shows that the turning point came in the early 1950s. The trends in national income and per capita income, at constant prices, during the period from 1900–01 to 1946–47 are outlined in Figure 1. It reveals that during the first half of the twentieth century, there was a near-stagnation in per capita income while the growth in national income was minimal. The trends in GDP and GDP per capita, at constant prices, during the period 1950–51 to 2004–2005 are outlined in Figure 2. The contrast is clear. There was a steady growth in both GDP and GDP per capita during the second half of the twentieth century. This is confirmed by

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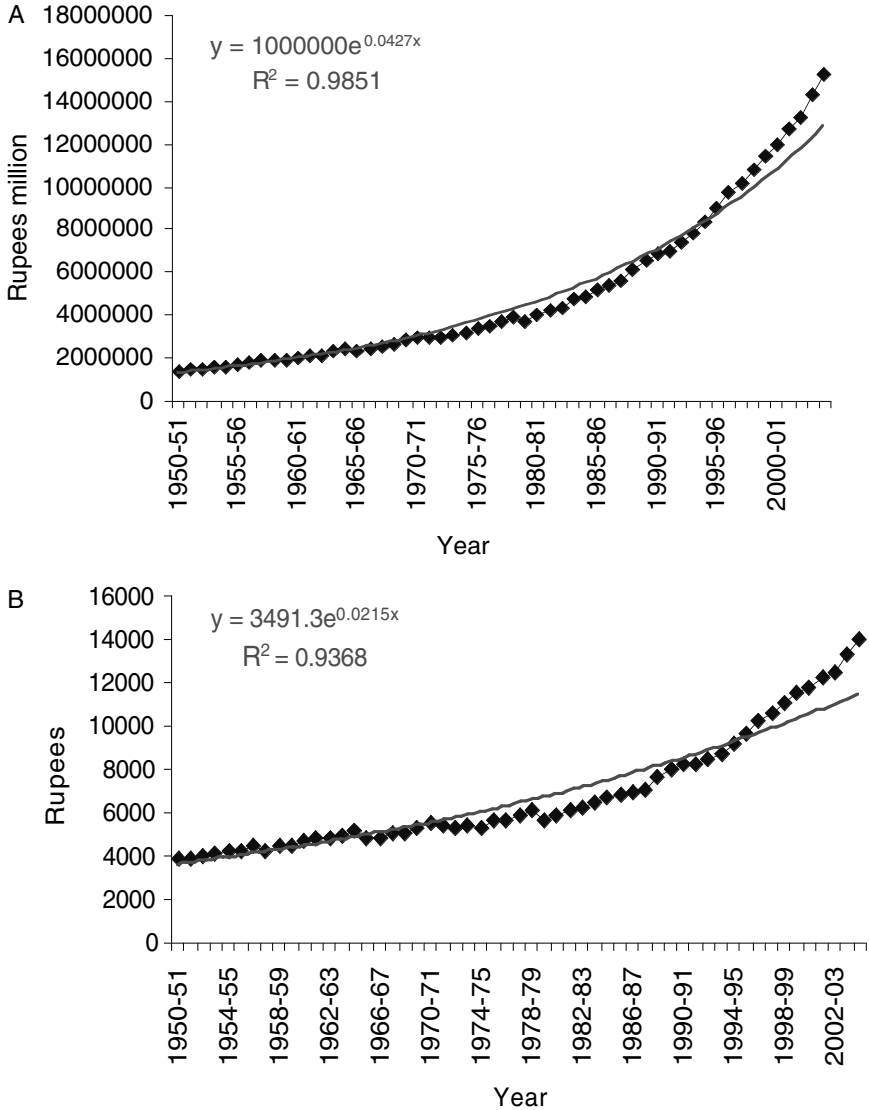


Figure 2. (A) Trends in GDP: India: 1950–51 to 2004–05 (at factor cost in Rupees million at 1993–94 prices). (B) Trends in GDP Per Capita: India: 1950–51 to 2004–05 (at factor cost in Rupees at 1993–94 prices).
Source: CSO and EPW Research Foundation, *National Accounts Statistics of India*.

Table 1 which sets out average annual rates of growth in national income and per capita income during each of the two periods. There are two sets of growth rates for the period 1900–01 to 1946–47 based on two different estimates of national income. The Sivasubramonian estimates suggest that, in real terms, the growth in national income

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TABLE 1
Rates of Economic Growth in India during the Twentieth Century (percent per annum)

	Sivasubramonian Estimates	Maddison Estimates
A. 1900–01 to 1946–47		
Primary Sector	0.4	0.8
Secondary Sector	1.7	1.1
Tertiary Sector	1.7	0.8
National Income	1.0	0.8
Per Capita Income	0.2	0.04
B. 1950–51 to 2004–05		
Primary Sector	2.5	
Secondary Sector	5.3	
Tertiary Sector	5.4	
GDP Total	4.2	
GDP per capita	2.1	

Note: The average annual rates of growth, sectoral and aggregate, for the period 1950–51 to 2004–05, have been calculated by fitting a semi-log linear regression equation $\text{Ln } Y = a + bt$ and estimating the values of b.
Sources: For 1900–01 to 1946–47, Sivasubramonian (2000) and Maddison (1985). For 1950–51 to 2004–05, CSO and EPW Research Foundation, *National Accounts Statistics of India*.

was 1 per cent per annum whereas the growth in per capita income was 0.2 per cent per annum. The Maddison estimates suggest that the growth in national income was 0.8 per cent per annum whereas the growth in per capita income was almost negligible at 0.04 per cent per annum. The growth rates for the period from 1950–51 to 2004–05 provide a sharp contrast. In real terms, the growth in GDP was 4.2 per cent per annum while the growth in per capita income was 2.1 per cent per annum. The step-up in sectoral growth rates was just as substantial. The magnitude of the increase over the entire period is also revealing. Between 1900–01 and 1946–47, at constant 1938–39 prices, national income for the undivided India increased from Rs. 15.4 billion to Rs. 24.9 billion by 60 per cent, whereas per capita income increased from Rs. 54 to Rs. 60 by a mere 11 per cent.[8] Between 1950–51 and 2004–05, at constant 1993–94 prices, GDP increased by 1000 per cent, while GDP per capita increased by 250 per cent.[9] For those who are not persuaded by the trends in graphs, the step-up in growth rates, or the proportionate increases in

[8] Cf. Sivasubramonian (2000), pp. 369–371.
[9] Between 1950–51 and 2004–05, GDP at factor cost in 1993–94 prices increased from Rs. 1405 billion to Rs. 15294 billion while GDP per capita increased from Rs. 3913 to Rs. 14018.

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income, there is conclusive evidence provided by statistical analysis. There is a complete time series for national income aggregates, GDP at constant 1948–49 prices, for the entire period 1900–01 to 1999–2000. Econometric analysis based on this data set shows that the most important structural break, which is statistically the most significant, for the growth rate in national income is 1951–52.[10]

Interestingly enough, even if we focus on the performance of the economy in India since independence, it is clear that the turning point in economic growth is *circa* 1980, more than a decade before economic liberalization began in 1991.

