

THE RAMAKRISHNA MISSION INSTITUTE OF CULTURE

Challenges of Socio-Economic Disparity in India

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By professional training, I am an economist. Economics is a subject which the great French philosopher-historian Carlyle described as the dismal science. Probably he thought that the knowledge of money and wealth makes one less concerned about the welfare of the people. Well, Carlyle's description does not probably fit all economists very well because some of us do feel concerned.

This concern can come through different ways. One is through an institutional arrangement in which all, whom we call economic agents or the active players of the economy, can get at least a minimum share of the fruits of their activities. It could also be addressed in other ways—for instance, the famous Gandhian way that says: let everybody forsake some of their desires. Mahatma Gandhi addressed the Indian Economic Association in 1916, when he presented wantlessness as a recipe for economic welfare. Gandhiji, of course, did make other contributions to the economic concepts, but today I am not going to talk about that.

Another way of looking at welfare is through compassion. However, none of my books actually talk in this language; there you will find all hard econometrics modelling. But His Holiness Dalai Lama one day invited me to deliver a series of lectures on what he called 'spiritual economics'. I was put to a very embarrassing situation because I have not been trained in spiritualism of any kind. I tried my best to search through the Internet and found practically nothing about this 'spiritual economics'. It is not there actually. Of course, you have spiritualism. You have also modern institutional economics. But a combination of the two has not yet been structured.

So, what I will be speaking today will be based upon some of my recently published books and papers. They talk separately about such issues as growth, globalization, regional disparity, socio-economic disparity and employment. Now, without going too much into the past, we all know that during the post-Second World War period, there was a realization all over the world that development must be not only even *between* nations, but also *within* nations.

Some of the greatest economic thinkers in 1940s and 50s laid a lot more stress on welfare economics than on growth per se. Even the champion of growth and the father of modern macro-economics, Lord Keynes, stressed a great deal on the role of the government, the public provision of goods and services; but he did it, of course, to stabilize the economy primarily. He demonstrated that, left to itself, the market economy will be always unstable. It will move in cycles. High period of boom and prosperity will be followed by great depressions. And in the depression and recession it is the poor that shall suffer more than the rich. So, he suggested an active participation of the state as a regulator. Keynesian logic was then extended to what is known now as development planning in large number of developing countries all over the world.

As a planning model it stipulates that the state shall be not only a regulator, but also promote economic activity which will primarily benefit the poor. Unfortunately, this model has not always been successful though Keynesian ideas made inroads not only into the developing countries, but it had a deep impact on the economic thinking of the developed countries as well. No less a person than Richard Nixon, President of the United States of America, pronounced in 1971 that 'we are all Keynesians'. Between 1950 and 1980, practically all over the world, there was a dominance of Keynesian thinking in which the states played a key role in regulating the economy. But since 1980s, with the advent of what is called 'Reaganism' and 'Thatcherism', gradually the Keynesian ideas

receded into the background and economists of the world more and more started moving towards what they called 'free market economy'. Its message was: 'Let the market prevail.'

The champions of the free market ideology also justified market not only because it promotes efficiency and thereby maximizes growth, but also because of the theorem which they call 'trickle-down effect'. According to this theorem, even if the growth initially benefits the rich, eventually it will trickle down. However, famous Kuznetskov showed that the experience of the countries following the model was that initially when the growth occurs, the disparity rises.

The failure of the Keynesian ideas on two fronts led eventually to their collapse. What are these two fronts? One is the misuse of the Keynesian ideology by completely neglecting efficiency and productivity and secondly, the syndrome of 'subsidy culture' as economist Helstine puts it. Truly, if a human being is protected right from the cradle till he goes to the grave, such a syndrome develops automatically. Imagine that a child is born and the state takes care of the child's education and health; when it becomes an adult, even if he / she does not get a job, the state provides him / her with unemployment benefit.

In President Carter's time the unemployment benefit provided was equal to the lowest salary in the organized sector. So in such a situation a person feels disinclined to do hard work, for he knows that if he loses the job, he will get unemployment benefit; when he becomes old, he will get old-age benefits. His children, he knows, will also be getting all protection from the state in the same manner. Helstine, who became the Chairman of the Economic Advisory Council to President Reagan, argued that such an economy will become less productive and growth will suffer. So somehow they have to restore productivity and efficiency. Otherwise, in the words of the critics of the welfare economics, instead of distributing wealth, you will be actually distributing poverty.

