

IS ECONOMIC GROWTH CONDUCTIVE TO DEVELOPMENT IN INDIA ? AN OUTSIDER'S READING OF THE EVIDENCE

Christian Comeliau, March 2007 ¹

The author of this paper is not a specialist of India, where he has never been working for a long period. He was invited several times in the country, however, for various seminars and meetings, as a research fellow at Jawaharlal Nehru University in Delhi and other places. He had therefore various opportunities to meet some of the leading Indian economists. As a development economist, he worked for many years on planning issues, on the role of the State, on economic growth, on globalisation and development models ; he did research in various “developing” countries, and also in France where he was a member of the planning agency during the 80s.

The purpose of this paper, therefore, is not to propose any original survey of the past or of the present situation of the Indian economy. It is an attempt to understand, from the global point of view of an external observer, the situation and the prospects of India, which is confronted with the basic challenges of “economic growth”, « modernity », “progress », « development » and « globalisation »

The paper is organised as follows.

Section I tries to explain why the Indian experience is so crucially important, not only for the Indian population and for development economists, but more broadly for world citizens and observers in social sciences who want to assess the process of social and economic change in this country, as well as its significance for development perspectives in the world economy and in the world society. The explanation refers to the role of one the largest economies in the world at the beginning of the XXIst century, but also to the dynamism (and to the problems) of its accelerated economic growth since the 80s. Additionally, this section specifies some of the methodological choices made in formulating this assessment.

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Section II recalls some of the main characteristics of the Indian experience in the recent decades, particularly in terms of economic growth, poverty, inequality and employment. Section III tries to summarise the impacts of the economic reforms of 1991 on the same topics, and examines the probable consequences of accelerated growth.

Section IV broadens the debate about economic growth, of which the Indian case is only one example among many other experiences. It identifies the main arguments in favour of accelerated growth and the main obstacles opposing this acceleration of growth in the long term. The result of this confrontation is what may be called “the paradox of indefinite economic growth”, since such a process is at the same time ambiguous, inevitable and impossible.

Section V proposes some concluding comments on the relations between development and economic growth, and calls for a new critical thinking about the “societal ” challenges of this relation, in India and in the world.

Section I – Introduction

“Production today is the first priority and every attempt to hamper or lessen production is injuring the nation and is more especially harmful to our labouring masses. But production by itself is not enough, for this may lead to an even greater concentration of wealth in a few hands, which comes in the way of progress and which, in the context of today, produces instability and conflict. Therefore, fair and equitable distribution is essential for any solution of the problem”.

Jawaharlal NEHRU, August 15, 1947 ²

This emphasis on accelerated growth in one of the largest economies of the world - India is described by the planners as becoming the fourth, and maybe soon

² Broadcast to the nation, August 15, 1947, reproduced in HASAN (2007), page 150.

the third economy, after the U.S., Japan and China (the E.U. being ignored) - shows not only the ambition of India as an emerging « big power » in the world of the XXIst century ; it also suggests that economic growth is considered, and remains considered, as the major indicator of success in the world economy, both nationally (as the main, if not the unique, measure of development) and internationally (as a measure of economic strength in the competition among countries). The centrality of growth is actually one of the major pillars of the present economic orthodoxy ; notwithstanding some rhetorical precautions, it is practically not challenged as a quasi-unique criterion of development by a huge majority of decision makers, in the public as well as in the private sectors, in large and small economies, in poor and rich countries, in the medias, in associations and in trade unions, in the public opinion, and practically everywhere. There are obviously some good reasons for conceiving development strategies along this line, and I shall summarise them below. But this way of thinking raises also some extremely serious questions and objections, about the feasibility and the sustainability of rapid growth, and also about its desirability when one takes into account its negative impacts, especially in economic, social and ecological terms, and also from a cultural and ethical point of view. Not all of these questions seem to be considered in Indian strategies for the moment, at least officially or even explicitly. This is why the recent experience of the Indian economy, as well as the announced ambitions of its planners, represent such an important challenge for an external observer.

Before presenting the main arguments in favour of, and opposed to, accelerated economic growth, however, I would like to underline some the characteristics of *the method* that I propose to use in this paper. First of all, I do not pretend here to any novelty or originality in collecting and selecting facts about the Indian experience : the only originality in the present text, if any, would be in its « *view from outside* », confronting the facts and the analyses that I have found in India, with a more general reflection on economic growth that I have personally developed in the recent past³. The results of such a confrontation will include more questions than conclusions, and I shall voluntarily abstain from any policy recommendation of any sort. Second, my purpose in analysing some elements of the recent Indian experience is in fact to « revisit » the *general requirements of the development process* in the world at the beginning of the XXIst century, « development » being understood as « progress of the society as a whole », or even as « advances in civilisation » ; I shall return to that in my conclusion. It is because I profess a huge respect for the past history and for the potential of India in the future, in this development perspective, that I attach much importance in understanding the significance of this recent Indian experience in a more general, even more universal sense. Third, in the same perspective, we need a « global » approach of the facts that we observe ; we need to *articulate those facts* along a general framework of interpretation and assessment, rather than to consider them successively and separately. Fourth, it should be obvious that, even if the present analysis focuses on economic growth, its intent is to understand this growth

³ See my critique or indefinite growth as a central criterion for development, in Comeliau, 2006a.

as a *societal process*, and not as a purely economic phenomenon ⁴. I reject, in other terms, a narrowly economist approach of the Indian experience, because I am convinced that economics is only one dimension of society, and that this dimension should be considered more systematically as subservient, subordinate to a more global approach of society. This means, especially, that people and relations among people matter more than economic aggregates ; it means also that human choices are at the centre of the development process, and that those choices are, simultaneously and inseparately, of an individual and of a collective nature. Fifth, and lastly, trying to assess the general requirements of the development process implies not only a global approach, but also a philosophical and ethical one, because this assessment has to make *value judgements* about societal goals and objectives, and not only to evaluate the instrumental rationality of the proposed strategies. It is with keeping in mind those requirements that I shall try to reflect about Indian economic growth.