Figure 3 outlines the trends in GDP and GDP per capita, at constant prices, in India during the period from 1950–51 to 2004–05. In doing so, it makes a distinction between two sub-periods 1950–51 to 1979–80 and 1980–81 to 2004–05. The break in the trend is clearly discernible in 1980–81 with a marked acceleration in economic growth thereafter. This is also borne out by Figure 4, which outlines trends in GDP and GDP per capita, at constant prices, during the period from 1980–81 to 2004–05. In doing so, it makes a distinction between two sub-periods: 1980–81 to 1990–91 and 1991–92 to 2004–05. The picture that emerges is clear enough. Almost the same trend continues, without any break, throughout the period. The evidence presented in Table 2, on average annual rates of growth in GDP and GDP per capita, for each of these sub-periods, provides further confirmation. During the period from 1950–51 to 1979–80, growth in GDP was 3.5 per cent per annum while growth in GDP per capita was 1.4 per cent per annum. During the period from 1980–81 to 2004–05, growth in GDP was 5.6 per cent per annum while growth in GDP per capita was 3.6 per cent per annum. The sharp step-up in growth rates, not only aggregate but also sectoral, suggests that 1980–81 was the turning point. This conclusion is reinforced by a comparison of growth rates, aggregate and sectoral, during the sub-periods 1980–81 to 1990–91 and 1991–92 to 2004–05. The growth rates were almost

[10] See Hatekar and Dongre (2005). The authors situate the debate on structural breaks in India's economic growth in a longer term perspective by considering the period from 1900–1901 to 1999–2000. This exercise is based on the Sivasubramonian estimates of national income at 1948–49 prices. It needs to be said that the time-series before 1947, which relates to undivided India, is not strictly comparable with that after 1947, which relates to partitioned India. In addition, there are also some definitional differences in national income accounts for India before and after independence. Even so, the statistical analysis carried out by Hatekar and Dongre is based on plausible assumptions which minimize the problems of comparability and provide the basis for robust conclusions.

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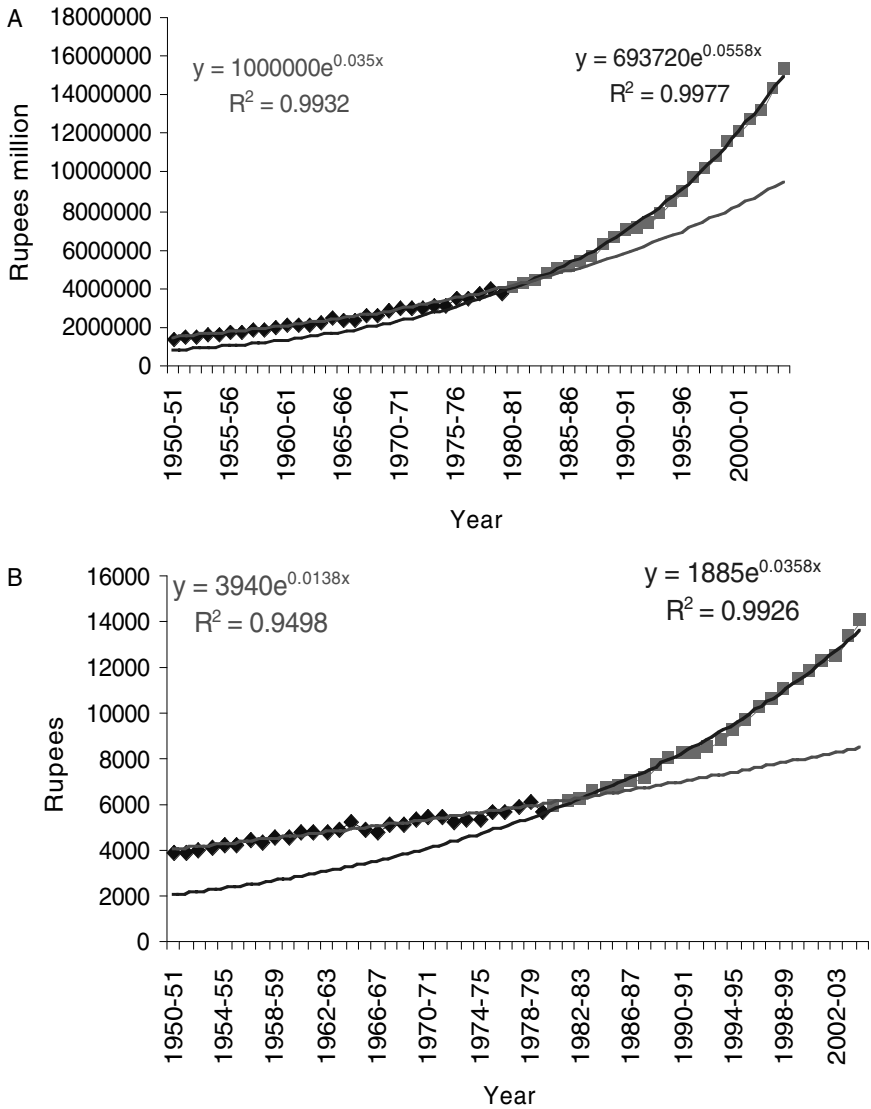


Figure 3. Two Phases of Economic Growth in India: 1950–51 to 1979–80 and 1980–81 to 2004–05. (A) GDP (at factor cost in Rupees million at 1993–94 prices). (B) GDP Per Capita (at factor cost in Rupees at 1993–94 prices).
Source: CSO and EPW Research Foundation, *National Accounts Statistics of India*.

the same. In fact, during the period from 1991–92 to 2004–05, growth in the primary sector and the secondary sector was somewhat slower while growth in the tertiary sector was somewhat faster in comparison with the period from 1980–81 to 1990–91. Growth in GDP was

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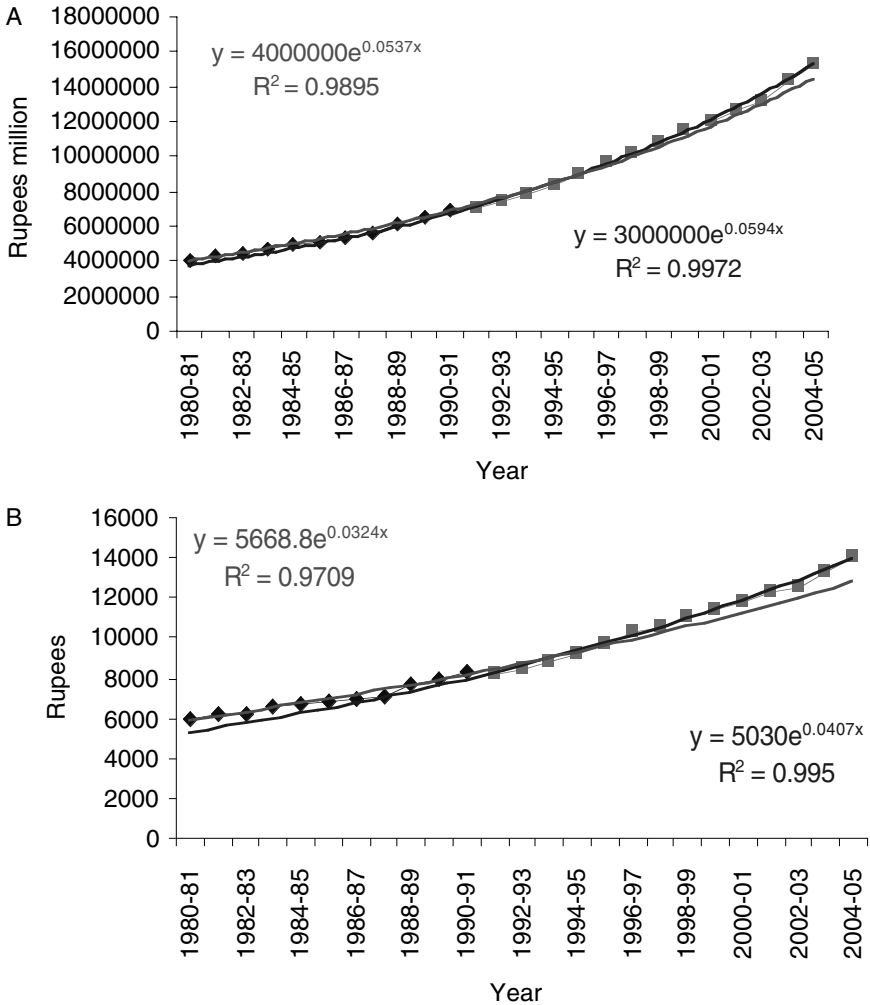


Figure 4. (A) Trends in India's GDP: 1980–81 to 1990–91 and 1991–92 to 2004–05 (at factor cost in Rupees million at 1993–94 prices). (B) Trends in India's GDP Per Capita: 1980–81 to 1990–91 and 1991–92 to 2004–05 (at factor cost in Rupees at 1993–94 prices).
Source: CSO, *National Accounts Statistics of India*.

