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Rajiv Gandhi Memorial Lecture

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The Indian Economy in 2020 - Looking Ahead

By

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Distinguished invitees, ladies and gentlemen,

I am conscious of the great honor the Administrative Staff College and you have bestowed on me by asking me to deliver the third Rajiv Gandhi Memorial Lecture. I fail to see what I have done to merit this honor and I proceed to deliver this lecture with a great sense of trepidation and hope that I have some value to add. After all, a lecture devoid of substantive content wastes only one hour of my time. But collectively, it wastes at least a hundred hours of audience time and that amounts to more than four days!

The title of the lecture more or less suggested itself. As a practitioner of the dismal science, I was constrained to talk about the economy, although I will argue that the state of the Indian economy is much less dismal than one tends to think.

Referring to the Indian economy, Rajiv Gandhi once said, "We look for self-reliance, not autarky. In India today we need to interact with the world market, with world industry and we realize that too much protection can be damaging to our industries. We look for improved technology, for domestic requirements, for better competitiveness, for better quality in our products, and above all, for a more efficient production process." Post the 1991 reforms and post the World Trade Organization (WTO) and the Uruguay Round agreement, that message is equally, if not more, valid today and I do not need to remind you that today happens to be the 20th of August. In a series of symposia organized at the time of Rajiv Gandhi's fiftieth birth anniversary, this is what Abid Hussain had to say as an overview on the theme of liberalization and globalization. "Every forty or fifty years or so in the life of a nation and republic, it is given to someone to attempt to redirect, reshape, and reinvigorate both nation and republic. Forty years after India's independence, Rajiv Gandhi launched an attempt to do so. Whether he was successful or not only time will tell, but this with confidence we can say: when it was his to

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1 "Towards Economically Stronger India", address to "Round Table on India", organized by the European Management Foundation, New Delhi; 15 April 1985, in, Rajiv Gandhi, Selected Speeches and Writings, Vol. I, 31 October 1984 - 31 December 1985, Publications Division, Ministry of Information and Broadcasting, Government of India, first edition, 1987.

Do, he did not turn away. The essence of his 'new economics' was captured in the popular phrase that India had now to prepare for the 21st Century."2

We are now considerably closer to the new millennium and the 21st century. Is India better prepared now for the 21st century than in 1985, when Rajiv Gandhi delivered the "Towards Economically Stronger India" speech? We must remember that since 1985, there have been two cycles of economic reforms in India and I use the expression "two cycles" deliberately. The post-1991 cycle of reforms is sufficiently well publicized and these reforms have no doubt been significant. Significant enough to dramatically transform the Indian economy, despite an unfinished agenda that exists. Significant enough for one to use the expressions A.R. and B.R. when discussing the Indian economy, A.R. connoting after reforms and B.R. connoting before reforms. However, there is an element of continuity that is sometimes missed. 1991 was not the first attempt at reform. There was an earlier cycle of reforms in the 1980s, usually identified with the Rajiv Gandhi government that came to power in 1984-85.[3] Admitted, that the reform attempt of the 1980s was much more ad hoc and piecemeal. Nonetheless, the element of continuity needs to be stressed. Given these two cycles of reform, is India poised to become, perhaps together with China, the powerhouse of world economic growth in the 21st century? However, the 21st century is too long a time frame. That is the long run and in the long run we are all dead. Hence my choice of a slightly shorter time frames of twenty odd years. Hence I want to look ahead to the year 2020. Apart from the vision angle, the year 2020 has a nice ring to it, which is perhaps the reason why several people have had agendas for 2020.

So I will talk about the Indian economy in the year 2020, although making forecasts, especially about the future, is a hazardous occupation. Economists, in particular, are the butts of jokes about inaccurate forecasts. An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today. But I see no particular reason to plead" mea culpa" on behalf of my

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2 Abid Hussain, Overview of "Towards Liberalization and Globalization" in, Rajiv Gandhi's India, Vol. 2, Economics, People in Democracy and Development, edited by V. Ramachandran and Mani Shankar Aiyar, UBS Publishers, 1998.

3 This is not entirely correct, because the reforms had started under Indira Gandhi, ~lthough the momentum did increase after Rajiv Gandhi became the Prime Minister.

profession. In other walks of life, there have been predictions that are far more bizarre. As Chairman of IBM in 1943, Thomas Watson thought that there might be a world market for perhaps five computers. As President and Chairman of Digital Equipment Corporation in 1977, Ken Olson thought that no one would want a computer in his or her home. Bill Gates felt that 640K ought to be enough memory for anybody. Moving away from computers and information technology, Lord Kelvin felt that radios had no future, heavier-than-air flying machines were impossible, X-rays would prove to be a hoax and the only form of aerial navigation possible would be through balloons. An English scientist named Dionysius Lardner believed that rail travel at high speeds was not possible because passengers, unable to breathe, would die of asphyxia. In 1956, Sir Richard van der Riet Wooley, the Astronomer Royal, argued that space travel was bilge.