Section II – The economy of India in perspective : some basic characteristics of growth, poverty , inequality and employment.

Let's look briefly, first, at *population growth*. The total population of the country was around 350 million at the independence in 1947 ; it is now about 1.1 billion. Population growth has decelerated, but rather slowly : the annual rate was around 2.0 % for the 1975-2001 period (UNDP, 2003), and is still around 1.7 % for the period 1990-2003 (World Bank, 2005). Population stabilisation is expected to occur around the middle of the century (Dreze and Sen, 2002). In 2002, life expectancy was 62 years, and infant mortality (below 5 years) was 63 per thousand (World Bank, 2005).

Summarising the history of *economic growth* in India during the XXst century, Deepak Nayyar (2006a) considers two major turning points . The first is at the beginning of the 50s, i.e. during the first years of independence, when the growth rate of GNP changed from an average 1 % (or even, according to some other estimates, 0.8 %) during the last half century of the colonial period (1900-01 to 1946-47), to an average 4.2 % from 1950-51 to 2004-05. The second turning point is not, as many believe, around the economic reforms of the beginning of the 90s, but around 1980 (with an average rate increasing from 3.5 % for the period 1950-51 / 1979-80 - the famous “Hindu rate of growth”, as named by Raj Krishna - to 5.0 % for the period 1980-81 / 2004-05). In the last three years, the growth rate was around 8 % (EPW, Feb.11, 2006). In per capita terms, GDP growth was almost nil during the colonial period (0.2 % for the GNP par capita), 2.1 % on average from 1950-51 to 2004-05, and 3.6 % on average from 1980-81 to 2004-05 (Nayyar, 2006a). Growth rates are also quite differentiated in various states of the Indian Union (Kohli, 2006). For the future, the « Approach Paper » to the 11th Plan (Planning Commission, 2006) puts « a

⁴ In the same sense, see for example : Basu, 2004, chapter 1 ; Bardhan, in Basu, 2004, chapter 2 ; and also Dreze and Sen, 2002, who suggest a “people centred approach”.

faster and more inclusive growth” as a central objective for the coming five years period, and considers as sustainable a growth rate between 9 and 10 %. Overall, the emphasis on economic growth appears to be as the core of the development strategy of the country in the recent as well as in the coming periods.

Poverty, one may say, has been an explicit concern of the policy makers in India since the first days of independence ⁵. In the present period, however, poverty is still extremely important : in 1999-2000, the proportion of population living with less than \$ 1 a day was 34.7 %, and the proportion living with less than \$ 2 a day was 79.9 %. The HDI (Human Development Index) was 0.590 in 2001 (rank 127, in a list of 157 countries), as compared to 0.777 in Brasil and 0.719 in China. Social services (education and health, especially) are deeply insufficient (see especially Dreze and Sen, 2006) ; adult literacy rate (above 15 years) is 61 %. The average nutrition is also very low ; there has been no major famines, however, since independence (Sen, 1981).

Inequality is still a more concerning question. Indian society is traditionally unequal, but less than some other large countries (see especially Sen, 1992) : the Gini coefficient measuring inequalities in the distribution of income was 32.5 for 1999-2000, as compared to 59.1 in 1998 for Brasil, and 44.7 in 2001 for China (World Bank, 2005 ; see also Chandrasekhar and Gosh, 2006). The tradition of inequality is revealed, however, not only through the distribution of income, but also through the foundations of the social structure - especially the caste system -, by the considerable differences among the various states, and also by the differences in access to the basic social services and public goods like education and health. The education system, in particular, is especially “elitist”, and characterised by the contrast between the high quality of the universities and the poor level, on average, of the primary and secondary schools (Dreze and Sen, 2002).

One of the main links between economic growth, on the one hand, and poverty and inequality, on the other, should be appraised in the *employment* situation and in the labour market, but such an appraisal is difficult. For the labour market in India presents very specific characteristics, which are clearly summarised by Ajit Ghose (2004, page 5106) :

“The complexity arises from three basic facts. First, very few people have regular, full-time wage employment ; the vast majority work on an irregular basis, either as self-employed or as casual wage-labourers. Most workers, therefore, are in employment without necessarily being at work on all workdays in any given period. Second, as there is no well-developed system of social security, unemployment is not an option except for the well off ; the poor have to work in order to survive even when the return from this work is inadequate for basic subsistence. These facts imply, third, that there prevails

⁵ See Nehru’s quotation in Section I above.

what might be termed as Say's Law of employment : supply of labour creates its own demand. In these circumstances, standard indicators such as growth in the number of people in employment or changes in the rates of unemployment do not tell us much about employment trends or conditions."

