

PRESIDENTIAL ADDRESS

India's Development Drama 1991–2011: From Milton Friedman to Mahatma Gandhi*

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I

INTRODUCTION

My grateful thanks to Professor C. Ramasamy, President of the Indian Society of Agricultural Economics and his colleagues for providing me this opportunity to share my thoughts on India's economic development with this distinguished audience.

Admittedly, India's growth story is impressive with GDP growth recording an annual average growth of 8.5 per cent during the five years 2003 to 2008. Even during the year 2009-10 of global meltdown, India managed to post a growth of 7.2 per cent. In the medium term it is reasonable to expect the economy to resume its robust growth path of around 9 per cent. This is indeed beyond all expectations for an economy which was supposed to be condemned to the so-called Hindu rate of growth of 3 per cent.

In the euphoria of sustained high growth we generally tend to overlook the mistakes committed by our policy makers during this period of liberalisation. The period of the so-called economic reforms – a period of liberalisation of the Indian economy from 1991 to 2004, I would submit, was the most retrogressive phase in the history of India's economic development. We may not have our own Reagonomics or Thatcherism to bury but our policy makers during this period were soaked in the market theology of IMF/World Bank. The focus was on liberalisation, market-led growth, fiscal correction, promotion of private and foreign investment, development of the capital market, and generally creating of an environment of consumerism. More basic issues of development were overlooked which led to neglect of agriculture, deceleration of public investments in agriculture, and flow of credit to agriculture, disdain for subsidies, whether food subsidy or credit subsidy, and more disturbingly disregard for the elementary principles of food security.

A word about the theme of my lecture.¹ I have chosen to focus on India's economic development during the last two decades 1991-2011 with a purpose. I have divided the period into two distinct phases: the first 1991-2004, a period of

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liberalisation and economic reforms, which I have called the Milton Friedman phase. Intoxicated with the philosophy of market-led growth of IMF/World Bank our policy makers went about ruthlessly seeking higher growth rate, with all its adverse effects on development issues. The second phase 2004-11, which I have called the Mahatma Gandhi phase is a period when Indian policy makers began to rediscover, as it were, Mahatma Gandhi's development philosophy. Community-centred development holds the key to policy pursued during this phase when policy makers are even dreaming of a sort of food Utopia. The second phase represents a dramatic departure from the policies pursued in the first phase. Thus there is an element of drama in our approach to development. This dramatic change has to be judged against the global financial and economic crisis of 2008 which has dramatically changed the institutional and policy making landscape. The crisis in a way reflected the loss of faith in the capitalist system led by unbridled market forces. This takes us well beyond growth models to the realm of economic philosophy of development. We must grow up from the conventional growth models trapped in the market theology to reasonate to the larger concerns of holistic development including promotion of broad based decentralised growth which alone could facilitate access by the poor to employment, food, nutrition and health, and quality education and to putting in place safety nets to reduce the vulnerability of the poor. The proposed Food Security Act reflects the crux of new agenda of development. If the conventional development economics is a failed God, are we now re-writing the script of development economics? We have to judge the Indian development experience in the broader context of disillusionment with development economics as a discipline. The frontiers of development economics are expanding further. The "commitment deficit" of our policy makers and development administration, as we will spell out shortly, is impairing the outcome of our development efforts. The recent mass outburst against widespread corruption raises another related issue of national character. Do these developments reinforce the imperative need to build a value-based and compassionate society? We should ponder over.

II

MILTON FRIEDMAN PHASE: 1991-2004

During this phase, the growth culture itself seems to have gone through a fundamental change with reformers repeating parrot like phrases borrowed from IMF/World Bank vocabulary. "There is no free lunch", perhaps meaning that the poor must fend for themselves. Despite graduating to the league of fast growing economies of the world, India continues to be the abode of the largest number of under-fed and under-nourished people in the world. FAO estimates show that the number of under-nourished people in India has risen from 206 million in 1990-92 to 230.5 million in 2003-05, a rise of some 24 million. The Human Development Index of UNDP (2009) ranks India as the 134th out of 182 countries of the world. The HDI

is based on three indicators, namely, GDP per capita, life expectancy at birth, and education as measured by adult literacy rate and gross enrolment ratio. India is thus still in the Medium Human Development category with even countries like China, Sri Lanka and Indonesia having higher ranking.

A community-centred analysis thus exposes clearly the darker side of the development policy pursued during this period. While there is enough literature on the harm inflicted on the economy by the centrally planned economic phase – the so-called license-permit raj – little attention has been paid to the negative impact of the pursuit of unbridled market theology during the 1991-2004 phase. Economic historians need to pay greater attention to this aspect.

What is ironical was that this approach to development came to be adopted at a period when the American capitalist model collapsed in 2008. Market fundamentalism embodied in the neo-liberalism based on the notion that markets are self-correcting, allocate resources efficiently and serve the public interest well has collapsed. The so-called “Washington Consensus” in favour of privatisation and liberalisation now stands stripped of its sanctimonious robe. It has now become clear that unbridled market forces are not self-correcting, regulation and direction of some sort is needed. The State has a critical role to play in the management of the economy.