5.9 per cent per annum as compared with 5.4 per cent per annum, while growth in GDP per capita was 4.1 per cent per annum as compared with 3.2 per cent per annum. There was some acceleration in the rate of growth of GDP per capita which was largely attributable to the slow-down in population growth. For those not persuaded by trends in graphs or comparison of growth rates, statistical analysis

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TABLE 2
Sectoral and Aggregate Economic Growth in India since Independence (percent per annum)

Sector/Period	1950–51 to 1979–80	1980–81 to 2004–05	1980–81 to 1990–91	1991–92 to 2004–05
Primary Sector	2.2	2.9	3.1	2.5
Secondary Sector	5.3	6.1	6.7	6.0
Tertiary Sector	4.5	7.1	6.6	7.8
GDP Total	3.5	5.6	5.4	5.9
GDP per capita	1.4	3.6	3.2	4.1

Notes: (a) This table is based on data for GDP at factor cost and at 1993–94 prices.
(b) The primary sector includes agriculture, forestry and fishing. The secondary sector includes: mining and quarrying; manufacturing; electricity, gas and water; and construction. The tertiary sector includes: trade, hotels and restaurants; transport, storage and communication; financing, insurance, real estate and business services, and community, social and personal services.
(c) The average annual rates of growth, sectoral and aggregate, for each of the selected periods, have been calculated by fitting a semi-log linear regression equation $LnY = a + bt$ and estimating the values of b.
Source: CSO and EPW Research Foundation, *National Accounts Statistics of India*.

should be conclusive. And there is now some literature on this subject.[11] Econometric analysis of time series data on GDP and GDP per capita for the period from the early 1950s to the early 2000s establishes that the structural break in economic growth since independence, which is statistically the most significant, occurs around 1980.[12]

There are two conclusions that emerge from the available evidence and the preceding discussion. First, if we consider the twentieth century in its entirety, the turning point in economic performance, or the structural break in economic growth, is 1951–52. Second, if we consider India since independence, during the second half of the twentieth century, the turning point in economic performance, or structural break in economic growth, is 1980–81. In either case, 1991–92 is not a turning point. Therefore, it is simply not possible to attribute India's growth performance to economic liberalization even on a *post hoc ergo propter hoc* basis. It is also clear that the turning point in the early 1950s was much more significant than the structural break

[11] Indeed, there are several papers that seek to establish structural breaks in economic growth in India since independence: DeLong (2003), Wallack (2003), Rodrik and Subramanian (2004), Sinha and Tejani (2004) and Virmani (2004).

[12] See Wallack (2003) and Rodrik and Subramanian (2004). See also DeLong (2003) and Sinha and Tejani (2004).

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during the early 1980s. This proposition is validated by econometric analysis.[13] It is also worth noting that the proportionate change in growth rates, both aggregate and sectoral, was much larger circa 1950 than it was circa 1980.

It needs to be stressed that this turning point in the early 1950s was not just statistical, nor was it simply about growth rates. It was far more significant for the polity and economy of independent India in a substantive sense.

The conception and the birth of political democracy in independent India was unique in its wider historical context.[14] For democracy did not follow but preceded capitalist industrialization and development. What is more, democracy came to India neither as a response to an absolutist state nor as the realization of an individualist conception of society. In each of these attributes, it provided a sharp contrast with the experience elsewhere, particularly Europe. In fact, it was not even an obvious outcome of the nationalist movement. The struggle for independence was much more about autonomous space for the nation than about freedom for the individual. Indeed, the Gandhian notion of a just state was premised on the idea that the collective interest must take precedence over individual interests. Yet, the Constitution adopted by independent India created a democratic republic and pledged to secure justice, liberty, equality and fraternity for all its citizens. Universal adult franchise was provided at one stroke. The republicanism of the Western world was perhaps the role model. This was, in a sense, India invented. A liberal democracy was constructed by an enlightened elite in accordance with its conception of a modern nation state. It was democracy from above provided to the people. And not democracy from below claimed by the people. This is perhaps an over-simplified view. The reality was obviously more complex. For the nationalist movement meant a dialectical relationship between the provision from above and the claim from below. In this construct, the state was the essential mediator. It had to perform a critical role in reconciling the conflict between market economy and political economy as also mediating between economic development and social needs.

In this milieu, the strategy of economic development was shaped by the colonial past and the nationalist present. For one, there was a conscious attempt to limit the degree of openness and of integration

[13] Cf. Hatekar and Dongre (2005).
[14] For a more detailed discussion, see Nayyar (1998).

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with the world economy, in pursuit of a more autonomous path to development. For another, the state was assigned a strategic role in development because the market, by itself, was not perceived as sufficient to meet the aspirations of a late-comer to industrialization. Both represented points of departure from the colonial era which was characterized by open economies and unregulated markets. But this approach also represented a consensus in thinking about the most appropriate strategy for industrialization. It was, in fact, the development consensus of the times. The objectives were clear enough: to catch up with the industrialized world and to improve the living conditions of the people.

It should be obvious that the economic liberalization which began in the early 1990s did not match the significance of the changes in the realm of politics and the sphere of economics in the early 1950s. In fact, the changes that were introduced in the early 1990s were concerned with economic policies and did not even touch upon the political domain. In the wider context of the economy, the changes were significant.[15] And it is worth highlighting three dimensions of the change. First, economic growth combined with economic efficiency became the explicit objective. The earlier concern about preventing a concentration of economic power or attempting a re-distribution of wealth, never more than rhetoric, was explicitly abandoned. The objective of bringing about a reduction in poverty and inequality was not set aside but such concerns about equity were subsumed in the pursuit of growth on the premise that it is both necessary and sufficient for an improvement in the living conditions of people. Second, there was a conscious decision to substantively reduce the role of the state in the process of economic development and rely far more on the market. The government no longer sought to guide the allocation of scarce investible resources, whether directly through industrial licensing or indirectly through intervention in the financial sector, and left this role to the market. Third, the degree of openness of the economy was increased significantly and at a rapid pace. The object was not simply to enforce a cost-discipline on the supply side through international competition, but also to narrow the difference between domestic and world prices. Foreign capital and foreign technology were expected to perform a strategic role in the process of integration with the world economy. These changes in policies did represent a

[15] This issue is discussed, at some length, in Nayyar (1996). See also Bhaduri and Nayyar (1996).

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radical departure from the past. But these were changes in economic policies. In contrast, the regime change during the early 1950s was wide-ranging and far-reaching. It was in part about policies but only in part. It was about establishing institutions, not only economic but also social and political. It was about creating the initial conditions for development in a country that was a latecomer to industrialization. It was about the pursuit of national development objectives in a long term perspective.

III. Phases of Growth: An Assessment

Growth matters because it is cumulative. If GDP growth, in real terms, is 3.5 per cent per annum income doubles over 20 years, if it is 5 per cent per annum income doubles over 14 years, if it is 7 per cent per annum income doubles over 10 years, and if it is 10 per cent per annum income doubles over 7 years. Of course, the complexity of economic growth cannot be reduced to a simple arithmetic of compound growth rates, for there is nothing automatic about growth. In retrospect, however, the cumulative impact of growth on output is a fact.

There are two discernible phases of economic growth in India since independence: 1950 to 1980 and 1980 to 2005. It is worth providing an assessment of economic performance during these periods. An assessment of performance, in terms of economic growth, should address two questions. First, how does this performance compare with performance in the past? Second, how does this performance compare with the performance of other countries?