In this complex situation, we can at least retain the following facts (Ghose, 2004, pages 1509-1512 ; see also Krishnaswamy, 2004, and Unni and Raveendran, 2007). In the year 2000 :

- 365.9 million persons were in employment in India (low worker-to-population ratio of 0.37), out of which 26.5 % were women, 2.3 % were children ;
- over 50 % of the employed worked as self-employed and 35 % as casual wage labourers ; less than 8 % were employed in the organised sector, and 8 % were in regular wage employment outside the organised sector ;
- the wage gap between regular employees and casual labourers is very large, and "it is quite clear that a combination of low wage and high underemployment generates the observed widespread poverty among casual labourers";
- in these conditions, "the core of the employment problem is that of the working poor".

For policies, Ajit Ghose concludes that "priority must be placed on generating and sustaining a process of labour transfer from self-employment and casual wage employment to regular wage employment" and that "sustaining a high rate of economic growth is obviously essential for sustaining a high rate of growth of regular wage employment" (Ghose, 2004, page 5113).

Section III – The economic reforms of 1991 : impacts on growth, poverty, inequality and employment.

The « economic reforms » of 1991 brought about some major changes in the orientations of the economy, which do not need to be described here ⁶.. We can summarise them with the following quotation (from Kapila and Kapila, 2002, p. 16) :

⁶ Many general descriptions and assessments of these reforms are available. See in particular : Dreze and Sen (2002), Kapila and Kapila (2002), Basu (2004), Virmani (2004), Jalan (2005).

“After pursuing an inward-looking development strategy with the state assuming an all important role for more than four decades, in 1990-91, in the midst of a grave balance of payments crisis, India embarked on a comprehensive reform of the economy that would transform India from a controlled to a fairly open economy which is integrated with the world economy and in which the market would be given the prime role in the allocation of resources”.

The resulting period of expansion has been described, by many observers, as that of “shining India”. Let’s recall also that those reforms - which can be considered as the product of a national policy initiative and which have not been directly imposed by the Bretton-Woods institutions, as in many developing countries - were obviously inspired, however, by the basic orientations of the “Washington Consensus”. Those orientations confer a central role to economic growth and to the “trickle down “ process ; they consider that the openness of national economies to external trade and finance should be maximised, and that market mechanisms are always preferable to public mechanisms to regulate the economy ; as a consequence, they consider that there is only one “development model” that is rationally adapted to the present world economy ⁷. In India, by considering that “government failure is a much more important problem than market failure” (Virmani, 2004, p.188), these reforms proposed a “new paradigm” that was supposed to remove “the economic distortions created by earlier policies” (Virmani, 2004, p.18), and even to put an end to what some observers called “the dark period of controls and import substitution” (Rodrik and Subramanian, 2004, p.196).

A general assessment of those reforms is of course beyond the scope of this paper. The changes were clearly very profound, even if an acute commentator like Deepak Nayyar thought in 1998 that those reforms could be considered as “a new approach” rather than as a « a new paradigm » in the long term development of India, because there was not enough systemic coherence in those changes, or only “an ad hoc series of measures without a clear framework” (Nayyar 1998, quoted in Virmani, 2004, p.117). We can note, however, that the same observer wrote more recently about the prospects for India in 2025 : « The country which only had a past is beginning to be seen as a country with a future » (Nayyar, 2006b). In any case, it is essential to consider those reforms as a whole, i.e. as an expression of a global economic philosophy, and not only as a juxtaposition of some specific measures of economic management. We shall have to come back to the nature of this change towards a new development model of India, seen as a substitute to the old Nehruvian model. The following paragraphs will be limited, however, to some general comments on the announced objectives of those reforms, and to some of their results, in terms of economic growth, poverty, and inequality.

⁷ This presentation of the Washington consensus principles is mine, as explained in : Comelieu, 2000a. The ten measures of the Washington Consensus as originally proposed by J. Williamson can be found in Williamson, 1994.

We have already seen that the rhythm of *economic growth* has not been changed at the time of the 91 reforms, but was already accelerated since the beginning of the 80s. The rate of growth was 6.6 % from 1992 to 1997, then decelerated slightly from 1997 to 2002 (around 5.5 %), reached 6.0 % on average from 2002 to 2004 (8.1 % in 2003-2004, mainly due to a monsoon favourable to agriculture). This acceleration would be due, among many reasons, to some demographic factors (growth of labour force, increase of capital saving by adults), to productivity growth, and maybe to a cumulative process of confidence in the process of reforms itself (Acharya, 2004, who thinks that, despite this acceleration, his earlier forecasts of 5.5 to 6 % for the medium term remain basically valid). In 2004, several studies, including one by Rodrik and Subramanian (2004), suggest growth prospects for the medium term around 7 %. The Approach Paper for the Eleventh Plan talk of 9 to 10 %, with an average investment rate of 35.1 % of GDP, and a rate of domestic saving of 32.3 % .

In this context, what were, and what are, the priority objectives of the development strategy associated to the reforms ? Was economic growth pursued as an objective in itself or as a condition for other objectives ? There are dozens of divergent comments on this question : my point here is not to put an end to this debate, but at least to show how *the acceleration of growth* was and still is considered by the Indian policy makers in the process of the economic reforms, and why it was always considered as *the center of those reforms*. Many recent comments talk even about “growthmania”, or “growth euphoria”, about India’s economy. Arvind Virmani, however - who has been working with Montek Ahluwalia among the promoters of the reforms in the Ministry of Finance and then at the Planning Commission - insists on the fact that the first goal was poverty alleviation : “we must accelerate growth in the first two decades of the 21st century so as to eliminate poverty and underemployment” (Virmani, 2004, page 20 ; he recalls, also, page 24, that poverty and inequality are different problems). The same kind of comments can be found by influential economists like Jagdish Bhagwati (2001), or Bimal Jalan (2004) and several others (see especially various contributions in Kapila and Kapila, 2002). More generally, many comments from “orthodox” experts about the reforms emphasise virtuous circles linking competitiveness, openness, exports growth, overall growth, employment, alleviation of poverty.