The second argument against the Keynesian ideology was, as the modern economy advanced from traditional large-scale industrialization (where state could produce some of the goods) it became increasingly more sophisticated. Take, for example, the modern service-oriented economy where knowledge, an intellectual property, has become the engine of growth and bureaucracy is notorious for not understanding that. So, leaving the key decisions to the bureaucrats would be suffocating entrepreneurship and creativity.

To the rising intellectual class, what we now call the 'knowledge economy', has become theoretically far more appealing. We have seen countries after countries where this is happening. If I am not impolite, I can give an illustration. Long before Bangalore became the Cybercity of India, Calcutta could become one, perhaps the first Cybercity of the country. IBM was willing to invest heavily in Calcutta to make it the first Cybercity of India, but the then polity and bureaucracy in West Bengal called computer 'an agent of capitalism' and therefore it should be driven out of Bengal. So the IBM and other organizations found home in Bangalore. The irony is that now Calcutta is trying to bring them back. But a lot of water has flown down the Ganges. So we lost. In fact, if we looked upon the comparative advantages of West Bengal and its people over others, we could have realized that our strength lies in intellectual activity rather than organized large-scale industrial activity. Had we cared to do so, West Bengal would have been the foremost state of 'knowledge economy'. That is just an example to show how misunderstanding of some of the innovative ideas can thwart the development. It was a totally wrong perception that computer will replace labour. In fact, computer augments their skill.

So, the first failure of the Keynesians lay in doling out excessive subsidy, even by borrowing recklessly from different lending agencies. That created a death trap in the late 80s. As a result, by 1992, close to hundred countries of the world were heavily indebted to the World Bank and the International Monetary Fund (IMF) and they were on the brink of fiscal bankruptcy. India was one of them.

The World Bank, during the Carter regime, had Robert McNamara as the President. He was the most charitable World Bank President ever, the same Robert McNamara who was behind carpet bombing of Vietnam! He gave liberal loans for a period of 50 years to countries like India at the rate of only 1% interest. Critics argued that this liberal credit policy made the politicians of these countries irresponsible with no accountability and no concern for generating efficiency.

So when Reagan of USA and Thatcher of U. K. started dominating the Anglo-Saxon lobby in the two money-lending world bodies and gradually France and Germany sided with them, they together replaced the World Bank and the IMF with much harder people who developed what is known as the 'Washington Consensus'. This consensus flatly told the indebted countries that if they wished to borrow any more fund from the World Bank and the IMF, they have to change their course. Slowly after that the World Trade Organization negotiation which was withheld for nearly a decade before that was revived.

As a result, the GATT (General Agreement on Trade and Tariff) as opposed to the UNCTAD of the developing countries fizzled out. One by one, all countries signed the WTO. Why and how this happened? The plain and simple answer is that a beggar cannot be a chooser. If you cannot put your house in order, go to the West to borrow. But do not expect charity from them. This I keep telling my friends much though I am concerned about the poor in India. I know one hard thing; there is no combination of charity and economics. You have therefore to play the economic game, the '*win win game*' so that both sides could benefit. But the game requires of you to become more efficient and intelligent in understanding where your strength lies.

However, since then globalization and market economics have swept the world. Although the advocates of globalization and market economy have asserted that these will lead to redistribution of wealth from the rich to the poor, actual experience is mixed.

East Asia is an example where of course this redistribution has taken place. It is true, by East Asia I am excluding here China, which I will come to a little later. In the rest of East Asia—Japan, Taiwan, South Korea, Malaysia, Singapore—yes, this has taken place. Incidentally, much though they remained market economies, they are very much welfare-oriented. Singapore, for example, provides much greater welfare to its citizens than any Socialist country in the world. The Scandinavian countries in this respect, I think, are still the best in the world. Unfortunately, the experience has not been the same elsewhere. In the rich countries including the Anglo-Saxon and West European nations, the economic model advocated by the World Bank and the IMF has indeed increased the growth rate, but it also increased the disparities.

There were hardly any beggar in England in the 60s and 70s. Today, as soon as you land in Heathrow, you start seeing them. There were no slums in England before the administration of Margaret Thatcher. Today there are plenty. Statistics show that the ratio between the average income of the bottom 10% of people and top 10% of people during James Calaghan, the British Prime Minister, it was around 1:7. The top rich were on an average seven times richer than the bottom poor. Individually, of course, this difference was much sharper.

Today in England the figure is close to 30. That is, the average income of the top 10% is 30 times of the average income of the bottom 30%. In the United States, in Carter's time, it was 1:12. Today it is 1:25-26, probably. Same is true in Germany and in France. Recently I saw a massive three-day demonstration by labourers in Paris which reminded me of Calcutta. Germany also is witnessing an unrest, though it is recognized that the average growth rate has increased in all these countries.