I would be content with citing the following five concrete instances to substantiate how the mindless pursuit of market theology during the phase de-emphasised development: Foodgrains Management, Watershed Development as part of the broader theme: Home Grown Green Revolution, Inequitable Interest Rate structure, The Microfinance Mess and Fiscal Inequity. At some point of time in the economic history of a nation there arise occasions when somebody has to speak the truth like the innocent boy who spoke out about the emperor's clothes. As one who is engaged in the study of India's economic development for the last five decades, and now with one foot in the grave, as it were, I thought I am qualified to do the job and hence I have set out to do it not so much in anger as in agony, agony because Indian economic development has some elements of a Greek tragedy as illustrated with some episodes.

India is a pioneer in development planning having launched its First Five Year Plan in 1951. After six decades of development planning, alas, we are still preoccupied with measuring poverty. Three officially sponsored Reports proposing new method for identification of the poor and for the measurement and eradication of poverty have been brought out in 2009. Dr. Shylendra who has done an excellent critical review of these Reports comes to the conclusion that “we are no wiser than before about poverty and ways of tackling it”. (Shylendra, 2010) He asserts that under the current political economy “there seems to be no escape from the prevailing muddle over understanding poverty and the trap of reformism laid by the neoliberal framework in our efforts to banish poverty”. What a travesty of development planning!

Reverting to development, Avinash Dixit asks: “what feature or features of policies are important for good economic outcomes regard-less of what kind of government makes those policies? Here much of the literature does find one point of agreement: credibility of commitments is vital” (Dixit, 2006). During this phase of India’s development, it is the commitment deficit which stands out as a villain of the tragedy.

Let us now take up the five concrete cases.

(a) Foodgrains Management Policy

The most disturbing policy during this phase was that India chose to export a huge quantity of 27 million tonnes of rice and wheat during the three consecutive years 2001-02 to 2003-04. This was the result of two regressive measures taken earlier; first, the Government introduced in 1997 targeting in the public distribution system (PDS) in the form of Targeted Public Distribution System (TPDS). This narrow targeting of the PDS based on absolute income poverty excluded a large part of the nutritionally vulnerable population from PDS due to the continuous raising of the issue price of foodgrains – inspired by the objective of cutting the size of food subsidies. The concessionally priced foodgrains became increasingly inaccessible to the poor. The inevitable consequence was the mounting foodstocks with the Food Corporation of India (FCI). At one time, the stocks reached a peak of 60 million tonnes. No wonder our policy makers sought the soft option in exports for tackling the so-called “surplus foodgrains” problem. This was nothing short of development atrocity when viewed against the background of India being the abode of the largest number of under-fed and under-nourished persons in the world, as mentioned earlier.

The irony was compounded further: while the policy makers’ ostensible objective was to reduce subsidies for domestic consumption of food grains, the same policy makers did not have any qualms about subsidising exports of food grains! If Mahatma Gandhi were alive perhaps, one could speculate there would have been a satyagraha against such mindless pursuit of flawed food grains management policy.

Bikhu Parekh has admirably encapsulated the poverty profile, as sketched by the Mahatma, in the following paragraph:

“Second, poverty dehumanizes human beings, wastes the potential and deprives their lives of all sense of meaning and purpose. It is one of the worst violence that human beings can commit against other human beings. It is as bad as killing, and even worse for the fact that it is silent, slow and invisible, arouses no anger and is outside the purview of anyone’s direct responsibility. As long as even one person is starved, is malnourished or lacks decent housing, the social order stands indicted lacking legitimacy. Basic human needs have the first claim on Society’s resources, and it is an obligation to arrange its economic affairs in a manner that the needs of all members are met” (Sharma, 2007).

In my Introduction to a book on agriculture, I wrote in 2006:

“It was tragic enough for a predominantly agricultural economy not to be able to produce in the 1960s adequate quantities of foodgrains to meet the domestic consumption requirements of the population: it is perhaps a greater systemic tragedy today that even when we are able to produce adequate quantities of foodgrains we are unable to ensure that foodgrains so produced do reach the needy” (Mujumdar and Kapila, 2007).

Hunger and poverty are an affront to a civilised Society and subsidies are a characteristic of a civilised Society. One begins to wonder whether we are dismissing poverty or reduction of poverty as mere phrases of a dialectic process, denying thereby its moral urgency of addressing the task.

Ironically, the pendulum seems to have swung to the other extreme. Today, the National Food Security Bill, 2011 seeks to create a sort of “Food Utopia” by seeking to ensure “home delivery”, as it were, of a specified quantum, of subsidised foodgrains to the bulk of the population. We will discuss it presently.