Whether associated or not with poverty reduction, the growth proposed as a central development objective is therefore qualified as “faster” or “accelerated”, and of course as “sustainable”. The Approach Paper of the 11th Plan speaks also of a “more broad-based ” and “inclusive” growth, meaning that it will benefit all strata of the society ; it considers that this growth is “designed to reduce poverty and focus on bridging the various divides that continue to fragment our society” (Planning Commission, 2006, page1). It adds (page 2) :

“ Rapid growth must be an essential part of our strategy for two reasons. Firstly, it is only in a rapidly growing economy that we can expect to sufficiently raise the incomes of the mass of our population to bring about a general improvement in living conditions. Secondly, rapid growth is necessary to generate the resources to provide basic services to all our people”.

We shall come back to the substance of this arguments later on. We can understand, already, that in the proposed strategy, *economic growth is being considered as of a central importance, and as a basic condition for all development objectives*. But we know also that in any development strategy, that kind of broad objectives, to get any chance of being implemented, has to be translated into more precise measures of economic policy. It is too early to assess how this ”approach” will be organised (in the 11th Plan, in particular), but not too early to try to understand the “political economy” behind those affirmations ; I will refer, in a moment, to a recent, very stimulating analysis by an Indian economist on this subject (Kohli, 2006). But before going to this tentative interpretation, we have to have a look on the way poverty and inequality have been affected since the beginning of the 80s, and more especially as a result of the reforms. Once more, it is impossible to present a detailed assessment of those extremely complex evolutions, and I limit myself to some essential facts.

Regarding *poverty*, we can consider, in a very global approach, the following changes on which there seems to be a consensus among the observers (see especially Nagaraj, 2000 ; and for a more recent and more detailed assessment, Deaton and Dreze, 2002). Poverty in monetary terms has been slowly reduced, in the sense that it affects a slowly reduced proportion of the total population ; but as the population is still growing, there is probably no reduction in the absolute number of the poor. This reduction is not clearly related to the acceleration of GDP growth, however, and many discussions are possible about those evolutions. Moreover, the reduction of poverty is very unequal according to states; rural poverty seems to have increased, especially as far as nutrition is concerned, at least until the beginning of the 90s (Nagaraj, 2000, and Dreze and Sen, 2002). There are also some negative impacts of economic growth on farmers’ conditions of life, as farmers are looking for monetary gains by growing non food crops on more lands, by working more, by buying more fertilizers, and so on ⁸ . Poverty in terms of access to public services and public goods does not seem to have been reduced (see Reddy, 2001).

The difficulties and the hesitations of the diagnoses that have just been mentioned suggest that the relation between GDP growth and reforms, and between

⁸ This corresponds to the notion of “immiserising growth” proposed by Jagdish Bhagwati in 1958 (see Bhagwati, 2001). This notion is developed and illustrated with recent examples, by Namsi Vakulabharanam (2005) ; see also the vicious circle that this author considers with the notions of “distress-inducing growth” and growth-inducing distress”.

GDP per capita growth and poverty reduction, is not entirely clear (Nagaraj, 2000 : see also Cassen, 2002 ; for a different view, see an assessment by three World Bank economists, Ferrera and al., chapter 7 in Basu, 2004) ; the overall trend of poverty change is not clear either (Dreze and Sen, 2002). Many economists, however, abruptly reject the idea of a potential conflict between economic growth and poverty alleviation (see for example B.Jalan, 2005, page 95, about “the poor in ‘Shining India’ ”).

Even if the relation is not perfectly clear, most policy makers seem to believe that growth is globally favourable to poverty reduction. In this perspective, it is interesting to note the policy proposals of the World Bank economists team already quoted (Ferrera and al., in Basu, 2004, page 153) : the strategic framework that they propose for pro-poor policies in India should rest on two pillars : (a) “policies for improving investment climate to accelerate growth”, by attracting investors from inside and from outside, with macroeconomic stability, openness, good economic governance, adequate infrastructure ; and (b) “policies for empowering poor people to participate in and benefit from this growth”, the word “empowerment” concerning « the ability of people to shape their own lives » and meaning : a measure, or a series of measures, that « enables people to contribute to, and participate in, economic growth » (page 157). This is nothing but the standard, World Bank view about the harmony - or even the coincidence - of interests among social groups, rich and poor, who are supposed to benefit together from the process of social change. And this confirms that ideological neutrality is particularly difficult in that kind of assessment.

Inequality, on the other hand, has certainly increased (it is a world wide fact in this context, any way : see Cornia, 2006). But it is not easy to identify it adequately, and still less to measure it precisely (for a detailed discussion of the data on poverty and inequality see Abijit Sen and Himanshu, 2004 ; see also Chandrasekhar and Ghosh, 2006). Broadly, one can consider that income inequality has increased, but less than economic inequality in all its components, and the latter still less than inequality in general (Dreze and Sen, 2002, chapter 10). Many analysts agree on the fact that, while there was an obvious concern among policy makers about economic growth, there was very little concern about distribution (see for example Vaydianathan, 2001). And that one of the major impacts of persistent poverty and increased inequality is increased vulnerability (Chandrasekhar and Ghosh, 2006). I would suggest, however, that the basic problem about inequality, in a long term perspective, is to examine whether various kinds of inequalities resulting from a process of economic and social change are *provisional* (and, in that sense, probably inevitable, because change cannot proceed evenly and uniformly through all social groups and regions), or *permanent* and even cumulative or irreversible ; the answer is not clear and should be re-examined in-depth, because it is a crucial issue for the future of development strategies.⁹

⁹ On this question see Comelieu, 2006b.