I have digressed and let me get back to 2020. But the future flows out of the past and the present. Robert Kennedy often paraphrased a statement attributed to

George Bernard Shaw. You see things; and you say, "Why?" That is the first step. Then you can dream of things that never were and say, "Why not?" That is the second step. Let me begin with the first step, the "why", the present, the status quo. In the world economic order, where does India stand today?

Let me use as a benchmark for comparison the *Human Development Report* or *HDR* for 1999, recently brought out by the United Nations Development Programme (UNDP).4 In 1997, the Indian per capita gross national product (GNP), a surrogate for per capita income, was 370 US dollars, using official exchange rates for conversion.[5] Among 174 countries ranked, the richest country in the world was Luxembourg, with a per capita GNP of 44,690 US dollars. The United States had a per capita GNP of 29,080 US dollars and Japan of 38,160 US dollars. Admitted, these are rich and developed countries, the have-s of the world. Comparisons with developing countries, the have-nots of the world, are odious and unfair. But what is a developing country? Is Singapore with a per capita GNP of 32,810 US dollars one? Is Hong Kong with a per capita GNP of 25,200 US

4 Oxford University Press, 1999. 5 The World Bank Atlas Method.

dollars one? Is South Korea with a per capita GNP of 10,500 US dollars one? Is Mexico with a per capita GNP of 3,700 US dollars one? Is Malaysia with a per capita GNP of 4,530 US dollars one? Is Thailand with a per capita GNP of 2,740 US dollars one? Is Sri Lanka with a per capita GNP of 800 US dollars one? Is China with a per capita GNP of 860 US dollars one? Clearly, all these other countries are in a different league from that dismal figure of 370 US dollars. Looking around the wide world, countries in the same league as India are Mongolia, Equatorial Guinea, Bangladesh, Haiti, Zambia and Benin. That is where we stand in the world today. It is certainly the case that per capita income figures based on official exchange rate conversions tend to over-estimate poverty. After all, one rupee has far more of purchasing power than say one fortieth of a dollar. This leads one to purchasing power parity (PPP) figures of per capita income.[6] In the process, India's per capita GDP (gross domestic product) in PPP terms goes up to 1670 US dollars in 1997. Generally speaking, in the transition to PPP figures, per capita incomes of developing countries go up while those of developed countries go down. However, that is neither here nor there. Because, in the process, India's rank among the 174 countries marginally goes down. The absolute figure improves, but the relative rank deteriorates.

Per capita income is an average indicator. Like all averages, it conceals more than it reveals. A man with one foot inside a refrigerator and the other inside an oven would, on average, be quite comfortable. Per capita income conceals the most excessive forms of poverty. For instance, again according to UNDP figures, 52.5 percent of the Indian population is below the international poverty line of 1 US dollar per day7 Thirty-six percent of the world's poor, thus defined, live in India, a dubious distinction indeed.[8] If one uses an indigenous poverty line as opposed to the interna'tional one of 1 US dollar per day, one gets into debates about the right poverty line, price c. "lators and thin samples versus large samples of the National Sample Survey (NSS).9 Subject to this, in 1993-94, around 36 percent of the Indian population was below the poverty line. 36 percent of the Indian population is more than the total populations of most countries in the world. Other physical quality of life indicators are equally stark. *HDR* 99 gives an adult

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6- The International Monetary Fund method. 7-1985 PPP dollars. 8- World Bank Atlas, 1998. 9- If one ignores thin samples, one is still stuck with 1993-94 data.

literacy rate of 53.5 percent for India, the figure is 90.7 percent in Sri Lanka. 16.1 percent of the Indian population will not survive till the age of forty and 30 percent will not survive till the age of sixty. 19 percent of the population lack access to safe water, 25 percent of the population lack access to health services and 71 percent of the population lack access to sanitation. 53 percent of children under the age of five are under-weight, 41 percent of children will not reach grade five of school. The infant mortality rate, per thousand is 71, compared to 32 in Vietnam. In many of these physical quality of life indicators, India's record is worse than that of sub-Saharan Africa. And in all of this, I have not given you figures on the gender gap. Or the regional dimension.