(b) Home-grown Green Revolution: Watershed Development

It has become fashionable to harp on the theme that a second Green Revolution can alone ensure food security in the current scenario. The first Green Revolution was achieved through a genetic break-through in seed technology, a technology which was accessible to all. Today the circumstances are different. I would submit there are more mundane and less glamorous alternatives to attain food and nutrition security, perhaps not wholly but substantially. One does not have to “import” farm technology, as we did in 1960s.

Future agricultural growth will have to be necessarily water-centric and what better alternative there could be than watershed development, which I regard as the mother of all water management modes. Watershed development projects, both micro and macro, hold out great promise for future agricultural growth: the potential area to be covered is huge, with about 60 per cent of the area under crops being rainfed: capital investment is modest, the projects are labour intensive and do not require much technical know-how. By its very nature, growth under watershed development is “inclusive”.

Yet, why despite all the sound and fury, we have not made any appreciable progress? For instance, The Macro Management of Agriculture (MMA) assistance during 2010-11 has been used to treat a mere 3 lakh hectares of land under the National Water Development Project for Rainfed Areas (NWDPA).

In fact watershed development programmes have a fairly long history. It was in 1986 that the National Water Development Project for Rainfed areas was introduced in 99 districts in 16 states. What has happened in the subsequent quarter century? The Government of India issued in 2008 “The Common Guidelines for Watershed Development Projects” – the first set of guidelines that apply to watershed

development projects across three Government of India Ministries – Ministry of Rural Development, Ministry of Agriculture and Ministry of Environment and Forests. Trust the bureaucracy to mystify, sometimes with a little help from academicians, a perfectly simple and workable growth tool! We have had scholarly discourses on watershed development like the Parthasarathy Committee Report. There is enough of sound and fury. But where are the results? Even in a progressive state like Maharashtra, the proportion of area covered by micro watershed development to the total eligible area is not significant.

It is necessary to demystify the whole approach to watershed development. Considering the humble animal – watershed development – the punditry and complexity of the “Guidelines” mentioned above is astounding. In contrast, look at the success stories of individual initiatives. In Maharashtra, Anna Hazare’s Ralegaon Siddhi project has now become part of folklore of watershed movement. A more recent case is that of Hirwe Bazar, a drought prone poverty-stricken village about 100 kilometers from Pune. The efforts of one man Popatrao Pawar have converted this village into a model village. The International Groundwater Association has given to this village the International Groundwater Management Award. Neither Hazare nor Pawar could have read and appreciated the erudition and comprehensiveness of the “Guidelines”, referred to above. Yet they were able to evolve their own region and location specific models and emerge as the new Schumpeterian heroes of agricultural growth and rural development: There may be similar leaders in Gujarat, Rajasthan and elsewhere. It may be useful to produce the growth profiles of these successful stories so that we may be able to replicate them, on a large scale.

The mid-term appraisals of Plans of relevant states should have contained a separate section on the progress of watershed development projects. Alas! this is not so. All this shows a sort of “commitment deficit” on the part of policy makers and the development administration.

Take another instance of our policy makers’ high profile initiatives – The India – US collaboration on agricultural technology. The “Joint Statement of Prime Minister Manmohan Singh and President Barack Obama” issued on 8 November, 2010, at the end of the latter’s visit to India mentions the decision “to work together to develop, test, and replicate transformative technologies to extend food security, as part of the Evergreen Revolution”. The Prime Minister has lauded the US’s role in launching India’s first green revolution, transforming Indian agricultural production and has welcomed U.S. collaboration in spurring a “second green revolution” (see Economic and Political Weekly December 11, 2010). We must remember that much of the inventions of high-yielding varieties of seeds that launched India’s first Green Revolution took place under the auspices of publicly – funded research institutions. But today the intellectual property rights of the genetically modified (GM) seeds are held by the Monsantos, Duponts and Dows. These are purely agribusiness corporations aiming at maximising their profits. They are not freely accessible to all farmers.

One does not have to look to the U.S. to increase the level of yields of our crops even at the current level of technology and farm management practices. The gap between the yields in our agriculture research centres at the State level and the actual farm level is quite wide: for example, in the case of wheat it is 84 per cent, for Madhya Pradesh, for rice over 100 per cent for Assam, Bihar, Chhattisgarh and Uttar Pradesh: for soyabean 185 per cent in Karnataka and for sugarcane it is 167 per cent in Madhya Pradesh. Hence if we can bridge these yield gaps, we can increase production by 50 per cent. Over the years, unfortunately, we have de-emphasised the role of agricultural extension services – which played a critical role of in facilitating the first Green Revolution and today the services have become practically dysfunctional. Of course, we must rejuvenate these services. Given the poor state of government extension services, we could induce public sector banks (PSBs) to extend their help. In the past performance of PSBs in this area was excellent. We may renew such efforts (Khan, 2010).

We could have a time-bound programme of development of watershed projects, covering the bulk of the eligible area in the country in the next two or three years. Perhaps the Mahatma Gandhi National Rural Employment Guarantee (MGNREGA) scheme could in the relevant regions be made to focus on these projects. Such concerted action pursued with dogged determination could yield good results.