In any case, as we have already mentioned, the link between growth, poverty and inequality is primarily determined by the evolution of *employment* : but this is a still more complicated issue. The elasticity of employment related to GDP growth is less than 1 in India. To understand this fact, we can concentrate, again, on two recent analyses (Krishnaswamy, 2004, and Ghose, 2004) which try to clarify the basic set of relations between growth and employment. We have already seen how Ajit Ghose describes the complexity of the labour market and the difficulty of a policy of transfer towards regular employment. Krishnaswamy starts from a classical study by V.K.R.V. Rao (1983) who was considering that “setting such targets as doubling of per capita income by a certain date was far less important than reducing regional and social inequalities and ensuring adequate employment opportunities for a growing work force” (quoted by Krishnaswamy, 2004, page 1130). From this point of departure, Krishnaswamy considers a basic dualism of the Indian economy because of the persistent importance of the rural labour force, and also of the “casual” labour which results from migrations towards cities : growth will be needed but not sufficient to reduce poverty, and it has to be labour-intensive. Agricultural production growth has been slow ; industrial production has been multiplied by almost 4 in the 80s and the 90s, but industrial employment by only 1.2. ; the future will depend on small and middle enterprises, but there is no policy in their favour. For Ajit Ghose, economic growth is a necessary but not sufficient condition for increasing employment : policies should aim at reducing the level of underemployment, increasing the real wage rate for casual labour, and facilitating the transfer of poor self-employed persons and casual labourers in regular paid jobs”. This labour transfer should ensure “that a substantial proportion of the newly created regular wage paid jobs are for low-skilled workers, which points to the need for a growth strategy oriented towards exports of manufactures” (Ghose, 2004, page 5106 ; for a more recent assessment, see Unni and Raveendran, 2007).

On the whole, the positive impacts of accelerated growth on poverty reduction are not entirely convincing, and the deepening of inequalities appears undeniable. That is why some influential economists emphasise the insufficient “human development dimension” of the reforms (Bardhan, in Basu, 2004), or regret that these reforms do not go “beyond liberalisation” towards a more “participatory growth” (Dreze and Sen, 2002, chapter 9). This raises again the more fundamental question that we have already mentioned : in the recent Indian strategy, *is economic growth being considered as an objective or as an instrument, and for what ?* Most comments (for example Dreze and Sen, 2002, page 24 ; but also those of more orthodox economists, like Bhagwati, in Kapila and Kapila, 2002, page 115 ¹⁰, or Virmani, 2004, page 20) insist on the fact that growth is simultaneously an objective and an instrument. At the same time, in many arguments in favour of growth, we find the same kind of systemic linkages (or sometimes tautologies), presented as the

¹⁰ Bhagwati writes : “In short, while the critics say that growth was an objective desired in *itself* by planners indifferent to poverty, economists such as myself argue that growth was, and is, desired *because* it would reduce poverty”

“virtuous circles” that we have already mentioned, and that Pranab Bardhan (2001) ironically calls “gospel truth”.

Then the crucial question may be made more precise : *if growth is being considered as so overwhelmingly important, why is it so ? who wanted this kind of growth, and to defend what kind of interests ?* A recent and fascinating study by Atul Kohli (2006) tries to answer this difficult question. It shows first that during the 80s, there was a clear priority given by the Indian policy makers to economic growth - and not to redistribution -, in an alliance with the Indian capital and in the context of a “pro-business strategy” (favouring established producers, while a Washington consensus-like “pro-market strategy” would have supported new entrants and consumers). It shows also that the 1991 economic reforms were basically “pro indigenous business”, and that they proposed a new pact between the government and the Indian entrepreneurs (“we support you, be competitive”), the results of which was somewhat deceptive for the promoters of the pact themselves (especially because there was not enough public investment to attract private investment) ; but in any case, employment and redistribution were, one more time, not considered as priorities. Along the same type of interpretation, Amid Badhuri (2005), reflecting on the employment question in the recent reforms, tries to understand what was the basic significance of those reforms, and why they didn’t use the opportunity of an expanding market to associate the poor to the benefits of overall economic growth. He suggests a distinction between two “development models” : one, as a product of globalisation, focuses on external markets, downsizing, wage restraint and cutting labour costs for competitiveness reasons (it is the “Shining India” model, that the reformers tried to promote) ; the other would have stimulated domestic demand and created more employment.