Both Madhya Pradesh and Karnataka now have *Human Development Reports* of their own. Madhya Pradesh has two versions, in 1995 and 1998, while Karnataka has a 1999 version.[1O] As against the all-India adult literacy rate of 52 percent reported in the 1991 Census, the so-called BIMARU States had adult literacy rates of 38 percent in Bihar, 44 percent in Madhya Pradesh, 39 percent in Rajasthan and 42 percent in Uttar Pradesh. Using the Madhya Pradesh HDR version of 1998, let me ask you to guess what the female literacy rate is among scheduled castes in a district like Sidhi in Madhya Pradesh. The answer is 3.4 percent. In districts like Guna, Shivpuri and Morena, the female literacy rate among scheduled tribes is less than 2 percent. In Jhabua district, the overall rural female literacy rate is 6.8 percent. I shudder to think what kinds of figures will be churned out once Bihar and Uttar Pradesh produce *HDRs.* Of course, the identification of poverty and backwardness with BIMARU States is a trifle simplistic. The problem cuts across State boundaries and has more of a regional character. And it is fairly clear that poverty and backwardness characterize a set of contiguous districts that span not only the BIMARU States, but also Orissa and West Bengal.

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10 Other States are in the process of preparing HDRs. There is also India Human Development Report A Profile of Indian States in the 1990s, Abusaleh Shariff, National Council of Applied Economic Research and Oxford University Press, 1999, but this generally has aggregate and region-wise figures.

Let us not forget that vision of 1947. "That future is not one of ease or resting but of incessant striving so that we might fulfill the pledges we have so often taken and the one we shall take today. The service of India means the service of the millions who suffer. It means the ending of poverty and ignorance and disease and inequality of opportunity. The ambition of the greatest man of our generation has been to wipe every tear from every eye. That may be beyond us, but so long as there are tears and suffering, so long our work will not be over."[11] Against that promised tryst with destiny, against that promise of redeeming our pledge, it is impossible not to look back in anger. We were not successful in grasping the opportunity, or in accepting the challenge of the future. While that dream shall never die and the future belongs to those who believe in the beauty of their dreams, dreams and great ideas need landing gear as well as wings. We have to find that elusive landing gear.

It is impossible not to look back in anger. There has been a dramatic change in approaches to development economics in the period following the Second World

War. As a sweeping generalization, pre-World War II, one thought the world was divided into the developed countries of the North, the have-s, and the developing countries of the South, the have-nots. It would take generations and hundreds of years for the developing countries to catch up with the developed countries. A table in *World Economic Outlook* 1997 is symptomatic. In 1995, India's per capita income was 6.7 percent of the average per capita income in developed countries. One can then extrapolate the differentials in per capita GDP growth and work out the number of years it will take India to halve the 1995 gap between per capita income in India and the average per capita income in developed countries. Let me repeat. Halve the gap, not eliminate it. And the answer is that it will take India 154 years to halve the gap. To make the contrast even more dramatic, it will take Indonesia 23 years and China 16 years. The point is a simple one. Several countries have shown that it does not take generations and hundreds of years to catch up. Beginning with Japan, the experience spilled over to South Korea, Hong Kong, Taiwan and Singapore. From there, it spilled over to Indonesia, Malaysia and Thailand and thereafter to China.

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11 Jawaharlal Nehru, "Tryst with Destiny" speech, 14/15 August 1947.
12 International Monetary Fund.

Such growth also has trickle down benefits, benefits manifest in sharp reductions in the percentage of population below the poverty line. From around 30 percent to around 15 percent. Within a time span of twenty years or so, within the space of a single generation. Indonesia and China are examples of such successes.

Following the East Asian currency crisis, it is no longer fashionable to talk about these countries. I do not intend t-o digress into the causes of the East Asian currency crisis and its morals. But to my mind, the crisis does not take anything away from the successes these countries have had in improving human development indicators. And subject to some variation across individual economies, many of these countries are back on track towards a road to recovery. Clearly, if these economies did not have to wait 154 years, they did things differently. The development paradigm was different. Perhaps we made a mistake in adopting or persisting with a development paradigm that had become irrelevant. The problem with such an articulation is ethnocentricity, understandable in any large country like India. India is *sui generis,* India is different. How can you