It is clear that the pace of economic growth during the period from 1950 to 1980 constituted a radical departure from the colonial past. For the period 1900 to 1947, there are two sets of growth rates based on alternative estimates of national income. If the economy had continued to grow at the rate based on the Sivasubramonian estimates, national income would have doubled in 70 years whereas per capita income would have doubled in 350 years. If the economy had continued to grow at the lower rate, based on the Maddison estimates, national income would have doubled in 87.5 years whereas per capita income would have doubled in 1750 years. The reality in independent India turned out to be different. The growth rates achieved during the period from 1950 to 1980 meant that GDP doubled in 20 years while GDP per capita would have doubled in 50 years. In fact, between 1950 and 1980, GDP multiplied by 2.86 while GDP per capita multiplied

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by 1.5.[16] The latter was not as modest as it seems because, during this phase, the rate of population growth was more than 2 per cent per annum.

Obviously, this growth was impressive with reference to the near-stagnation during the colonial era. It was also much better than the performance of the now industrialized countries at comparable stages of their development.[17] However, this growth was not enough to meet the needs of a country where the initial level of income was so low. For this reason, perhaps, it was described as the *Hindu rate of growth* by Raj Krishna. This phrase, which became larger than life with the passage of time, meant different things to different people. For some, it meant a performance that was disappointing but not bad. For others, it meant an acceptance of the performance in a spirit of contentment without an effort to change. Interestingly enough, the phrase which was used to describe a reality was used by a few to deride the same reality. But this was not warranted.

It has been shown that, during this period, India's performance in terms of economic growth was about the same as in most countries in the world.[18] It was certainly not as good as East Asia. But it was definitely not as bad as Africa. It was average. In fact, the actual rate of growth of output per worker in India was very close to the average across the world. What is more, the rate of growth predicted for India, based on its initial output per worker, its share of investment in GDP and its population growth rate, was also very close to the world's average.[19] Is it possible to reconcile this conclusion with the view that India did badly in this era? There are two possible explanations: either that inefficiencies of the regime in India were paralleled by similar shortcomings in most countries of the world, or that without its misguided policies India would have experienced a miracle in growth.[20] Neither of these explanations is plausible. It would seem that the

[16] Between 1950–51 and 1980–81, GDP at factor cost in 1993–94 prices increased from Rs. 1405 billion to Rs. 4011 billion while GDP per capita increased from Rs. 3913 to Rs. 5908.

[17] See Bairoch (1993) and Maddison (1995). See also Chang (2002).

[18] For a lucid analysis of, with evidence on, this proposition, see DeLong (2003).

[19] This is established by DeLong (2003).

[20] These two possible explanations are suggested by DeLong (2003), who also puts forward a third explanation which is somewhat more plausible. It suggests that if there was a failure of economic policies it was in large part offset by the success at mobilizing resources which raised levels of saving and investment in the economy. In other words, even if resource-allocation or resource-utilisation constrained growth, resource-mobilization fostered growth. This macroeconomic perspective, somewhat

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story that depicts an average India is much more plausible than the caricature which portrays a failed India.

It is clear that there was a sharp acceleration in the rate of growth circa 1980. It went almost unnoticed but for a few of us. And India grew almost by stealth. It came into the limelight in the early 2000s. Some analysts, as also many casual observers, attributed this performance to economic liberalization which began in the early 1990s.[21] However, discerning scholars recognized the reality that the structural break, which was a second turning point in the economic performance of independent India, occurred around 1980.[22]

In comparison with the preceding 30 years, there was a distinct step-up in rates of growth for GDP and GDP per capita. The growth rates achieved on an average, during the period from 1980 to 2005, meant that GDP doubled in 12.5 years where GDP per capita doubled in 20 years. In fact, between 1980–81 and 2004–05, GDP multiplied by 3.81 while GDP per capita multiplied by 2.37.[23] This growth was impressive, not only in comparison with the past in India but also in comparison with the performance of most countries in the world. Indeed, in terms of growth, India performed much better than the industrialized countries which experienced a slow-down in growth, the transition economies which did badly, and much of the developing world. And it was only East Asia, particularly China, which performed better.

There is an emerging literature on the subject which seeks to analyse this rapid economic growth in India that has been sustained for 25 years. Interestingly enough, the search for explanations is competitive. And some hypotheses are driven by an ideological worldview. It would be impossible to provide an exhaustive analysis. It would also mean too much of a digression. Nevertheless, some explanations deserve mention.

The earliest explanation suggested that the expansion of aggregate demand, mostly through a rapid increase in public expenditure on

different from the orthodox view, is developed elsewhere by the author (Nayyar, 1994 and 1997).

[21] See, for example, Ahluwalia (2002) and Srinivasan and Tendulkar (2003).

[22] See, in particular, DeLong (2003) and Rodrik and Subramanian (2004), who highlighted the fact that the structural break in economic growth in India since independence occurred around 1980 and not in 1991.

[23] Between 1980–81 and 2004–05, GDP at factor cost in 1993–94 prices increased from Rs. 4011 billion to Rs. 15294 billion while GDP per capita increased from Rs. 5908 to Rs. 14018.

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investment and consumption, was the major factor underlying rapid economic growth during the 1980s.[24] This is widely accepted. Even so, orthodoxy argues that this growth supported by the expansionary macroeconomic policies was not sustainable and culminated in the crisis of 1991.[25] But this view is not quite correct. In so far as the increase in fiscal deficits did not translate into a corresponding increase in current account deficits, the increase in aggregate demand would, in the presence of excess capacity and unemployment, have led to an increase in output. Such an increase in capacity utilization would also have raised the productivity of investment which is reflected in significant productivity growth during the 1980s.[26] And even if the macroeconomic crisis of 1991 was induced in large part by the fiscal imbalances, the expansion in aggregate demand does provide a plausible expansion for the rapid growth during the 1980s.

The most fashionable explanation, advocated by orthodoxy, is that the rapid economic growth in India is largely attributable to economic reforms. There is, however, a fly in the ointment. The turning point in growth was 1980, whereas economic liberalization began in 1991. Confronted with this reality, orthodoxy relies on two explanations. First, it argues that the economic growth of the 1980s was not sustainable.[27] But there was growth. Second, it argues that the growth could have been unleashed by the mild doses of industrial deregulation and trade liberalization.[28] But this process started only in the mid-1980s. Therefore, such hypotheses which seek to explain the step-up in economic growth entirely in terms of economic reforms are simply not plausible.

There is yet another explanation.[29] It argues that there was an attitudinal change on the part of government in the early 1980s, which signalled a shift in favour of the private sector although this was

[24] See Nayyar (1994) and Joshi and Little (1994).

[25] Cf. Ahluwalia (2002), Srinivasan and Tendulkar (2003), and Panagariya (2004).

[26] Rodrik and Subramanian (2004) develop this argument to question the orthodox view, but conclude that the increase in capacity utilization was not enough to explain the actual productivity increase in the period since 1980.

[27] See Ahluwalia (2002) and Srinivasan and Tendulkar (2003).

[28] See Panagariya (2004). Joshi and Little (1994), on the other hand, believe that these changes were more than trivial but were piecemeal and limited. Hence they do not attribute rapid growth to this mild dose of reforms. It is also worth noting that Rodrik and Subramanian (2004) do not accept this as a possible explanation for the step-up in growth during the 1980s.

[29] This is the main hypothesis put forward by Rodrik and Subramanian (2004), who argue that none of the other explanations are plausible or convincing.

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not quite reflected in actual policy changes. The limited policy changes that were introduced were pro-business rather than pro-competition or pro-market so that the benefit accrued to existing players rather than new entrants. Even these small changes elicited a large productivity response because India was far away from its production possibility frontier. And existing manufacturing capacities established earlier performed a critical role in shaping responses. This explanation is both interesting and perceptive, although it is somewhat far-fetched. And there are some obvious questions that arise. Why did the change in attitudes alone spur growth starting 1980 even though the mild policy changes were introduced in the mid-1980s? Why did the economic liberalization of the early 1990s not produce a similar response in terms of productivity increase and output growth because, even in 1991, India was somewhere inside its production possibility frontier?