The above discussion is probably quite partial ; but a substantive discussion of the meaning and of the practical impact of economic growth in India during the recent years and as a result of the 90-91 economic reforms is well beyond the possibility of a short paper. We have enough indices, however, to make some preliminary concluding comments about India’s recent experience of economic growth . I would propose three points :

- economic growth has substantially accelerated since 1980: in a country like India, with a low level of income per habitant (\$ 2880 PPA in 2003, according to World Bank 2005), a low rank of HDI (127th in 2001 out of 157 countries, according to UNDP 2003) and a very serious problem of global poverty, *obviously this acceleration of growth has to be welcome* ;
- the *social impacts of this accelerated growth cannot be considered as systematically favourable* : they may be unclear – partially positive, partially negative - , as far as poverty is concerned, or heavily negative, in terms of inequality and social tensions – to which we shall add, in the

following section, multiple indices of ecological degradation - ; moreover, these costs have to be supported mainly by the less privileged groups of the Indian society, especially among the rural poor ;

- despite this mixed overall picture, *the centrality of growth in the Indian development strategy does not seem to be questioned* by the huge majority of policy makers and of other economic and social actors ; on the contrary, an attitude is developing among many of those actors, in the public as well as in the private sector, which has been described as « *growth euphoria* », in the sense that the acceleration of economic growth (in the recent past as well as in the foreseeable future) is considered by those actors as basically favourable to all interests in the country, that its benefits are indeniably superior to its costs, and that accelerated growth appears therefore to be the best - and also the only practical - solution to all development issues of the country in the long term .

One can question, however, this fundamental optimism, if one assesses the costs and benefits of this accelerated growth with different weights. More precisely, one can think that this « growth euphoria » proceeds from *a short term appreciation*, that India's major actors do not seem to consider the fact that *indefinite growth can never be seen as a recipe for development in the long term*, in any country of the world, and that as a consequence it is urgent to begin *to re-think the relative importance of this criterion of growth in a long term development and societal progress strategy*. The concluding section will try to develop this perspective.

Section IV – India is only an example : towards a more general debate on economic growth.

We should be able, by now, to identify more precisely the core of our discussion and the basic questions raised by the recent experience of India: if we think in terms of development or societal progress, *what are the basic arguments in favour of accelerating growth, what are the main risks and obstacles against this acceleration ? How were these arguments and obstacles reconciled (or not reconciled) in the specific context of the political economy of India ?* We can relate this discussion about the Indian economy to a more general debate about the role and prospects of economic growth in the world, in rich as well as in poor countries.¹¹

First, let's summarise the current arguments – which are obviously quite serious - in favour of accelerated growth as a central tool for progress and development, with the proposed criterion, as a consequence, of maximising indefinitely the growth rate of the economy. In most countries, overall GDP growth in the conventional sense should permit, in principle :

¹¹ This discussion is developed in my recent book : see Comeliau, 2006a.

- To produce a larger quantity of goods, services and resources for consumption, investment and exchange, and at the same time to generate an increased global income for the society as a whole. This is the basic meaning of GDP or National Income « growth », after all : growth is about « *wealth creation* », and therefore should result in a larger « cake » for a potential redistribution (« *wealth distribution* ») . As a consequence, growth may be seen as a basic tool for poverty alleviation and inequality reduction, or, more broadly, as the main instrument for a general enrichment of most of the people.
- Growth provides also increased opportunities for productive *employment* , because those goods and services have to be produced by a combination of factors, including human labour (the intrinsic importance of which is considerable, because it is at the same time a factor of development and the target of development). As we have seen, however, the Indian experience like many others suggests that the elasticity of employment in relation with GDP growth may be less than 1, or even be nil or negative ; economic growth may be more or less labour-creating, or even “jobless”.
- In addition, growth brings about an enlarged base for *public resources* mobilisation, needed to provide public goods and services as well as for social protection.
- Finally and in more general terms, in an increasingly globalised world economy, GDP growth at the national level is a crucial instrument for increasing the economic power and influence of a country, as well as its international competitiveness in trade and financial exchanges, as illustrated by the present Indian ambition of becoming soon the fourth or even the third larger economy in the world.

Second, those arguments have to be compared with their results in practice, and those results are obviously difficult to evaluate on a precise manner.

One reason comes from the fact that there is *an ambiguity in the economic meaning of the main indices used*. The level of production and of income, as measured by the standard techniques of national accounting, does not say much about the nature of the goods and services produced, neither about their practical utility as compared to the concrete nature and the degree of « social emergency » of the needs of the population. Behind this difficulty, there is a problem of « aggregation » in the national accounts ; there is also a deeper problem about the real meaning of the GDP, which is a measure of the economic activity, but not of the results of this activity in terms of need satisfaction and wellbeing ; and still more deeply, there is a “systemic” problem for comparing social priorities – or more exactly, for ignoring them -, since

the basic principle of a market economy (which provides the rule of calculation of national accounts, thanks to the price system) is the principle of solvent demand and profit maximisation : as a result, maximising GDP means maximising the most profitable activities, a fortiori in a capitalist economy the basic goal of which is indefinite profit accumulation. In the rapidly growing Indian economy of the present time, for example, this sort of priority is illustrated by what I considered as a very cruel image, in the streets of Kolkata, that of miserable people living, eating and sleeping just below huge advertisement hoardings for luxury products... The most visible change in India in the recent years is certainly this explosion of a “consumer society” for a minority, closely imitated from the rich, more “modern” countries.

Production or income growth, therefore, is not necessarily and automatically allocated to the satisfaction of the most urgent needs of the population. Hence, in India, the uncertainties of the discussion about the extent to which *poverty and inequality* have been - or have not been - « alleviated » by the overall economic growth of the recent years. Hence, also, the spectacular phenomenon of the emergence of a large middle class, the size of which today might be between 200 and 250 millions, depending on the mode of calculations, while the total number of poor does not seem to be reduced. We have seen that those differences are linked with the ambiguities of the labour market and with the resulting non significance of “regular employment” figures in the Indian context. But of course those ambiguities are not mentioned explicitly in the proud announcements of overall growth performances by the policy makers.