replicate the successes of small economies in a large economy like India? How can you replicate the successes of non-democracies in a democratic polity like India?
Such arguments lack conviction, when one notes that in 1987 US dollars, Indonesia's per capita income (GDP per capita) was 265 US dollars in 1975, more or less comparable to the Indian figure of 251. Yet, in 1997, in 1987 US dollars, Indonesia's per capita income had gone up to 856, while India's had only increased to 465. From 1970 to 1996, India's daily per capita supply of calories went up from 2,078 to· 2,415. But in Indonesia it went up from 1,859 to 2,930. In 1978, India and China had more or less the same level of exports. But in 1997, India's exports of goods and services of 44 billion US dollars compare with a Chinese figure of 207 billion. In 1985, India exported 2 billion US dollars worth of low-tech items and China 3 billion. But by 1998, India's exports of low-tech items went up to 13 billion. The Chinese figure was 75 billion. Not surprisingly, in *the Global Competitiveness Report* for 1998, India is ranked 50^{th} out of 53 countries. I do not wish to burden you with further figures and statistics, diminishing returns begin to set in. The case rests. Through the statistics one can detect the truth and the damned truth. Like the Red Queen, India has done the running and has not only failed to keep pace. India has fallen behind. 154 years is too long a time period to wait. That is truly the long run, that is truly a period during which we are dead. The country cannot afford to wait for 154 years.

That is precisely the reason we need to look back in anger and ask "why", to shake us out of our complacency. There can be no change and progress from a sense of complacency. Anger and dissatisfaction engender change and progress. There is every reason for the Midnight's Generation and the generations that follow to be dissatisfied. This cannot have been the promised tryst with destiny. It is these generations that have to be shaken out of their complacency, because it is they who will have to live the rest of their lives in the future.
It is difficult to pinpoint the decade when the Indian economy began to go off track and fall behind, perhaps in the second half of the 1960s. The diagnosis of what went wrong, as compared to the development paradigm adopted in say South East Asia, is sufficiently well known and documented in the reform literature. There is no need for recapitulation. Suffice to say that cross-country comparisons exhibit a

fairly robust correlation between competition and outward orientation on the one hand and growth on the other. Without growth, there can be no long-lasting solution to the problem of poverty and unemployment. The trickle down benefits of growth do not manifest themselves unless economies grow at 8 percent or more over a sustained period of time. If economies grow at a Hindu rate of growth of 3.5 percent, there is nothing to trickle down. Even with a redistributive goal, what does one redistribute? The emphasis on growth, competition and efficiency underlines the need to remove excessive state intervention. State intervention has costs as well as benefits. With market failure regarded as important in the 1950s and 1960s, the costs of state failure tended to be ignored. But increasingly in the 1970s, the costs of state intervention were far more than the benefits. Stated differently, compared to South East Asia, that was the mistake in the development paradigm adopted. Not a mistake committed in the 1950s or the early 1960s. But a mistake in persisting with an outmoded paradigm in the 1970s, when it was increasingly becoming clear that the costs of state intervention were far out of

13 This is an extremely long list, beginning with Committee Reports like the Tandon Committee, the Dagli Committee and the Alexander Committee. Besides, as a random and limited sample, one has J.N. Bhagwati and P. Desai, *India: Planning for Industrialization,* Oxford University Press, 1970; A.v. Desai, *My Economic Affair,* Wiley Eastern Limited, 1993; v.L. Kelkar and v.v. Bhanoji Rao edited, *India, Development Policy Imperatives,* Tata McGraw-Hill, 1993; B. Jalan edited, *The Indian Economy, Problems and Prospects,* Penguin, 1992; R. Cassen and Vijay Joshi edited, *India, The Future of Economic Reform,* Oxford University Press, 1995; and Isher Ahluwalia and I.MD. Little edited, *Indian Economic Reforms and Development,* Oxford University Press, 1998.

proportion to the benefits. This state intervention prevented competition, constrained efficiency and impeded growth.

This implicitly makes it obvious that the intention is not to denigrate everything that happened in the economy since Independence. More explicitly, there were notable successes. First, India developed a very broad and diversified industrial base. Second, self-sufficiency in food-grain production was achieved. Third, there have been remarkable developments in science and technology. Fourth, the economy has grown and despite arguments about what is the right poverty line to use, the percentage of population below the poverty line has gone down over time. To this list, Vijay Kelkar adds a fifth.[14] All this has happened without any evidence of the income distribution having deteriorated. There is instead some limited and fragmentary evidence of the income or expenditure distributions having improved marginally over time[15]

Let me now turn to the "why not", the prognosis for 2020. And I would first like to mention the rate of population growth. Although firm figures are not really available, this seems to be around 1.5 percent now and is slated to go down to around 1.3 percent by 2020.[16]

What about real GDP growth? I am interested in a slightly long run trend, for the next twenty years or so and not in the purely transient issue of whether the Indian economy is in the process of climbing out of the downturn in 1999-2000. We still do not have hard statistical evidence, but fragmentary evidence indicates that the downturn is over. Business expectation surveys are bullish, corporate profitability has improved, tax revenues are buoyant, the consumer durable sector (including automobiles) has exhibited good rates of growth and infrastructure sectors like cement have perked up. There are perhaps three negative strands still - exports have not yet recovered to plus 10 percent dollar rates of growth, non-oil imports have not increased and there are limited signals that investment activity has picked up. Despite Pokhran, despite Kargil and despite political uncertainty, the economy has been sufficiently resilient. I attribute this resilience largely to the post-1991 reforms. Had foreign exchange reserves not been 33 billion US dollars, a direct outcome of the reforms, the implications might have been different.