In South Asia, there is no doubt that we have started growing much faster than ever before. I will come to it and probe the Indian experience in particular. But before I do that I must tell you that the Indian experience is not unique. Except some marginal differences, the situation is quite the same in

Bangladesh and Pakistan, where disparities prevail despite growth. China, for example, despite its dazzling growth, is hiding the disparity existing between the rich and the poor. In China, they do not show you the poor as yet. When we go to China, they decide whom we should talk to, even now. So when I want to know the real Chinese story, I have to talk with my Chinese professors outside China and that too only after they are very much sure that I am not going to divulge the details of our discussion to their colleagues back home. Very recently, when a Chinese professor and I were interviewed in Paris for a programme to be telecast in China, the interviewer somehow managed to extract certain hard facts from the professor.

The Chinese professor was vividly shaken. At the end of the interview he pleaded with the interviewer to delete some of his remarks. Finally, a compromise was reached when I said to the interviewer, 'Please put those words in my mouth as I am entitled to speak anything.' Fortunately, India allows me to enjoy the freedom. China doesn't. So, in South Asia, there is clear evidence that growth has accelerated.

Africa, however, is a disaster in all respects. There is neither growth nor any improvement in the welfare. It is all downhill. The Middle East is swinging with the oil price. If oil price goes up, they feel a little better, if oil price comes down, they go down. Nothing sustainable in the development.

Latin America is somewhat like South Asia, a little extreme perhaps. Does it mean then that we can go back to the earlier regimes? My answer is 'no'. One thing, the only eternal truth if ever there is any in this universe, is that with time everything changes. We cannot go back. We have to evolve within the modern realms of economics, a new system in which the growth would percolate down. An absolute equality may not be possible, but a critical minimum balance for everyone is called for.

The Indian case

Now let me come to the Indian case after this prelude that seeks to tell you that it is not only in India. This disparity is a matter of concern, it is indeed a global phenomenon. No nation, at least in the foreseeable future, can cut itself from the process of globalization. Saddam Hussain was the last such attempt and he had a painful end.

All serious economists believe that the Gulf War had nothing to do with the sovereignty of Kuwait or anything. It was a plain and simple hard economic war. Saddam gambled and chose to defy the current of globalization, WTO and so forth and he was ostracized. Iraq's economy was totally crippled by the economic sanctions imposed by the United Nations. Iraq was not allowed to import food and medicine, it was not allowed to trade.

So it was crippled. The final blow was just symbolic. The only other exceptions trying to defy the forces operating in world economy were North Korea, Cuba and Mainmar. But then, Mainmar has also begun to open up and joined the ASEAN which is a free trade bloc. So, one thing is clear. Given the present state of the world, we cannot also say that we can defy globalization. No economy in the world can live in isolation. China is the best example which has realized that it needs market to survive and grow.

It is equally true that disparity would remain even if there is no globalization. So, not all disparities evident in countries like India is the result of globalization. To understand that we have to understand each of these economies in depth.

Let me come to the core of my talk—disparities in India. During the first three decades after independence, India's average growth rate was about $3\frac{1}{2}\%$ which was described by one of my former colleagues, Rajkrishna, as the 'Hindu rate of growth'. Since 1980 onwards, this rate was between 6 and 7%. Last few years have registered 8% plus. There is a general belief today that India is soon going to have a much higher growth rate and catch up with China. Newspapers are often

publishing projections, of course, quoting statistics, that India will be the second biggest economy or the third biggest economy etc etc.

Every time I read such reports, I feel amused because I am chairing the committee that is engaged in preparing statistics and I have not completed my exercise. I do not know how newspapers are getting that kind of projections! It is a game perhaps. None the less, it is true that India is a very fast-growing economy. There is no falsity in that statement. And it is not entirely due to globalization. It is also true that this growth is not pretty even in our country—the disparities are there.

Let us now look at the disparities from different dimensions. The fastest growing sector of the economy is the services sector that is growing at the rate of 9 to 10 per cent. Again, within this sector, some of the activities like Information Technology, Media, Entertainment, Finance, Education, and Medical Research are growing at the rate of 30-50 per cent per annum. Unheard of, but this is true. Overall growth in the service sector is about 8 to 9 per cent because traditional services like, say, ordinary retail trade, they are doing not so good.

But the modern services are rapidly expanding. One of the reasons behind this is that Indians have an inherent advantage over others in the field of modern services. Given an opportunity, most Indians, not only in India, but also abroad, pick up three things very quickly—Mathematics, Finance and Computer. These are the three major components of the modern services sector.