(c) Inequitable Interest Rate Regime

These who pontificate on why the concessional lending rates do not help the poor, further expose their innocence of the realities of the present interest rate structure. Financial sector and banking sector reforms implemented in the 1990s resulted in the emergence of an inequitable interest rate structure, a structure designed to pamper the private corporate sector, and which is biased against agricultural and the small borrower generally. For instance, a small farmer was made to pay an interest rate of 12 per cent at a time when highly rated corporate entity could raise money from banks at 6 per cent. This paradoxical situation was the result of mindless implementation of Basel norms and adoption without adaptation of concepts like “risks” as understood in the developed world. As I have discussed elsewhere, this concept of “risks” should be made to stand on its head. (Mujumdar, 2005). When some of us raised this question of inequitable interest rate structure in the early 1990s, Reserve Bank of India (RBI) ignored the protest. Wisdom finally dawned on RBI in 2005-06 when its Report on Currency and Finance 2005-06 provided valuable insights into the structure of interest rates. The bulk of bank lending has been taking place at Sub-BPLR (Benchmark Prime Lending Rate). For instance, the share of sub-BPLR lending increased to 82 per cent by March 2007. While higher credit rated corporates are getting credit at Sub-BPLR rates, agriculture and small industry and other small borrowers are generally charged BPLR, or in some cases, above BPLR rates. To quote the RBI Report: “to compensate for such sub-BPLR lending, other

segments are charged higher rates of interest, thus leading to cross subsidisation of the economically well-off borrowers by the economically poor borrowers” (Reserve Bank of India, 2007). This is indeed disturbing especially when the objective of both the inclusive growth in the real sector as envisaged in the Eleventh Plan and financial inclusion is to promote growth with equity. Although this inequitable situation was mollified to some extent by the Government providing interest rate subvention since 2008-09 to ensure that farmers get short-term crop loan upto Rs. 3 lakhs at 7 per cent, the basic issue remains. Interestingly enough, none of the reformers of financial sector has identified the problem. It is to the credit of Reserve Bank of India (RBI) that they brought out the problem in the open and appointed a Working Group, in April 2008 to look into it the issue.

The Working Group on Benchmark Prime Lending Rate submitted its Report in October 2009. As a result of the Group’s recommendation, the banking system switched over from Benchmark Prime Lending Rate to the Base Rate System with effect from July 1, 2010. The Base Rates set by major banks are in the range of 7.25 per cent to 8 per cent. In retrospect we can see how the previous interest rate regime “exploited” the small borrowers, including small farmers, by changing say, 12 per cent. While the corporate sector is quite vocal in seeking a low interest rate regime for itself on the pretext that high interests would adversely affect growth, our policy makers were insensitive to the unmerited interest rate burden inflicted on the silent small borrowers. It took two decades for the RBI to correct the distortion in the interest rate structure.

Perhaps the unkindest cut of the Basel bank culture induced by-product was the disenfranchisement of small farmers. “Lean operations” required that banks should shed small borrowal accounts. There was a dramatic decline in the number of small borrowal accounts with credit limits of Rs. 25,000; their number which had risen to 62.55 million in March 1992 dipped to only 36.87 million by March 2003. The credit outstanding of this category of accounts which formed nearly 22 per cent of total outstanding credit in 1992 plunged to only 5.2 per cent in 2003. Public sector banks (PSBs) were trying to boost their profits by economies of exclusion contrast this with the obsessive concern of today’s policy makers – both Government of India and RBI – with financial inclusion.

(d) *The Micro Finance Mess*

The recent crisis witnessed by the Micro Finance Sector provides yet another concrete evidence of how RBI has become insensitive to the problems of the small borrower. It seems RBI has yet to recover from the hangover of the market-obsessed reform phobia. I have provided an indepth analyses of these developments elsewhere (Mujumdar and Shirahatti, 2011) and here I will be content with highlighting the main issues. It is not a case of RBI’s benign neglect. RBI becomes a co-conspirator in the metamorphosis of MFIs into glorified money-lenders charging usurious interest

rates of 30 to 40 per cent. RBI's blessings came in the form of public sector support to the sector. Such support was extended from public sector banks (PSBs), NABARD and SIDBI. Even after the crisis, RBI's Malegam Committee has "sanctified" a 26 per cent interest rate for MFIs. This is most unfortunate because historically RBI has the image of a guardian-angel of small farmer or small borrowers generally.