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14 Vijay L. Kelkar, "On Current Economic Challenges", Pune Spring Lecture, 16 May 1999.
15 Measured by the Gini index.
16 Obviously, this aggregate figure masks considerable inter-regional and inter-State differences

On real GDP growth rates in the decade of the 1980s, the Indian economy grew at 5.5 percent, a sharp enough break from the Hindu rate of growth of 3.5 percent. When the decade of the 1990s is over, we will also probably register a real GDP growth of not much over 5.5 percent. What then is the difference between the 1980s and the 1990s? Why were the post-1991 reforms necessary? There are two differences. First, despite unsuccessful attempts to bring down the fiscal deficit, in a macro sense the growth rate of the 1990s was much more sustainable than that of the 1980s. Second, that overall growth of say 5.5 percent in the 1990s masks a great deal of inter-temporal variance. The economy didn't recover till 1992-93. And for three successive years, 1994-95,1995-96 and 1996-97, with the new GDP series, the economy grew at 7.5 percent plus, pretty close to 8 percent in 1994-95 and 1996-97. [17] Had such a growth rate continued, that again would have been a sharp break with the 5.5 percent trend of the 1980s. Such 7.5 percent growth rates didn't continue and we had two years, 1997-98 and 199899, of downturn. Or to use the stronger word, recession. But consider this. In these years of downturn or recession, the economy grew at 5 percent in 1997-98 and around 6 percent in 1998-99. A downturn or recession at such rates of growth? For an economy that grew at 3.5 percent for decades? If nothing else, this indicates how expectations have changed. We are no longer satisfied with rates of growth that are below 7 percent.

There is an issue of reforms having got stuck and the unfinished agenda. There is an issue of the political economy of the reform process, despite a consensus on the need for reforms that exists across all varieties of the political spectrum. Barring perhaps the Left or what is left of it. Because of such political economy nuances, big bang reforms are perhaps unlikely. Perhaps steady state reforms will continue, sometimes steady, sometimes a little less so. This is a point to which I will revert later. For the moment, I would like to argue that even if there aren't substantive reforms, for the next two decades, the Indian economy is likely to chug along at 7 percent. A domestic savings rate of 25 percent and a current account deficit to GDP ratio of 2 percent yield an investment rate of 27 percent. A capital/ output ratio of 4, and reforms should contribute to a reduction in this ratio,

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17 Of course, the new GDP series adds almost 1 percent to the growth rate, but the basic point remains valid. Economic Survey, 1998-99, Ministry of Finance.

Implies a real GDP growth rate of 6.75 percent. Almost 7 percent. This is plain Harrod-Domar. Alternatively, consider the sectoral composition of GDP - roughly 25 percent from agriculture, 25 percent from industry and 50 percent from services. It should be possible for agriculture to grow at 5 percent, industry to grow at 9 percent and services to grow at 8 percent. Given the weights of sectoral compositions, this adds up to a real GDP growth rate of 7.5 percent. Even if I have over-estimated a bit and even if agriculture cannot grow at a sustained rate of 5 percent without substantive reforms, the target of 7 percent seems feasible.

A population growth of 1.5 percent and a real GDP growth of7 percent. A real per capital GDP growth of 5.5 percent. When, since Independence, have we had real per capita GDP growth of 5 percent plus in at least two successive years? Not before 1994-95. Earlier, based on *HDR,* I quoted the Indian per capita income of 370 US dollars in 1997. We do not have present figures, because there is always a time lag. I guess the per capita income must be around 400 US dollars today. Applied on the base of 400 US dollars, a real per capita GDP growth of 5.5 percent gives a per capita income of almost 1200 US dollars in 2020. In today's dollars. Today (1997), for example, the Philippines, Indonesia, Egypt and Morocco have per capita incomes around that number. 1200 US dollars are not a mere number. Plucked out of thin air. It means something. It has implications for poverty. With a per capita income of 1200 US dollars, the poverty problem, as we know it today, will be completely transformed. The percentage of population below our own indigenous poverty line should drop from around 30 percent to 15 percent or below. Like in Indonesia and China. This is because income distributions are typically log normal, positively skewed, with the thick end to the left and the thin end to the right. As per capita incomes increase, one passes along the distribution, so to speak. Towards the right end, towards the thin end, drops in poverty are less sharp. But eventually, one passes through the thick part of the distribution, as India will do in the next couple of decades. Then, sharp drops from 30 percent to 15 percent are possible, although drops beyond 15 or 10 percent tend to become much more difficult. Take those four countries I mentioned, with per capita incomes of around 1200 US dollars today. For Egypt, we do not have any figures on the percentage of population below the national poverty line. But for the others, we have 41 percent for the Philippines (where income distributions are much more unequal), 8 percent for Indonesia and 13 percent for Morocco. An Indian economy with 8 or 13 percent of the population below the poverty line. That would be truly remarkable!