Performance of the Indian students in English and American schools are better than any other ethnic groups in the world. Everybody today talks here about the growth of Chinese economy, for China is even selling us the idol of Ganesh, which is true. Many of our temples will be decorated now by the Chinese-made Indian idols. They have an advantage over us in that field. But a less known fact is, India is one of the few countries in the world which is actually having a trade surplus with China. That is not so visible. We can see easily that Chinese toys, sewing machines and electrical goods, and now cars and computers are going to flood the Indian market. But what is not so much obvious is the fact that Indian people working in IT are rendering services to the Chinese economy and earning more than what the Chinese are able to sell us. That is why the Chinese Prime Minister keeps lamenting that if only they could learn the software like Indians, China could really dominate the world.

Thus it is quite clear why and where we do have comparative advantage over other Third World countries. Historically, pre-independent and post-independent India has developed certain educational institutions and universities where the quality of education is one of the best in the world. The JNU, for example, has attained the status of a top rank university. Once upon a time the Calcutta University enjoyed this status. Now, unfortunately, it has gone down in ranking. That has happened because we do not realize the value of quality. But quality matters a lot. That is the only way we can bring all your foreign exchange and build your reserves and play the modern game.

Now, because of this relative advantage that we have been enjoying, we have the great pool of scientists, engineers, doctors, economists, financial experts and others, who are flooding the world and also getting what they call outsourcing of jobs from abroad to India. Two simple answers to this phenomenon are: First, pure economics, second, technology. Let me give an example. You have to pay 80 to 90,000 dollars a year to an American PhD degree holder. But a PhD of almost the same quality from some top Indian universities would be willing to do the job for 30-40,000 dollars. There is a comparative advantage of hiring Indian professionals. The second reason, as I said, is modern technology which enables one to work from one place to do the job for another place with the help of satellite communication technology. So we can sit in India and provide medial service for rest of the world, as we are doing nowadays. I predict that within next 10 to 15 years half of the world's bio-technology and bio-medicine research will be in India's grip for the simple reason that we have our comparative advantages in these fields.

Industry, on the other hand, is showing two kinds of behaviour. While the more modern industries using skilled labour are growing very fast at the rate of 18-20 per cent, small-scale industries using unskilled people are doing very badly having 1-2 per cent of growth. So that puts the national average of industrial growth to 8-9 per cent.

Agriculture is virtually stagnant. Farmers committing suicide could be symbolic, but the deeper problem is that rural population is rising or continues to rise at the rate of about 2 per cent per year. Urban population growth has declined, but rural population growth is still quite high for a variety of reasons such as illiteracy, lack of modern family planning facilities and things like that.

So, simple arithmetic will show that the average income of the rural population is not rising at all, whereas average income of the urban citizens keeps rising by 10-12 and even 50 per cent per annum. So one is sectoral imbalance. And then, there are other kinds of imbalances in the society, for instance the imbalance existing between the rural and the urban population. Unfortunately, while the economy is becoming more and more service-oriented, an overwhelming population still live in rural areas. Unlike other countries, there is no massive migration of people from rural to urban areas.

Those of us who live in cities like Delhi, Mumbai, or Calcutta lament that too many villagers are coming to cities, but the fact is, they are not; they are still confined to the villages. This is a peculiar phenomenon of India that while growth centres have shifted to the cities, people are still in the villages. Why? One reason is, it is unfortunate that the dynamic economic activities having a fast growth are not employing people. So, if the rural people come from the village, they will end up only in urban slums as beggars, tea shop boys, shoe-shines—things like that. Where they could possibly get a job, say, in small industries or cottage industries—those are stagnant! Some of these industries are even dying as in West Bengal. So, there is no job for unskilled people and rural people are unskilled.

This picture is also very sharply evident if you take a regional look. Certain parts of the country are growing very fast, whereas certain parts are growing very slowly. Some regions even are stagnant, probably negative. North-East and Kashmir are probably negative. So, no wonder that terrorism is rising in these pockets.

I mentioned a little while ago that India has some of the best-known technological institutions of the world. But it is also true that they are only islands of prosperity amidst vast and encircling gloom. The other day when I was delivering a talk in Kanpur IIT, which is known to be one of the best information technology education centres, I said, while the IIT Kanpur is producing the best of technocrats in computers—hardware as well as software—the village just beyond the boundary wall does not even have a primary school! That is the problem. This is not so in East Asia where the first thing they ensure is that every village must have a good school, a good road; all people must be given health education and nutrition. After that it is their own responsibility. You cannot come back and say, 'Give me a good job'. The idea is that the state will give you all opportunities. But after that you look after yourself and compete in the market. I am in some government committees on education, and here I give you some revealing statistics.