What about *collective goods and services*, if the market economy results mainly in the expansion of a “consumer society” very much open to criticism ? As far as public expenditures are concerned, the role of the State - both at the federal level and at the level of the various states - remains important in India, despite the undeniable emergence of a powerful neo-liberal influence through the 1991 economic reforms. Some observers are emphasising that public consumption has accelerated more than public investment (see for example B. Jalan, in Kapila and Kapila, 2002, pages 54-55), meaning that public authorities have been keeping the most debatable part of its activities, in particular subsidies which don’t necessarily benefit the poorest groups. More generally, there are very strong critiques about the way some of the main public goods are being produced and distributed, especially in education and health (see Dreze and Sen, 2002).

Many of the *environmental problems* related to accelerated economic growth are now fairly well known. In India, the dimensions of those problems are already extremely serious, and they are aggravating rapidly ; as a result, the debate about growth prospects cannot be limited to poverty and inequality anymore, and must integrate those environmental problems more systematically. We cannot summarize them correctly in a few lines, and we shall just mention some of the most alarming issues, as they are identified by Dreze and Sen (2002) : “the pressure on

environmental resources is strong in many different ways that go well beyond the perspective of food production and consumption. There is much evidence of a rapid deterioration of the local environment across the country (in addition to India's contribution to global environmental degradation), with a wide range of adversities, varying from overcrowding of habitat and increases in man-made pollution to the denuding of forests and vegetation." (page 197). The same authors consider that the period since independence in India "has also been one of formidable environmental plunder. Forests have been decimated, ground water tables have fallen, rivers and ponds are massively polluted, and the air that city dwellers breathe has grown increasingly noxious and foul" (page 218). If taken seriously, such a diagnosis would suggest that the environmental impacts of *growth* have already been traditionally negative in India, and that those of *accelerated growth* will be probably worse. The Approach Paper to the 11th Plan itself (2006) – which proposes a growth rate climbing to about 10 % by the end of the period -, recognises that "in the short run there may seem to be a trade-off between environmental sustainability and economic growth" : beyond the issues related to efficiency in the use of energy, the strategy proposed about "environmental sustainability" mentions the need for improving air and water quality, the problems of solid waste management, the preservation of wildlife and bio-diversity , the need for mitigating land degradation through green cover, etc.

Overall, *the economic, social and ecological obstacles to indefinite accelerated growth, in India as elsewhere, may seem formidable*. But the fact is that none of those obstacles appears sufficiently convincing to place any policy maker in any country (and thus in India as elsewhere) in a position to question growth as a basic objective : *growth remains considered as a permanent and inevitable component of the economic and social system in which we live*. And this inevitability seems linked with the nature of this system, which tend to assimilate "need oriented economy " and "profit oriented economy" : in order to accumulate profit indefinitely, one has to accumulate needs, and therefore to accumulate goods, services and income: this is the definition of growth.

As a whole, a multiplicity of issues, problems and questions arise from the general picture of accelerating growth in India as well as in many other countries, even if their present situation and their main challenges for the future appear quite different. And we are back to *our initial paradox : indefinite economic growth appears to be simultaneously not entirely desirable, impossible and inevitable*.

Is there a way out of this paradox ? I do not see any solution other than in *dethroning the overall growth rate from its status as a central criterion of development strategies* , and to replace it by *a more sophisticated political debate about alternative, concrete development objectives*. I develop this proposal in the conclusion.

Section V – Conclusions : growth and development, an assessment.

The risk of a paper like this one is, obviously, to raise a list of questions and issues without any possible answer. In these provisional conclusions, I would like to go beyond such a frustrating position, and at least propose some directions for further research and thinking.

1 – My first point, however, is somewhat negative. The central question at the beginning of this paper – which is about India's recent experience, as illustrating a more global problem of development – was extremely general but also very practical : *what to do with growth* as a quasi-unique criterion for development in the long period, and with the associated “growthmania” observed in India and in many other countries ? *We do not know the answer*, I am afraid; and it is unfortunately probable that nobody in any country has a precise and practical answer to offer to this “paradox”, economic growth appearing simultaneously as necessary, ambiguous, inevitable and impossible. The trouble may still be deeper : economic growth is a process that nobody, no power, no institutional arrangement today is capable to master entirely:¹² . A huge majority of economic, social and political actors in the world, however – and, I presume, in India – are not ready to accept this situation of incapability and to recognise the dangers attached to it. The task of “conscientization” ahead of all of us, about the meaning as well as about the potential benefits and costs of growth for development, is therefore primordial.

2 – If we can qualify this question as a very practical one, it is primarily because it puts into question the *viability in the long term* of each of our societies, in their economic, ecological and social dimensions. *Economic and ecological viability* : because a system where the growth of material production is an inevitable requirement makes more and more pressures on limited material resources and, as a consequence, makes scarcities deeper instead of reducing them. *Social viability*, because the same system accentuates inequalities and makes necessary various types of exclusion process, and also because competition and mimetism build a world where social antagonisms and violence become more and more inevitable. Part of the problem, again paradoxically, comes from the fact that many of us believe that those tensions and impossibilities can be resolved by economic growth in the short term – and this may be true -, but do not see that the same tensions and impossibilities are going to be aggravated in the long run. But the long period is only made of a succession of short term periods. India obviously needs growth in the short term : but for how long, and where do start the difficulties of the long period ? Who, among the proponents of short term growth strategies in India, is systematically thinking about these future difficulties, who is taking already into consideration the various ways of substituting other development objectives for economic growth ? What kind of organisational and institutional arrangements are put in place to look after those

¹² Recent news from China give a paradoxical evidence of this incapability for mastering economic growth : the Chinese policy makers confess their difficulty in *reducing* their economic growth rate from 10.5 % to about 8 %...

questions ? Which social groups are politically ready to support such a strategy of substitution ?