Purely as a digression, how many economies in the world are likely to grow at 7 percent during the next two decades? Not Singapore, Hong Kong, South Korea, Malaysia, Thailand or Indonesia. Perhaps the likes of Oman, China, Egypt and Botswana. And of course, India. In the years leading up to 2020, India is thus likely to be among the top five fastest growing economies in the world. Bets are typically uncertain and individuals are typically risk averse. However, this is a bet that I would be happy to take on.

There are dimensions other than poverty, the physical quality of life indicators say. I would expect life expectancy at birth to go up to more than 65 years, perhaps closer to 70. I would expect the adult literacy rate to go up to at least 85 percent. Citing *HDR,* I earlier gave an adult literacy rate figure of 53.5 percent. This is not a Census figure, the 1991 Census figure is still 52.2 percent. Of late, the National Sample Survey (NSS) has been collecting data on literacy and the 53rd round of the NSS shows a 62 percent adult literacy rate in 1998. There have been questions about reliability of such data, whether sampling designs are appropriate to capture literacy. One will have to wait till the 2001 Census to find out. But at a circumstantial level, I find the trends believable. Historically, illiteracy was perpetuated because one relied on centrally administered government schemes to solve the problem. Run from Bhopal rather than from the village. There were weaknesses in delivery systems and lack of accountability. Increasingly, circumstantial and anecdotal evidence suggests that schemes have become decentralized and involve users. There is more accountability and greater NGO (non-government organization) involvement. Therefore, although I don't know about the veracity of the 62 percent figure, I believe the trend. Extrapolated, 85 percent adult literacy in 2020 seems possible. Cross-country, there is a strong correlation between growth and literacy, although the direction of causation is unclear. Very few countries have sustained 7 percent growth rates, without sharp increases in literacy levels. Egypt seems to be the only exception. I would expect the infant mortality rate to go down to 30 per thousand, if not lower. Let me mention yet another bullish note. I have quoted from the 1999 *HDR and HDRs have* been around since 1990. Each lf *HDR* calculates various indices and one such index is the human development index (HD1), based on life expectancy at birth, knowledge (adult literacy rate, combined enrolment rate) and per capita income in PPP dollars. HD1 values lie between zero and one and depending on the actual value; countries are classified into high human development, medium human development and low human development groups. India has all along been in the low human development category. 1999 is the first year when India moved to the medium human development category and out of 174 countries ranked, India's rank went up from 138th in 1998 to 132nd in 1999.[18]

I have concentrated on all-India trends. But I should mention that there are signs of enhanced inter-regional and inter-State disparities. For instance, it is by no means axiomatic that the trickle down benefits of these developments will percolate through to Bihar, Madhya Pradesh, Rajasthan, Uttar Pradesh, Orissa or West Bengal. Post-1991, this has largely become a function of how proactive State governments are. In some sense, because of the reforms, the focus of policy change has shifted from the Centre to the States. That is where the cutting, or the blunting edge, of reforms now is. Because I do not wish to deviate too much from my theme, I will now state a proposition that I will not attempt to substantiate with facts. Among these six States I mentioned, I am inclined to identify Bihar and Uttar Pradesh as the real problem areas. These are likely to be bypassed in the growth and development process.

One day Alice came to a fork in the road and saw a Cheshire cat in a tree. "Which road do I take?" she asked. His response was a question: "Where do you want to go?" "1 doesn't know," Alice answered. "Then," said the cat, "it doesn't matter."

As citizens, I think we have a right to ask "why not" about the 7 percent GDP growth and its consequent implications. The Bible states, "As for your old men, dreams they will dream. As for your young men, visions they will see." [19] In this context, I am not sure what the difference between a dream and a vision, In any case, each word, dream or vision, suggests an objective that is unattainable. The 7 percent solution does not belong to the realm of dreams or vision, it is an objective that is reasonably easily attainable. But better is the enemy of good and unfortunately, the Indian economy is potentially capable of performing better.

18 The improvement in ranks is largely because India's per capita income in PPP dollars improved and to a limited exlent, because the life expectancy figure went up. The literacy rate used continues to be 53.5 percent. Once this is jacked up, there should be a far more dramatic improvement.