More recent revelations of for-profit Micro Finance Institutions (MFIs) have exposed how these institutions are exploiting the situation in the name of financial inclusion. In addition to the usurious lending rates of 30 to 40 per cent, the Managing Directors of some of the bigger MFIs were paid obscenely high remuneration packages of say Rs. 4 crore to Rs. 8 crore – the level higher than that of Managing Director of HDFC Bank. There was also no transparency in the mutual benefit trusts (MBTs) – shareholding vehicle for MFIs (*Economic Times Investigations*). Perhaps, the last nail in the coffin of these for-profit MFIs was hit by the recent statement of Dr. Y.V. Reddy, former Governor, Reserve Bank of India (RBI), that for-profit MFIs were worse than money lenders. Money lender lends out of his own money whereas MFIs were actually borrowing money from depositors and banks and on lending the money. So, "MFI is essentially a leveraged moneylender". (*Economic Times*, 23 November, 2010) He went on further to add that many finance experts believed, but did not have the courage to admit publicly, that micro finance is India's subprime: "Ultimately, it is something like subprime lending". The studied silence of experts has cost the economy a great deal. In retrospect, the Government of Andhra Pradesh deserves to be congratulated on its ordinance issued in 2010 which spelt out clearly the malpractices of such MFIs: "Whereas these SHGs are being exploited by private Micro Finance Institutions (MFIs) through usurious interest rates and coercive means of recovery resulting in their impoverishment and in some cases leading to suicides....." This triggered a crisis which almost paralysed for-profit MFIs, with banks reluctant to lend, 'repayments dwindling and depositors tending to withdraw their money'. It is this shock therapy which led to subsequent soul-searching on the part of those MFIs the promoters of which were fattening themselves on the sweat of the poor borrowers. The Micro Finance Institutions Network (MFIN), a grouping of for-profit microlenders, has now set up a Committee to look into these deficiencies. In fact, the clout of these MFI seems to be so strong that in spite of all that has been now exposed, some influential papers plead: "Don't Kill Micro Finance". The short answer to such pleas is: "We do not want to kill these MFIs; but we certainly want to prevent them from killing their poor borrowers".

No doubt, the for-profit MFIs represent the predatory face of financial capitalism. But this was compounded by the institutional support which was extended to these MFIs. Such support came from Reserve Bank of India (RBI), public sector banks (PSBs), NABARD and SIDBI. For instance, during 2008-09, banks extended loans of something like Rs.3700 crore. Why should PSBs extend loans to MFIs at something like 12 per cent, when they were fully aware that these funds would be on

lent by MFIs at 25 to 30 per cent? The answer is that such loans by PSBs to MFIs were treated as priority sector lending. So this had the blessings of RBI. Similarly, some equity or quasi-equity support came from SIDBI and NABARD, of course, at concessional rates. RBI could have stipulated that PSBs should lend only to “not-for-profit category” of MFIs. PSBs could have also stipulated, on their part, that the onlending rate of beneficiary MFIs should not ‘exceed say 17 or 18 per cent’. This was not done. This systemic support perhaps also lent some respectability to for-profit MFIs. Thus, public sector financial resources were used to perpetuate usurious lending practices of MFIs.

In all humility, we may ask Dr. Reddy: It is one thing to say that RBI had no statutory powers to regulate MFIs; but was it obliged to support for-profit MFIs? RBI could have stipulated that PSBs should lend only to not-for-profit MFIs, fixing a ceiling on their onlending rates. This support made the system, in a manner of speaking, a co-conspirator in this business of exploiting poor rural borrowers. Public funds were allowed to generate private profits. RBI has not covered itself in glory in this episode.

The sordid story does not end here. Because of high returns, some may even say obscenely high returns, stemming from exorbitant lending rates, for-profit MFIs have become attractive investment destinations for Private Equity and Venture Capitalists. The recent success of IPA of SKS Micro finance is a case in point. It attracted high profile investors like billionaire George Soros, venture capitalist Vinod Khosla and Infosys Founder Narayan Murthy. Alluding to this transformation of the humble animal micro finance, Muhammad Yunus, the father of micro finance movement said: “It is a complete detour and nothing but a quitting of micro finance mission”. The original micro finance concept of helping the poor via small loans at reasonable rates of interest has been abdicated (*Economic Times*, 13th December, 2010). Is it a case of Shylocks masquerading as micro finance institutions? One wonders.

Basically, lending to the rural poor at 30 or 40 per cent defies all economic logic. Our small rural borrowers are not Schumpeterian mini-heroes, who can make the project or activity for financing what they have borrowed, financially viable. In fact, by inflating interest cost, we are building *ab initio* non-viability into the project. Secondly, the engagement of for-profit MFIs with borrowers has been shallow based on “touch and move” business models shorn of any development content. “The average loans per client in both MFIs and SHGs have been low, between Rs. 3500 and Rs. 5000. The duration of the loan is short, typically one year or less. The small loan and the short duration do not enable most borrowers to do much except to ease liquidity problems” (Micro Finance India: State of the Sector Report, 2008). It was M.L. Darling who wrote long ago that the Indian peasant is born in debt, lives in debt and dies in debt, thanks to the moneylender. Are we trying to promote the Darling syndrome?

It should be underlined that the policy makers’ indifference to exorbitant rural lending rates is in sharp contrast to their concern for corporate sector. Whenever RBI

even contemplates raising of repo rates by say 0.25 per cent, the corporate lobby is up in arms, Don't raise lending rates, it will hurt growth. More often than not, RBI yields to the corporate sector plea.