In my judgment, the search for a single explanation which seeks to exclude, or to deny, competing explanations is futile. There is, perhaps, the bit of truth in every nook. Hence, a convincing explanation must recognize that the acceleration in economic growth, circa 1980, was attributable to several factors. First, expansionary macroeconomic policies which led to an increase in aggregate demand did stimulate an increase in the rate of growth of output.[30] Second, beginning in the late 1970s, there was a significant increase in the investment-GDP ratio which was sustained through the 1980s.[31] Unless there was a decline in the productivity of investment, which was not the case, this would also have contributed to the step-up in economic growth during the 1980s. Third, starting in the late 1970s, there was also a significant increase in public investment which was sustained through the 1980s.[32] Obviously, this contributed to the increase in aggregate

[30] In fact, this proposition is accepted by Ahluwalia (2002, p. 67), as also Srinivasan and Tendulkar (2003, p. 9), even if they argue that the growth was not sustainable.

[31] Gross capital formation as a proportion of GDP at current prices rose from 18.7 per cent in 1980–81 to 24.1 per cent in 1990–91. Adjusted for errors and omissions, this proportion rose from 20.3 per cent in 1980–81 to 26.3 per cent in 1990–91. See *National Accounts Statistics of India 1950–51 to 2002–03*, EPW Research Foundation, Mumbai, 2004.

[32] Gross capital formation in the public sector as a proportion of GDP at current prices rose from an average level of 7.7 per cent during the period 1971–72 to 1975–76, to 9.1 per cent during 1976–77 to 1980–81 and 10.3 per cent during 1981–82 to 1985–86. This average level was 9.8 per cent during 1986–87 to 1990–91. See *National Accounts Statistics of India, 1950–51 to 2002–03*, EPW Research Foundation, Mumbai, 2004. If the effects of public investment, particularly in infrastructure, are lagged, by say 5 years, the surge in public investment does provide an important part

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demand. However, in so far as such public investment created new infrastructure or improved existing infrastructure, it could have stimulated growth in output by alleviating supply constraints. Fourth, trade liberalization beginning in the late 1970s, combined with some deregulation in industrial policies introduced in the early 1980s, also probably contributed to productivity increase and economic growth.[33] In particular, liberalization of the regime for the import of capital goods and broad-banding which reduced industrial licensing, could have played a contributory role.

It is also misleading, perhaps, to search for explanations which focus on observed changes circa 1980 that might explain the turning point in economic growth. In so far as outcomes are shaped by initial conditions, the cumulative impact of economic policies or public actions over the preceding 30 years possibly played an important role in the turnaround.[34] Institutional capacities were created. The social institutions and the legal framework for a market economy were put in place. A system of higher education was developed. Entrepreneurial talents and managerial capabilities were fostered. Science and technology were accorded a priority. The capital goods sector was established. Much of this did not exist in colonial India. But it was in place by 1980 and probably provided the essential foundations. In other words, the second turning point in the economic performance of independent India may not have been possible starting from scratch.

This wonderful story about economic growth in India is not quite a fairy tale. And everybody does not live happily everafter. Both phases of

of the explanation for economic growth in India during the 1980s. Statistical analysis by Rodrik and Subramanian (2004) confirms this proposition, who argue that the contribution of public investment to economic growth would have been small if there were no time lags in its effects.

[33] The Rodrik and Subramanian (2004) hypothesis, which is an interesting variation around this theme, could, perhaps, constitute a part of the explanation. The problem is their claim that it is the only possible explanation. Similarly, the Panagariya (2004) conclusion could provide a part of the explanation but his claim in terms of cause and effect is exaggerated. The difficulty is that the step-up in economic growth occurred about 5 years before the much cited economic reforms of the mid-1980s. But there were some earlier piecemeal changes in trade policies and industrial policies, such as the liberalization in the regime for the import of capital goods, which could also have contributed to growth, in conjunction with the other factors outlined in this paragraph. In fact, Sinha and Tejani (2004) suggest that imported capital goods probably contributed to increases in the productivity of labour, hence economic growth, during the 1980s.

[34] For a discussion, see Nayyar (2004).

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economic growth had something in common. It is essential to recognize that economic growth in independent India, respectable in the first phase and impressive in the second phase, was not transformed into development.

IV. The Failure in the Past

There is a vast literature on economic development which is rich in terms of range and depth. Yet, there is not enough clarity about the meaning of development. There are many different views. And perceptions have changed over time. In the early 1950s, conventional thinking identified development with growth in national income or income per capita. The earlier literature emphasized economic growth and capital accumulation at a macro level. The contemporary literature emphasizes economic efficiency and productivity increases at a micro level. Industrialization has always been seen as an essential attribute of development. The emphasis has simply shifted from the pace of industrialization to the efficiency of industrialization. From time to time, dissenting voices questioned conventional wisdom to suggest other indicators of development, but these were largely ignored by mainstream economics. And, even 50 years later, economic growth, or increases in per capita income remain the most important measure of development.

The early 1970s witnessed the emergence of a literature that suggested other indicators of development such as a reduction in poverty, inequality and unemployment, which would capture changes in the quality of life.[35] This thinking moved further. Development, it was argued, must bring about an improvement in the living conditions of people. It should, therefore, ensure the provision of basic human needs for all: not just food and clothing but also shelter, health care and education.[36] This simple but powerful proposition is often forgotten in the conventional concerns of economics. Such thinking culminated in writings on, and an index of, human development.[37]

In the late 1990s, Amartya Sen provided the broadest conception of development as freedom: a process of expanding real freedoms that

[35] See, for example, Baster (1972) and Seers (1972).
[36] Cf. Streeten (1981).
[37] See Anand and Sen (1994). See also, UNDP, *Human Development Report*, various issues.

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TABLE 3
Selected Indicators of Social Development in India

	1951	1981	2001
Life Expectancy at birth in years			
Male	32	54	64
Female	32	55	67
Infant Mortality Rate per 1000 births	146	110	66
Literacy Rate percentage of population	18	44	65
Adult Literacy percentage of population in the age-group 15 years and above	28	41	61

Source: Census of India 1951, 1981 and 2001.

people enjoy for their economic well-being, social opportunities and political rights.[38] Freedoms, then, are not just the primary ends of development (constitutive), they are also among its principal means (instrumental). And there are strong interactions that link different freedoms with one another. Political freedoms help promote economic security. Social opportunities facilitate economic participation. And so on.

It is essential, then, to make a distinction between means and ends. Economic growth and economic efficiency, or for that matter industrialization, are means. It is development which is an end. The purpose of development, after all, is to create a milieu that enables people, ordinary people, to lead a good life. Development must, therefore, provide all men and women the rights, the opportunities and the capabilities they need to exercise their own choice for a decent life.

In conventional terms, India has made enormous economic progress during the second half of the twentieth century. Over the past 55 years, GDP has multiplied by 10.9 while per capita income has multiplied by 3.6. India's growth performance was respectable in the period 1950–1980 and impressive in the period 1980–2005. Of course, in both phases, it could have been better. But counterfactuals serve little purpose even in academic debate. Nevertheless, it is clear that this growth was not enough in relation to India's needs. What is more, it did not quite match the performance of the stunning success stories in East Asia particularly China. The real failure, however, was that India was unable to transform its growth into development.

Selected indicators of social development, set out in Table 3, suggest that India has made significant progress in the five decades from

[38] Sen (1999).

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1951 to 2001. Life expectancy at birth has more than doubled from 32 years to 65 years. Infant mortality rates have dropped by more than half from 146 to 66 per thousand births. The literacy rate has more than trebled from 18 per cent to 65 percent of the population. The adult literacy rate has more than doubled from 28 per cent to 61 per cent. There is also evidence of significant progress in health care, housing and education. The proportion of the population that has access to electricity, drinking water and sanitation facilities is notably higher. This progress has been steady, even if slow, in both phases 1951 to1981 and 1981 to 2001. Yet, much remains to be done and, in terms of social development, India has miles to go.