19 Joel, 2:28.

Not merely a 7 percent rate of growth, but 8 percent, 9 percent and even 10 percent. A 7 percent rate of growth gives us a per capita income (in today's dollars) of 1200 in 2020. With 8 percent we get 1400 dollars, with 9 percent we get 1700 dollars and with 10 percent we get 2050 dollars. Between 1975 and 1995, China has grown at 9.1 percent. If China can, why can't we? That is where we want to go. That determines the road we take. And that brings me to the unfinished reform agenda, the so-called second generation of reforms.

Broadly speaking, reforms can be compartmentalized into an external sector component and a domestic component. This is not necessarily watertight, as spill overs and linkages exist. Subject to this, one can generalize that most reforms in the external sector have already taken place or there is some time frame for future implementation. In contrast, barring industrial deli censing, reforIru? In the domestic sector have been almost tardy, except perhaps some tinkering in the financial sector. This is understandable and concerns the political economy of the reform process. Vested interests and lobby groups benefit from the status quo and oppose reforms. George Bernard Shaw used to say that a government that robs Peter to pay Paul can always count on the support of Paul. Among such vested interests are inefficient trade and industry, the bureaucracy (broadly defined), organized labour and large farmers. These are vocal sections. Conversely, groups that should benefit from liberalization are efficient trade and industry, small farmers, unorganized labour and consumers. These tend to be diffused and are less vocal.

Not necessarily in any order of priority, my unfinished reform agenda has the following list.[20] This is primarily a list and I do not propose to dilate in great detail on any of the individual items, since the arguments are fairly well known.

First, the pro-rich and anti-poor impression of reforms will not be dispelled until reforms are introduced in agriculture. Without agricultural growth, the poverty problem cannot be resolved. Nor will there be off-farm activities and employment generation in rural areas, necessary because industry cannot hope to absorb sufficient labor. Reforms in the agriculture sector have several dimensions freeing restrictions at the border, freeing restrictions on movement of agricultural products within the country, paying the farmer right prices for output, improving public expenditure on agriculture by scrapping dysfunctional power, irrigation and credit subsidies, decentralizing management of irrigation works and rural roads, setting up water and power users' associations, removing bans on futures trading and revamping rural credit and insurance.

20 I have deliberately refrained from mentioning small-scale sector reservations, although that is also an important item in the agenda. The deliberate omission from the text is because de-reservation does not neatly fit in with any of the other agenda items in the text. For example, the issue would have been extremely important had I mentioned exports.

Second, scrutinize subsidies, some of which have also been mentioned under the agriculture head. In 1971, explicit subsidies provided under the budget amounted to 3 percent of GOP. The current figure is around 16 percent.[21] The road to hell is paved with good intentions in the name of the poor, although the poor rarely benefit from these subsidies. Everyone in the country cannot certainly b{ poor. In other words, across the board subsidization for everyone makes no economic sense and subsidies should be targeted at the poor. Food subsidies through the public distribution system (PDS) are an example. Estimates are that the dependence of the poor iI rural areas on the POS for food grains, sugar, edible oils, kerosene a coal is around 16 percent and the POS has a pronounced pro-urban bias. For every rupee spent on the poor through the POS, around twenty paise reaches target beneficiaries. In Andhra Pradesh, there are reports that 80 percent of households have ration cards meant fa poor households. In Bihar, there are reports that the number of ratio cards is more than the number of households. In many infrastructure areas like power, there is an increasing willingness among the nor poor to pay appropriate user charges, provided delivery improves

Third, improve the efficiency of public expenditure a education. India spends around 3.4 percent of GNP (gross nation. product) on education and this is not all that low by international Standards. For instance, Sri Lanka also spends 3.4 percent and China spends 2.3 percent. But the point is that this expenditure is inefficient. There is a bias in favor of subsidizing higher education at the expense of primary education, unlike East Asia, and expenditure on primary education through centrally administered government delivery schemes is plain inefficient.

21 There are also implicit subsidies through cross-subsidization and investments public sector undertakings (PSUs) evaluated at book value. These are even me non-transparent.

I have already alluded to decentralized schemes that seem to have made an impact on school attendance, the Education Guarantee Scheme (EGS) in Madhya Pradesh being a case in point. Probably around 75 million children in the age group of 6-14 are not currently enrolled in schools and around 60 million are never enrolled in schools. It will not cost all that much money to get these children into schools, if that is efficiently done. And if we think these costs are expensive, that is because we can never successfully estimate the costs of ignorance.