Whatever RBI's Malegam Committee has recommended, covers some ground towards reforming the for-profit MFIs. But it seems to have missed the central point. The public sector support to for-profit MFIs should be withdrawn forthwith. After all, why did PSBs begin to extend their support to such MFIs? Because these MFIs provided 'an easy escape route' to their responsibility regarding meeting the priority sector credit target of 40 per cent. In doing so, we have landed ourselves into a greater mess. Then there was this façade of financial inclusion. This empirical experience has demonstrated that under such circumstances it is better not to have borrowed at all, at prohibitive costs, than borrowed and lost. It is better to remain "excluded" than "included".

Where do we go from here? Indian policymakers must be reminded that India, unlike many other countries like Bangladesh, for example, has a healthy home-grown segment of micro finance. Public Sector Banks (PSBs), restructured Regional Rural Banks (RRBs) rejuvenated cooperative credit system, NABARD's Self-help Groups (SHGs - Bank Linkage Programme (SBLP)), which has emerged as a major channel of micro finance. Then there is the Post Office, which is already functioning as a semi-bank, with its 1.55 lakh branches and some 16 crore customers. This has great potential, given appropriate policy support, to emerge as a low-cost micro finance channel. The point is that these public or semi-public sector segments have successfully blended profitability criteria with social banking. Of course, "not-for-profit" MFIs are indeed welcome to join the stream. Our policymakers could do well to refocus their energies on further developing this segment, rather than trying to reform rouge MFIs. In the business of financial inclusion, there is enough space for not-for-profit MFIs but not for rogue MFIs.

(e) *Fiscal Inequity*

The Indian fiscal system is distinguished by the fact that dividends received by individuals are totally exempt from income tax without any limit. Similarly, there are exemptions without limit, from long-term capital gains from the stock market. Thus persons receiving thousands of crores of rupees of dividend income are totally free from income tax, while those earning modest incomes from professions are taxed at high rates. These exemptions are sought to be justified on the ground that they foster the development of equity market. The ostensible rationale is that since corporates have already paid the tax, taxing dividend income of individuals would be tantamount to double taxation. This is a specious argument. In the idiom of public finance, corporate and individuals are distinct entities and hence they ought to be taxed separately. Dr. S.S. Tarapore, former Deputy Governor of RBI, has correctly argued

that unlimited exemptions of dividend income are incongruous with distributive justice and are nothing short of fiscal atrocity.

Contrast this with the recent proposition by Warren Buffett, the billionaire investor and founder of Berkshire Hathaway that the richest should be taxed heavily: "Tax Us More". Supporting this move France's sixteen richest persons have pressed for more taxes. Where are our pretensions to the socialistic pattern of society?

III

DEVELOPMENT ECONOMICS: THE GOD THAT FAILED

Before we move on to the discussion of the next stage of India's economic development 2004-2011, it may be useful to raise some broader questions. Has the process of disillusionment with development economics already started? Let us take a quick look at the more recent developments.

The Commission on Growth and Development, sponsored by among others the World Bank, submitted its Report, in June 2008 (World Bank, 2008). The Commission's main recommendations stem from an investigations into the empirical experiences of 13 countries, which recorded an average annual GDP growth of 7 per cent for 25 years or longer, since 1950. These countries were Botswana, Brazil, China, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, Malta, Oman, Singapore, Taiwan and Thailand. The Commission adds that two other countries – India and Vietnam – were on their way to joining this group.

These success stories demonstrate that fast and sustained growth is possible. At this pace of expansion, an economy almost doubles its size every decade. The Commission rejects the view that these are "economic miracles". The Commission believes that there are perfectly rational explanations for these success stories. Distilling the empirical experience of these 13 countries, the Commission comes up with five essential ingredients for faster and sustained growth (i) these countries fully exploited the world economy; (ii) they maintained macroeconomic stability; (iii) they mustered high rates of saving and investment; (iv) they let markets allocate resources; and (v) they had committed, credible and capable governments.

So far so good. Can these ingredients help us to draw up blue prints for growth and development of other poor countries? "But it is hard to know how to replicate these characteristics", the Report reveals!

This is the tragedy of development economics. The Commission admits that there is no generic formula for growth. "Each country has specific characteristics and historical experiences that must be reflected in its growth story". Indian policy makers in the post-1990s phase were, as we have seen, soaked in the market theology of IMF and World Bank and tried to mimic the American capitalist model. This was reflected more prominently in financial sector reforms and in their obsession with privatisation. The Commission itself is cautious that "governments in these high

growth economies were not free market 'purists'". We have thus come a long way from conventional development models.