It is important to ask: what was the impact of economic growth and social progress, during the second half of the twentieth century, on the poor? The level of per capita income is only an arithmetic mean. Social indicators are also statistical averages. And neither captures the well-being of the poor. In this context, it is worth considering the available evidence on absolute poverty in India. It suggests that there was no change for the better during the first two decades from the early 1950s to the early 1970s. In fact, the proportion of the population living below the poverty line remained high. It was 45.3 per cent in 1951–52, 47.4 per cent in 1955–56, 45.3 per cent in 1960–61, 56.8 per cent in 1965–66 and 52.9 per cent in 1970–71.[39] Indeed, in some years, during the late 1950s and the late 1960s, the incidence of poverty was even higher when poor monsoons depressed agricultural output and incomes.

This was a failure which had economic and political consequences.[40] In the sphere of economics, the response was two-fold. First, there was a strong, new emphasis on agriculture. The new strategy for agricultural development, which culminated in the green revolution, was motivated by the imperative of increasing the output of foodgrains. This quest for food security was driven, in part, by a concern that the nation could not continue its ship-to-mouth existence and, in part, by a concern that if there was a shortage of food it was the poor who went without. Second, poverty alleviation programmes began life, albeit on a modest scale. Most of these programmes sought to create employment for the poor, while some sought to provide them with assets for self-employment. In the realm of politics, it was recognized that the poor who had not seen any improvement in their living

[39] See Dev (1997).
[40] For a more detailed discussion, see Nayyar (1998).

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TABLE 4
Incidence of Poverty in India 1973–74 to 1999–2000 (estimates based on quinquennial rounds)

Year	1973–74	1977–78	1983	1987–88	1993–94	1999–2000
Proportion below the poverty line (in percentages)						
Rural	56.4	53.1	45.7	39.1	37.3	27.1
Urban	49.0	45.2	40.8	38.2	32.4	23.6
Total	54.9	51.3	44.5	38.9	36.0	26.1
Number below the poverty line (in millions)						
Rural	261.3	264.4	252.1	231.9	244.1	193.2
Urban	60.0	64.6	70.9	75.1	76.3	67.0
Total	321.3	329.0	323.0	307.0	320.4	260.2

Source: National Sample Survey and Planning Commission.

conditions, did exercise their right to vote in a political democracy. And populist rhetoric was borne in an endeavour to woo the people. The slogan *Garibi Hatao*, even if it was mere words, captured the popular imagination. Rapid growth in the agricultural sector, combined with the spread of anti-poverty programmes, did make a dent on the problem.

The data base for poverty estimates is provided by National Sample Survey tables on consumer expenditure, which are now compiled only on a quinquennial basis. Estimates of the proportion of the population and the number of people living below the poverty line, during the period 1973–74 to 1999–2000, are presented in Table 4. It shows that the incidence of absolute poverty in both rural and urban India registered a steady and continuous decline from the early 1970s to the late 1990s. The proportion of the population living below the poverty line dropped from 54.9 per cent in 1973–74 to 51.3 per cent in 1977–78, 44.5 per cent in 1983, 38.9 per cent in 1987–88, 36 per cent in 1993–94 and 26.1 in 1999–2000. The estimates for 1999–2000 are a point of contention. And it has been convincingly argued that the incidence of poverty in 1999–2000 was significantly higher than the 26.1 per cent of the population suggested by official estimates.[41] If that is correct, the pace of the reduction in poverty may have slowed down during the late 1990s. Even so, there can be no doubt that the last quarter of the twentieth century witnessed a significant reduction in the incidence of poverty in India. This reduction in poverty, to begin

[41] Sen and Himanshu (2004). See also, Deaton and Kozel (2005) in which there are several essays, with different views, on trends in poverty in India during the 1990s.

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with, during the 1970s, was attributable to the spread of the green revolution and increased public expenditure on infrastructure as also social sectors, which created employment opportunities for the poor. The decline in poverty continued, at a faster pace through the 1980s and the 1990s. This was attributable, in part, to rapid economic growth and, in part, to the spread and the reach of anti-poverty programmes. Yet, this was not enough, for at least one-fourth, and possibly one-third, of India's one billion people still living in absolute poverty. What is more, sustainable livelihoods for the poor remain a distant dream.

At the turn of the century, more than 50 years after independence from colonial rule, India is unable to meet the basic needs of hundreds of millions of citizens. It is estimated that at least 260 million people, possibly 330 million people, live in absolute poverty. The poor do not even have enough food, let alone clothing, shelter, healthcare and education. In fact, there are more poor people in India now than the total population at the time of independence. It is worth citing some evidence, circa 2001, which is also the latest available, on social indicators of development.[42] More than one-third of our population is still illiterate. This proportion is significantly higher in rural India at 40 per cent and much higher for women at 45 per cent. The infant mortality rate at 66 per 1000 is among the highest in the world. The maternal mortality rate at 407 per 100,000 live births is far higher than in most developing countries. 22 per cent of the population does not have access to drinking water, while 64 per cent of the population does not have access to sanitation facilities; these aggregate figures conceal the reality that the problem is far more acute in rural India even if the situation is somewhat better in urban India. Although enrolment rates in primary school are more than 95 per cent, drop-out rates are as high as 40 per cent. Enrolment rates in secondary school are 33 per cent, but drop-out rates are 66 per cent. Thus, more than 65 million children who should be in school are not; of these, 55 million are in rural India and 10 million are in urban India. Only 6 per cent of the population enters into the world of higher education. And 39 per cent of the adult population, as many as 225 million people, remains illiterate.

In my view, the most important failure during the past 25 years was that the rapid economic growth did not create sufficient employment

[42] The evidence on social indicators, cited in this paragraph, is from the *Census of India, 2001*.

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TABLE 5
Employment Elasticities of Output in India

Period	Agriculture	Manufacturing	Total for all sectors
1972–73 to 1977–78	0.64	0.55	0.61
1977–78 to 1983	0.49	0.68	0.54
1983 to 1987–88	0.36	0.26	0.30
1987–88 to 1993–94	0.43	0.29	0.39
1993–94 to 1999–2000	0.01	0.33	0.16

Source: Planning Commission, Government of India.

opportunities. In this context, it is important to recognize that the growth of the labour force in India has always been higher than the growth in employment, so that the backlog of unemployment has grown steadily over time. What is more, employment growth has not kept pace with output growth. The available evidence on employment elasticities of output is presented in Table 5. It shows that the already low employment elasticities registered a significant decline between the early 1970s and the late 1980s, for the economy as a whole as also for the agricultural sector and the industrial sector. It appears that this trend continued during the period from the late 1980s to the late 1990s. The employment elasticities of output for the economy as a whole declined from 0.61 during the period 1972–73 to 1977–78 to 0.30 during the period 1983 to 1987–88 and 0.16 during the period 1993–94 to 1999–2000. In agriculture, the employment elasticities dropped to near zero. Jobless growth is a caricature description but it does capture the unfolding reality in India. It is, perhaps, the reason why equivalent rates of growth during the 1990s did not translate into equivalent poverty reduction during the 1990s as compared with 1980s.

Ironically enough, this asymmetry between output growth and employment growth was reflected in an impressive growth in output per worker, which registered an increase at the rate of 3.6 per cent per annum during 1980–1999 as compared with 1.28 per cent per annum during the period 1960–1980. It is worth noting that 57 per cent of the growth in output per worker during the period 1980–1999 was attributable to growth in total factor productivity, while 33 per cent was attributable to capital accumulation and just 10 per cent was attributable to education. In the light of this evidence, labour productivity growth is seen as the principal factor underlying the rapid

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economic growth since 1980.[43] The sharp slow-down in employment growth during the same period is a corollary.[44] The irony of this paradoxical situation is striking.