Fourth, improve the legal infrastructure. There are around 30,000 statutes, Central and State-level, apart from administrative law, yet the country is under-governed. Because there is no principle of desuetude, old laws continue to exist on statute books and there is also a need to harmonize across different statutes, enacted in the same area, but at different points in time. There is too much of state intervention. Labour laws are an example. In the organized sector, these make labour markets artificially rigid and are a deterrent to hiring labour. Consequently, industry adopts artificially high capital intensive techniques of production. This means a certain number of jobs lost and unless labour markets in the organized sector become more flexible, manufacturing growth will not automatically translate into greater employment. Administrative or subordinate legislation (rules, regulations, statutory orders, administrative instructions) also reflect this mind set of unnecessary state intervention. To cite one instance, there are 79 Central and 150- State-level orders under *the Essential Commodities Act.* The judicial process is also not credible and with 30 million cases pending in various courts, transaction costs of obeying the law are simply too high.

Fifth, address the fiscal deficit. Can Parliament enact a Fiscal Responsibility Act, so that there is a cap on revenue and fiscal deficits? Revenue expenditure is around 13 percent of GDP, while revenue receipts are only 10 percent of GDP. This is like an individual consuming more than his income and there is no money for capital expenditure. Of course, the government has the flexibility of not having to behave like a responsible householder. An overall government deficit implies an upward pressure on interest rates and crowding out of private sector investments or inflation, the latter being the most regressive form of taxation that one can think of. On revenue receipts, there is a need to make indirect tax structures more transparent, such as through transiting to a value added tax (VAT). For non-tax revenues to increase public sector undertakings (PSUs) must generate a surplus and this requires PSU reform. About half of 240 Central PSUs are loss-making, about half of the loss-making Central PSUs have piled up losses that exceed their net worth. The average return on capital employed for these PSUs is less than 5 percent. I would be mad to borrow at 10 percent plus for a venture that yields less than 5 percent. What is insane for me ought to be insane for the government as well. The objective of PSUs cannot only be employment generation. On revenue expenditure, the four major components are interest payments, subsidies, defence expenditure and wages and salaries of government employees. I have already touched upon subsidies and PSU reform, and divesting equity in PSUs and using the proceeds to retire public debt are linked to interest payments. On wages and salaries paid to government employees and downsizing of government, let me tell you that the British created a civil service job in 1803. A man had to stand on the cliffs of Dover with a spyglass and he was supposed to ring a bell if he saw

Napoleon coming. That job was eventually abolished in 1945. In some circles, it is still customary and fashionable to blame the British for everything that went wrong with the Indian economy. We can afford to blame the British for passing on the bureaucracy to us, but we perfected it beyond their wildest dreams.

Sixth, reform the financial sector - banking, insurance, capital markets, venture capital, pension funds, reductions in real interest rates. For obvious reasons, at the Administrative Staff College, I feel it unnecessary to dilate further on the financial sector.

This may seem like a simple six-point agenda, this list of promises to keep. But as the last nine years of sometimes-aborted reform have taught us, there are miles to go. It will be a long haul. Ladies and gentlemen, when I begin to teach economic theory to students, I often begin with the notion of opportunity cost. But I don't think it ever registers. Somewhere down the line, students forget all about opportunity cost. I think there is a parallel there. The opportunity cost of preserving the status quo is 1200, 1400, 1700 or 2000 dollars in 2020. The opportunity cost is a life expectancy figure of 70 years, the opportunity cost is an adult literacy rate of 85 percent, and the opportunity cost is an infant mortality rate of 30 per thousand. I don't think a big bang will ever happen in India. But if we begin with the necessary, we will move on to the possible and eventually transit to what today seems to be impossible.. However, for that to happen, as individual citizens, in a political economy sense, we need to be much more demanding and assertive that the status quo cannot be persevered with. Lest that horizon of opportunity cost move away. That is something we owe posterity.

Ladies and gentlemen, I was born eight years after Independence. I have never experienced life in a dependent India. But nor have I experienced life in a confident and self-assured India, confident and self-assured in an economic sense. Adrenaline does not course through my veins when there is talk of tigers and cubs and an elephant called slowly. When we talk about what East Asia does, and East Asia does what we talk about. I do hope to live till 2020. I hope to see an India that is listed in the high human development category in the 2020 version of *HDR,* an India that is no longer the possible emulator, but is the emulated. An India that

Rajiv Gandhi would have been proud of, because that is the India he had in mind. To repeat what I said earlier, this is not a dream or a vision, suggesting the unattainable. It is a hope, suggesting the attainable.

Ladies and gentlemen, I have taxed your patience long enough. Thank you once again for having given me this opportunity. And let me thank the Administrative Staff College once again for having extended this invitation.