At this stage it may be appropriate to recall the famous observation of the Noble Laureate Robert Solow: how often all the discussions of the sources of growth and development seem to end in a blaze of sociology, which also explains the stubbornly large residuals in all growth accounting models. He used his theoretical model to decompose the sources of growth among capital, labour and technological progress. "The technological change residual" -so called because it is part of the growth that cannot be explained by identifiable factors such as capital accumulation or labour force growth. We have today moved well beyond Solow: the five essential ingredients of the growth recipe identified by the Growth Commission demonstrate that it is inappropriate to call other factors – other than the conventional factors like saving rate, capital-output ratio and the rate of growth of labour force – as "residual". Bereft of these five elements, growth accounting models would be reduced to barren econometric exercises. That is how perhaps development economics failed many countries. Our basic approach to development was perhaps flawed.

The disillusionment with development economics was not only in terms of theoretical constructs but also with development policy. When Robert Mc Namara launched a crusade for poverty eradication as the main goal of the World Bank, the World Bank began to articulate its development vision through its World Development Reports (WDRs). No wonder many policy makers in developing economies, particularly those that borrowed from IMF and World Bank, looked with awe and admiration at the WDRs hoping to derive some policy guidelines and the World Bank perhaps honestly believed that the WDR could provide some policy inputs. A critical look at these Reports which began to be published since 1978 has been taken by Shahid Yusuf, on the eve of 30th Anniversary of WDRs, in 2009 (World Bank, 2009). This assessment finds that WDRs were mainly a summarises of inside and outside academic research, and they offered no meaningful development policy guidance.

Dr. Khatkhate concludes his brilliant review of Shahid Yusuf's monograph on WDRs in the following words:

".... It is now clear after reading this essay that the WDR far from illuminating development issues and contributing to the science of policy making is more like, to use a resonating phrase of Nandan Nilekani, a Niagara Falls of well-worn ideas and Sahara of new exciting ones".

Is this another episode of the emperor's clothes parable? One wonders.

IV

MAHATMA GANDHI PHASE: 2004-2011 REDISCOVERING THE MAHATMA

The year 2005, may be said to mark a dramatic departure from the market centred development policy or what I have broadly categorised as the Milton Friedman phase.

This is when Indian policy makers began to rediscover, as it were, Mahatma Gandhi, escaping from the trap of market fundamentalism embodied in neoliberalism. Maintaining a sustainable growth of 8 per cent for five years was, in itself, a significant achievement. But this was not enough. Inclusive growth has to be sought. It is here that India's growth story ceases to be a mere growth story: it transfigures itself into a development drama, with community-centred development as its central theme. This takes us well beyond growth models – a failed God-to the realm of philosophy of development: it urges us to grow up from the conventional growth economics trapped in market theology to resonate to the larger concerns of holistic development including promoting of broad based, decentralised growth which alone could facilitate access by the poor to employment, food, nutrition and health and quality education; and putting in place appropriate safety nets to reduce the vulnerability of the poor, and above all to build a value-based compassionate society. Do we need to rewrite the script of development economics?

The ambitious Bharat Nirman programme launched in 2005 with a massive investment of Rs. 1.74 lakh crore involved a time-bound programme of rural infrastructure development focusing on six subjects: roads, drinking water, irrigation, housing, electricity and telephones. In a way this symbolises the beginning of the re-discovery of Mahatma's philosophy of rural development. This was subsequently supplemented by other flagship schemes for education and health, Sarva Shiksha Abhiyan for education, mid-day meal scheme providing cooked meals to school children, Integrated Child Development Services (ICD) to promote nutritional supplement to children upto the age of six years. The mid-day meal programme covers some 15 crore children.

The Mahatma Gandhi National Rural Employment Guarantee Act (NREGA), 2005, is the best thing that would have happened to the rural poor. This guarantees 100 days of employment in a year to every rural household. Today, about 5 crore rural households benefit from this programme. The Budget speech for 2009 summed up the new approach to development “..... The UPA Government has gone for a paradigm shift for making the development process more inclusive. It involves creating entitlement backed by legal guarantee to provide basic amenities and opportunities for livelihood to vulnerable sections. *Aam Admi* is now the focus of all our programmes and schemes”. Are we recapturing the rhythm of our old growth song with which we launched our development in 1951?

The process of discovery of the Mahatma did not stop here. The pendulum seem to have swung to the other extreme. We have become ambitious to “feed” the bulk of the population at subsidised prices. Contrast this with the Milton Friedman phase when our policy makers keen on abolishing food subsidy, and exported “surplus” foodgrains. Secondly, the “Commitment deficit” which hampers our development endeavours warrants that we go beyond the text-book development economics to development philosophy designed to build a value-based society. Let us discuss these two aspects.

(a) *A Sort of Food Utopia*

The culmination of these efforts is the proposed National Food Security Bill.

At present a sense of supreme complacency and total disregard for ground realities seem to characterise the approach of the authors of the National Food Security Bill (see the Document of February 21, 2011) and Food Minister Shri K.V. Thomas. Between themselves they seem to have created a sort of "Food Utopia". The basic approach of home delivery, as it were, of a specified quantum of subsidised foodgrains –doorstep delivery of PDS grains is the wording in the draft Bill – is flawed. We know that many poor households do not use the Public Delivery System (PDS) even when they have the necessary entitlement. Even subsidised foodgrains need to be purchased. Enabling the poor to purchase subsidised foodgrains is far more important than mere legal entitlement. We therefore have to adopt a holistic approach to ensure food security.