3 – The challenges of indefinite economic growth are not only about economic, social and ecological viability, they are also of an ethical, cultural and political nature. *Ethical and cultural*, because of the *values* of a social system grounded primarily on economic preoccupations. This system conceives development and progress mainly in terms of material consumption of an ever-increasing accumulation of goods and services to be sold on the market, and also in terms of merciless, individualistic competition in the productive process : basically, that is what growth is all about. But this narrowly economist system provides a very narrow answer to the fundamental questions of the human condition : what are the ultimate goals of mankind ? what are the important dimensions and values of daily life ? Challenges of a *political* nature, also, in view of the organisational problems raised by a purely individualistic approach of the society and of the economy, since the general interest and the global objectives of this society are conceived primarily as an addition of private interests maximising individual consumption or profit. Collective interests, collective goods and collective services are of course not entirely neglected in modern strategies, in India and elsewhere. The question, however, is to assess the risk of a systemic priority given to private interests versus collective or public interests – I have mentioned the retreat of the state from so many public services -, when the philosophical inspiration of the strategies is of a “neo-liberal” nature. As a result of those ethical, cultural and political challenges, the need for a deeper and broader effort of *critical thinking*, therefore, by all social scientists as well as by all citizens, is an essential priority in India as in many other countries. India’s good luck from that point of view is certainly its capacity to rely on an intellectual elite of outstanding quality, with an extremely rich cultural tradition, provided that this elite be able to spurn the seductive advances of the dominant social paradigm. In this line, one of the most important dimensions of this effort of critical thinking is clearly about the place and the role of *economics* in conceiving new directions for social progress and development. : economics is about the relations between goals and means, but clearly the choice of ultimate goals does not depend in any way on economic rationality.

4 – Promoting long term viability, new ethical and cultural values, positive political responses to new challenges : this amounts to nothing less than building a new kind of *modernity* , or even a new *civilisation*. For India, again, this challenge is at the same time similar and different from other countries. Similar, because of the globalisation process to which India is no less exposed than any other nation (especially since the recent process of openness). Different, because India benefits from a cultural tradition to which very few countries can pretend, and in this perspective the potential role of India in leading the way towards a new modernity is exceptional. I shall not have the pretension to judge these perspectives as they are today, naturally, and I propose only a few remarks. First, notwithstanding an exceptional history of thinking in the past, there are already some remarkable efforts

of critical and positive thinking in India today : Amartya Sen's work is one of the most famous examples, but he is not alone, and Avijit Pathak, for example, has written an extremely eloquent critique of modernity (Pathak, 2006). Second, the effort required is clearly multidimensional : civilisation and modernity are certainly not only about economics ; but they are not only about philosophy either ... The difficulty is, of course, in the deepening of the thinking in various disciplines ; but it is also in the building of a synthesis between fundamental thinking and practical applications of this thinking, in designing our economic, social and political organisation. As Avijit Pathak ironically writes, India cannot specialise in the export of "spirituality".... Third, modernity concerns the society as a whole and cannot be an elitist proposal for a privileged minority : but nobody knows how to build, pragmatically, a social consensus about new values in the context of a globalized economy. On these points and many others, may I confess the immense hope of an external observer of the Indian situation ? In a world society which is desperately without compass, is it unrealistic to dream that India, with its millenary tradition and profound culture, might be able to show the way of a more acceptable future for all of us ?

5 - Let's come back, finally, to our point of departure, namely the questioning of economic growth, of its positive and negative consequences, of its prospects and of its desirable role in societal progress, in India and elsewhere. I want to repeat that *accelerated economic growth in India is obviously desirable* for the present time and in the coming period, but that a careful analysis is absolutely needed in order to maximise its social benefits and to minimise its social costs described above. I want to repeat also my conviction that *the long run threats of economic growth will not spare India*, and that consequently it is absolutely necessary *to begin today to think about a fundamental change of objectives in development strategies*. In the long run, overall growth might become less and less a necessary condition for all other objectives of social progress ; this means that in the long run, but also as soon as today, a methodological change is needed in order to compare more systematically the goals and objectives proposed in the development strategies of a country, even when it is still as poor as India is today, and in order to organise the preparation of these strategies as a calculation of the "trade-offs" between those objectives. If overall growth is not always a condition for all other objectives, it becomes necessary to disaggregate the GDP growth rate in its various components. Still more important, it becomes also necessary to compare, politically and economically, the objective of economic growth with other objectives: objectives of social justice (satisfying basic needs or reducing social inequalities of various sorts), objectives of national autonomy (from an economic, or political, or cultural point of view), objectives of respect towards the natural environment, or any other development objective that might appear desirable for the Indian society. This task of systematic comparison between objectives and strategies is a basic function of the planning process : this

process has disappeared practically everywhere in the world, but – fortunately – is still alive in India ¹³ : it is an additional reason of hope for the future.

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¹³ In a book published in French in 2000, I had tried to compare the African, the Indian and the French experiences of development planning (see Comelieu, 2000b).

¹⁴ *EPW* = *Economic and Political Weekly*

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