Only 8 per cent of the high school graduates of India at the moment are getting admission in colleges and universities. If you are not a college graduate you cannot get a good job. Close to 70 per cent of the students drop out after fifth or sixth standard. They do so for a variety of reasons. Their families are so poor that they cannot afford to have their son in the school after a certain age. They take them out, put them compulsorily to earn something for the family. Then, certain communities such as the Muslims do not want their girls to be educated beyond a certain age. There are also other reasons. Even the families which are willing to send their children, specially the boy, to school, I heard in Punjab and Bengal that farmers complain that if their son passes high school, he refuses to become a farmer. But the difficulty is that he is not qualified enough to get a good job. So he is nowhere.

This I heard in rural Bengal as well as in rural Punjab. A former Chief Minister of Punjab, therefore, argued with me sometime ago and said: 'Why are you advocating education? These people come out of the village, become restless, and finally they become terrorists! They have neither the liking for farming because they think they are educated, nor they are capable enough of getting a good job in the cities. So, out of frustration and anger they become terrorists.'

Now, it is also equally true that according to the latest Planning Commission document, 50 per cent of villages till today do not have even a primary school. If such is the case, it is quite natural that there would be uneven development. So, I stressed heavily all the other things that I talked about—rural, urban, social, and community disparities. If you really go down very deeply you will discover that the root of the problem is diverse educational opportunities. Whichever community has taken to the modern education has benefited.

The reason is, if you do not get a job in India, the vast globe is now open to you. So, until the time we are able to educate or at least provide the entire population with universal general education. I am not very confident if we can tackle the challenges of socio-economic disparities. I am saying this with a bit of sadness, because only recently the government has passed a legislation saying that all higher educational institutions must increase their students' admission by 54 per cent within July, August this year. This is a nightmare for people like us. Curiously, the same Parliament has expressed the view that time is not yet ripe for having universal education in the country! It reflects a pathological mindset of the polity. Though newspapers did not report the parliamentary thinking in a bold way, I thought that was a far more significant thing than everything else, which means polity and society have not yet understood the value of education.

Education these days is not merely for knowledge, it is a passport for getting jobs, for globalization, for innovation, for skill technology. All the modern fast-growing dynamic economic activities are dominated by the highly skilled people. Other countries like Singapore fix targets. They first have a target that everyone must at least have high school education. This they achieved more than 20 years ago. Then they said 75 per cent of their young people should be graduates. They have almost achieved their target now. Their next target is, they want at least 25 per cent of the graduates to have PhD in the next 10 years. I am told they are moving very fast to reach their target. Even China in a recent move has decided that in the next 15-20 years it will add another 3000 universities of which 25 to 30 will be picked up specially for high intensive research and education so that China could be on a par with the best of the world. I know they are going very very seriously on this. They are not allowing any democracy and freedom, but in this matter they are very much ahead of India.

So, the socio-economic challenges that confront the nation unfortunately will remain, and one sad part of the story is that India is not China. China can afford to have vast regional disparities, socio-economic disparities, and so forth because they do not allow democracy. But in India, we cannot do that. If the larger masses of the population do not have critical minimum benefits of development, they will revolt against it, sometimes negatively like terrorism. So, as I keep telling, it is the responsibility of the state to provide basic public goods and services with a certain degree of discipline.

It pains me to read that even many teachers in West Bengal do not teach even though they are not badly paid. It did not happen in my time when I was in school. College teachers also teach better in the tuition in the evening than in class in the day. This also means inequity because not all parents can afford their sons to be given the costly tuition in the evening. So even a so-called socialist state seems to be rank capitalist. I keep telling that it is not your posture that counts. What you are is revealed by your actions. So if you cannot extend even in West Bengal education universally, we would not have equity in West Bengal. And the same is true for the whole of the country. Meanwhile, top 10 to 20 per cent of the population who had access to modern education, shall flourish at least for another 30-40 years. They shall go all over the world.

So, my concluding remark is, India will continue to grow because we have at least 10-20 per cent of our one billion population who are highly educated and skilled. They will continue to grow very fast. Unfortunately, their prosperity will not spread to the bottom until all the governments, whether communist or capitalist, realize that the means through which these people are getting richer, is education. So spread education universally first and the rest will automatically follow.

* This is the edited version of the Foundation Day Oration, Professor B. B. Bhattacharya delivered at the Institute on 29 January 2007. Professor Bhattacharya is an eminent economist, author, and the Vice-Chancellor of the Jawaharlal Nehru University.