Such an outcome is not inevitable. The simplest analytical construct derived from Solow suggests that there are three proximate determinants of economic growth: the investment-GDP ratio, the population growth rate and the initial level of output per worker. The determinants of growth, of course, are manifold and complex. However, theoretical analysis suggests that economic growth depends on the share of investment in GDP and the productivity of investment. Orthodoxy believes that the productivity of investment is determined by the state of technology. There is a serious lacuna in this thinking. If excess capacity and unemployment exist, an increase in investment which creates a larger domestic market can increase capacity utilization and, therefore, raise the productivity of investment. Orthodox thinking misses this obvious point because it assumes that there is always enough demand to ensure full employment of all resources of the economy. This assumption is not quite tenable in the Indian context. There is, perhaps, a more useful way of thinking about GDP growth directly in terms of employment growth. The level of employment and the growth in labour productivity, measured as output per worker, together add up to the growth in GDP. If the employment growth rate is increased by 1 per cent, the GDP growth rate would also increase, provided labour productivity does not fall by 1 per cent or more. In other words, if it is possible to raise the employment growth rate, without inducing a drastic reduction in labour productivity growth, the growth rate of the economy can only be higher.[45]

V. The Challenge for the Future

In the first decade of the twenty-first century, there is a striking optimism about the emerging India. The country which only had a past is beginning to be seen as a country with a future. The land of

[43] This hypothesis, based on empirical evidence, is developed by Rodrik and Subramanian (2004).

[44] For a complete picture and a detailed discussion of the employment situation in India, during this period, see Vaidyanathan (2001).

[45] For a detailed discussion on this issue, See Bhaduri (2005).

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scarcities is being thought of as a land of opportunities. The land of snake charmers is now considered a land of fashion designers. The land of traditional crafts is increasingly perceived as a land of information technology. The land of bullock-carts, or steam trains, is beginning to be seen as a land of automobiles, or jet planes. This dramatic change of mood is particularly discernible among the rich and the literati in India. There is a similar change in thinking about India in the outside world, mostly among interested individuals or concerned institutions. The mood is contagious, and the images are larger than life, because those who articulate such views have both voice and influence.

It would seem that perceptions about India are changing rapidly. The realities are also changing, but much more slowly. And there is a mismatch. The perceptions, as also the realities, depend on who you are, what you do and where you live. Captains of industry, editors of newspapers, or ministers of governments see one India. So does the software engineer in Bangalore, the stockbroker in Mumbai, the lobbyist in Delhi, or the entrepreneur in provincial India. The picture is similar, even if shallower, for the investment banker in London, the mutual fund manager in New York, or the chief executive in the board room in Tokyo. These images shape thinking about India 2025 in the world. But there are also contrasting images of India, which constitute an altogether different world. Poor tribals in Orissa or Madhya Pradesh, landless labourers in Bihar, dalits in Uttar Pradesh, peasants in villages everywhere, migrant construction workers in Delhi, slum children in Mumbai, pavement dwellers in Kolkata, or street vendors in Chennai, see quite another India. Their daily lives are such a struggle that they simply cannot think about, or imagine, a different India in 2025.

It is not just that there are two sharply contrasting views of India in the world. There are two different, almost dichotomized, worlds in India. There is an India that is global and there is a Bharat that is local. What is more, there is a virtual disconnect between these two worlds. Of course, India is a society in which different cultures (traditional and modern), different divides (caste, class and religion), or even different centuries (nineteenth and twenty-first), co-exist. There is no clash between modernity and tradition. At the same time, the diversity and the pluralism are necessary as also desirable. But the dichotomy between India and Bharat is not.

This is not the India I want. What is more, thinking ahead to 2025, such an India is neither ethically acceptable nor politically sustainable. Therefore, my vision of India 2025 is somewhat different. Its focus

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is on people, rather than on the nation. I want a society in which India and Bharat become one: connected and integrated. The India of my dreams, then, is one that provides capabilities, opportunities and rights to people, ordinary people, so that they can exercise their choices for a decent life. In the pursuit of this objective, it is essential that we provide not only food and clothing but also shelter, healthcare and education, for all, to create a world without poverty, deprivation and exclusion. This will need employment creation and sustainable livelihoods. But development must also enhance the well-being of people in terms of expanding freedoms. This must extend beyond freedom from hunger, disease and illiteracy, so that development creates economic opportunities, promotes social inclusion and ensures political liberties for people.

There could be a temptation, on the part of some, to dismiss this as the thinking of an incurable romantic or a committed ideologue. But I am neither. And it needs to be said that this is the dream of a concerned citizen. It is no less plausible than other visions of India 2025. Indeed, this is a realizable vision. It is possible to overcome hunger, disease and illiteracy, just as it is possible to eradicate poverty, deprivation and exclusion, during the first quarter of the twenty-first century. So many countries in Asia have done so in shorter spans of time. The resources exist. Mahatama Gandhi put it very simply: "There is enough in the world for everybody's need, but there cannot be enough in the world for everybody's greed". And I am convinced that a better world is possible. But, by themselves, growth and markets cannot deliver such a world. It needs far more. Above all, it needs good governance in economy, polity and society, which we had *circa* 1950, where governments are accountable to people and people are centre-stage in the process of development. This may be different from, but is not inconsistent with, other, grander yet narrower, visions of India. I believe that we cannot imagine India as a superpower in politics, which some do, or as a powerhouse in economics, which others do, unless it is built on the strong foundations of our most abundant resource and most valuable asset: people.

Economic growth is clearly necessary but not sufficient to bring about a reduction in poverty. This may be attributable to the logic of markets which give to those who have and take away from those who have not, as the process of cumulative causation leads to market driven virtuous circles and vicious circles. This may be the outcome of patterns development where economic growth is uneven between regions and the distribution of its benefits is unequal among people,

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so that there is a growing affluence for some and persistent poverty for many. This may be the consequence of initial conditions and institutional frameworks, as similar economic performances in the aggregate could lead to egalitarian economic development in one situation and growth which bypasses the majority of people in another situation.

It cannot suffice to say that outcomes of economic policies should be moderated by social policies, in the form of safety nets. The dichotomy between economic and social policies is inadequate, just as the dichotomy between economic and social development is inappropriate. In fact, no such distinction is ever made in industrial societies. And the experience of the industrialized world suggests that there is a clear need for integration, rather than a separation, of economic and social policies. Thus, I believe, it is important to create institutional mechanisms that mediate between economic and social development.

There are two essential correctives: foster inclusion where markets exist, and create markets where they do not exist.[46] The inclusion of poor people, where markets exist, requires a spread of education and an increase in social consumption. To foster inclusion, we need to develop the capabilities of people, particularly through education, just as we need to develop a social infrastructure which provides the poor with access to shelter, healthcare, clean water, sanitation, and ensures a steady increase in social consumption that depends almost entirely on the government in a country such as India. The creation of markets, where they are missing, requires a substantial investment in physical infrastructure, particularly in rural areas and backward regions.

In this era of markets and globalization, surprisingly enough, the role of the State is more critical than ever before. This role extends beyond regulating domestic markets or correcting for market failures. It is about creating the initial conditions to capture the benefits from globalization, about managing the process of integration into the world economy in terms of pace and sequence, about providing social protection and safeguarding the vulnerable in the process of change, and about ensuring that economic growth also creates employment and livelihoods for the well-being of people. It is also about acting as a guardian of civil society. In sum, governments need to regulate and complement markets so as to make them people-friendly. The reason is simple. Governments are accountable to people, whereas markets are not.

[46] These correctives are discussed, at some length, in Nayyar (2003).

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The object of any sensible strategy of development in a world of globalization, over the next 25 years, should be to create economic space for the pursuit of national interests and development objectives. In pursuit of this goal, it is necessary to think big and to think long. Such thinking must extend across several spheres: first, the creation of a world class infrastructure, to remove supply constraints and support social consumption, where any premature withdrawal of the State is a recipe for disaster; second, the development of human resources, through education, both as a means and as an end, because investing in human beings is important at every stage of development; and, third, the fostering of managerial capabilities in individuals and technological capabilities in firms at a micro level, which are the essential foundations on which international competitiveness is built and without which no latecomer to industrialization has ever succeeded.

It follows that the role of the State in the process of development will continue to be important for sometime to come, even as the scope of the market increases through liberalization in the wider context of globalization.[47] Most would find this argument persuasive. Yet, many would doubt whether such a role is feasible in terms of politics. And the mood of the moment is not receptive to such ideas anywhere, for there is disillusionment with the economic role of the State. It is essential to recognize that there are some things that markets can and should do. Even so, there are other things that governments can and must do. If governments do those things badly, it does not mean that we can dispense with governments. We have to ensure that governments perform better.

The real issue is not about more or less government. It is about the quality of government performance. And the importance of good governance cannot be stressed enough. Governance is largely about rules and institutions that regulate the public realm in civil society. A democratic system seeks to provide for equal participation of the rich and the poor, or the strong and the weak, individuals as citizens in political processes. And good governance is a process characterized by communication and consultation, through which disputes are resolved, consensus is built and performance is reviewed on a continuous basis. The basis for good governance is a democratic political system that ensures representative and honest governments responsive to the

[47] Cf. Nayyar (1997). See also Bhaduri and Nayyar (1996).

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needs of people. This involves more than simply free and fair elections. It implies a respect for economic, social and political rights of citizens. The rule of law is a foundation. An equitable legal framework, applied consistently to everyone, defends people from the abuse of power by State and non-State actors. It empowers people to assert their rights. The need for good governance extends to economic, social and political institutions. A vibrant civil society is just as important for good governance insofar as it provides checks and balances when governments do not act as they should. In this context, it is essential to stress the importance of values. In effect, values provide the foundations of ethical principles and social norms which, in turn, ensure the effectiveness of institutions and the accountability of actors. Much of this exists in principle. In practice, however, good governance is not possible without transparency and accountability in the political system.

VI. Some Forgotten Essentials

The debate in India tends to focus on what is said or done, but does not always consider what is not said or not done. In the process some essentials are forgotten.[48]

First, it is essential to remember that the well-being of humankind is the essence of development. Therefore, development must bring about an improvement in the living conditions of people, ordinary people. It should ensure the provision of basic human needs for all, not just food and clothing but also shelter, healthcare and education. This simple but powerful proposition is often forgotten in the pursuit of material wealth and the conventional concerns of economics. Yet, people view the world through the optic of their living conditions and daily lives. The litmus test for the performance of an economy, hence government, is neither economic growth, nor economic efficiency, indeed not even equity in an abstract sense, but whether or not it meets the basic needs and the growing aspirations of people. Austerity now for prosperity later is neither credible nor acceptable. The essence of the tension between the economics of markets that works on the principle of one-rupee-one-vote, and the politics of democracy that works on the principle of one-person-one-vote, must be recognized.

[48] The discussion in this section draws upon some earlier work of the author (Nayyar, 2004).

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For those excluded by the economics of markets are included by the politics of democracy.

The second essential we have almost forgotten is that there is a rural hinterland. Indeed, India lives in its villages. Yet, the discourse proceeds as if the rural sector does not exist, or if it exists it does not matter. This is incredible in an economy where two-thirds of the work-force is employed in agriculture and where three-fourths of the population lives in the rural sector. The rural-urban divide is wider than ever before. And farmers' suicides, or starvation deaths, are symptoms of an acute problem. Indeed, there is a quiet crisis in agriculture that runs deep. Even if the share of rural India in national income is less than its share in the population, its share of votes is directly proportional. And rural India decides for the republic at election time. The electoral, if not political, compulsions of a democracy cannot be set aside for long.

Third, it is not recognized that distributional outcomes are important. So are employment and livelihoods. Structural reforms associated with economic liberalization have important implications for employment creation and income opportunities. For example, in so far as such reform increases the average productivity of labour, through the use of capital-intensive or labour-saving technologies, or through a restructuring of firms which increases efficiency, it reduces the contribution of any given rate of economic growth to employment growth. There is a contraction of employment in some sectors without a compensatory expansion of employment in other sectors. As employment elasticities of output decline, employment creation slows down. For any given level of employment, a globalization of prices without a globalization of incomes also threatens livelihoods. The poor at the margin are most vulnerable, but the non-rich are not immune. And, in so far as there are some winners and many losers, distributional outcomes in the sphere of economics shape electoral outcomes in the realm of politics.

Fourth, the debate on economic reforms does not make a clear distinction between means and ends. For example, it does not recognize that markets, as much as States, are institutions evolved by humankind, that are means and it is development that is the end. What is more, there is a presumption that what is necessary is also sufficient. The management of incentives, motivated by the objective of minimizing costs and maximizing efficiency, or even unleashing creativity and innovation at a micro level, is based on a set of policies that are intended to increase competition in the market place.

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Competition is obviously desirable, but there is nothing automatic about competition. Policy regimes can allow things to happen, but cannot cause things to happen. The creation of competitive markets that enforce efficiency may, in fact, require strategic intervention on the part of the government. The essential missing link is that this debate does not consider transition paths. It confuses *comparison* of one equilibrium position with another, with *change* from one equilibrium position to another. But it does not tell us anything about how we move from one position to the other.

Fifth, the fundamental importance of good governance is not quite recognized. Good governance, where governments are accountable to citizens and people are centre-stage in development, is essential for creating capabilities, providing opportunities and ensuring rights for people. Governance capabilities matter in a much more concrete sense, whereas the role of the State is somewhat more abstract. Indeed, the quality of governance is an important determinant of success or failure at development. The most striking illustration of this proposition is provided by the wide diversity in economic performance across States in India despite common policies, similar institutions and an economic union.

VII. Conclusion

The story of economic development in independent India is often distorted by beliefs in fashion or caricatures of perceptions which shape conventional wisdom. I have argued that this is misleading, not only in analysing the past but also in contemplating the future. If we consider India during the twentieth century as a whole, the turning point in economic growth was *circa* 1951. If we consider India since independence, the turning point in economic growth was *circa* 1980. And it is clear that the turning pointing in the early 1950s was much more significant than the structural break in the early 1980s. In any case, 1991 was not a watershed. Thus, it is not possible to attribute the turnaround in India's growth performance to economic liberalization. Economic growth in India was respectable during the period 1950–1980. It was a radical departure from the colonial past. And it was no worse than the growth performance of most countries during that period. But it was simply not enough in relation to India's needs. Economic growth in India was impressive during the period 1980–2005. Indeed, it was much better than in most countries. But even

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this was not enough. The real failure, throughout the second half of the twentieth century, was that India failed to transform its growth into development, which would have brought about an improvement in the living conditions of people, ordinary people.

India's unfinished journey in development would not be complete so long as poverty, deprivation and exclusion persist. The destination, then, is clear. It must be said that such an India which provides capabilities, opportunities and rights to people, ordinary people, can also deliver power and prosperity for the nation so cherished by some. In this endeavour, economic growth is essential. But it cannot be sufficient. What is more, it is neither feasible nor desirable to separate economic growth from distributional outcomes because they are inextricably linked with each other. This link is provided by employment creation. Jobless growth is not sustainable either in economics or in politics. If we create employment, it would only reinforce economic growth through a virtuous circle of cumulative causation. There is a critical role for the State in the process. This role cannot be more of the same. It must be redefined to recognize the complementarities between the State and the market. The moral of my story in our quest for development is not less government but good governance. Indeed, without good governance, this dream about India simply cannot become a reality. Even if it is an imperative, however, there is no magic wand that can deliver good governance. In the realization of this objective, political democracy, which provides not only checks and balances but also early-warnings and alarm-bells, is our real asset. What it needs is transparency and accountability. Despite its flaws, the deeply embedded political democracy is the basis of my optimism about the future of India.

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