Basically, the National Advisory Council (NAC) recommends a much higher coverage of the population to subsidised food. Individual food entitlements proposed by NAC are: priority category 7 kgs per month and general category 5 kgs per month. It recommends a larger coverage of 72 per cent of the total population in the first phase; and 78 per cent in the final phase. In the first phase, NAC estimates a total Public Distribution System (PDS) requirement of 49.4 million tonnes. If we add non PDS food grains requirements for schemes like the mid-day meals and Integrated Child Development Services (ICDS), total requirement works out to some 58 million tonnes. The NAC feels that procurement of some 60 to 65 million tonnes of foodgrains annually "should not be difficult". In 2009-10 for instance, procurement of rice and wheat was around 54 million tonnes. The subsidy implication of NAC proposals are that the total subsidy would jump from the present level of Rs.56,700 crore to Rs.71,837 crore.

Apart from financial implications, such larger procurement and distribution of rice and wheat poses problems of logistic disaster. As it is, PDS is in a tottering condition. How does one go about increasing production and strengthening PDS? Here NAC's Explanatory Note merely lists a bunch of good intentions. There is no agenda for action. For instance; "There is a large potential for higher food grain production. India has vast untapped production reservoir in most farming systems, even with the currently available technologies".

Regarding storage of foodgrains – in the light of the recent criticism of insensitivity of Food Corporation of India (FCI) to wastage of foodgrains through inappropriate storage – the NAC merely states: "Urgent efforts are needed to expand, improve and modernise storage of foodgrains in the country" NAC also advocates "urgent reform of PDS".

Where do these homilies lead us? Recent researchers have provided concrete evidence of corruption in the PDS. Estimates of diversion of grains from PDS include leakages due to corruption, transport losses and losses due to spoilage.

Reetika Khara has shown that the situation has deteriorated between 1990-2000 and 2007-08. At the beginning of the period 24 per cent of the grain was diverted. In 2004-05 54 per cent of the grains was diverted. At the end of 2007-08 44 per cent of the grain was diverted. Although there are inter-state differentials, this was the picture at the all-India level. There were seven major states whose performance was excellent, in the sense of negligible diversion. We can not therefore label the PDS as "dysfunctional" (see Trends in Diversion of Grain from the Public Distribution System, Eco. & Political Weekly, May 21-27, 2011). One thing is quite clear. Unless this deficiency is rectified, it would not be prudent to entrust PDS with greater responsibilities.

In the face of such evidence, Food Minister is complacent about Food Corporation of India (FCI). In a recent interview to a financial paper he said. "But the key thing is that the machinery has to be equipped. Compared to earlier periods, the recruitment to FCI has risen by 10 per cent. We have modernised FCI godowns through computerisation. Sitting in my office, I know the quantity, quality and distribution of grain from each godown. We have put CCTV cameras to watch operations" (Eco Times, June 1, 2011). If the picture is so rosy, one may ask: why did the Supreme Court ask the Government of India to distribute the grains free of cost to the poor, instead of allowing it to rot in the open storage of FCI? It is to the credit of NDTV, that they showed a couple of godowns of FCI where the grain was allowed to rot exposed to rain, or rats were eating away grains from one such godown. The point is that much needs to be done to improve the storage of grains in the godowns of FCI. Entrusting PDS with greater responsibilities before raising foodgrains production and before streamlining FCI storage system is like putting the cart before the horse. Thus the basic approach of NAC to food security is flawed. Providing food security does not mean that Government should produce and deliver a stipulated quantity of foodgrains at subsidised prices to targeted households, as the NAC proposals seem to suggest. The magnitudes involved in such operations are so forbidding that it may result in logistic disaster. What is required is creating an environment which enables households to purchase foodgrains through employment generation, moderating open market prices of rice and wheat, and by streamlining marketing arrangements of some items like fruits and vegetables. If public sector banks can use business correspondent (BC) model there is no reason why FCI can not use private trade to reach targeted households. Private and public sector participation should be an essential ingredient of a well-designed food security model. Protecting the vulnerable sections of the population through say mid-day meals or child nutrition programmes would, of course, continue to be the exclusive responsibility of public sector institutions.

(b) *Building a Value-based and Compassionate Society*

This brief critical review of India's development drama over the last two decades brings us back to the larger concerns of Society. Basically we have seen that building development models or conducting econometric exercises is not the best way to generate practical policy prescriptions country-specific issues need to be addressed: the key to success of development in a particular country lies in the answer to the question: What ails development? In India we have seen that "commitment deficit" haunts many of our development endeavours. It is here that development economics spreads its arms into the broader area of development philosophy. As Ricupero Rubans puts it: "We should never forget the economy is not something that is beyond our control. The market has to be our servant, not our master. The economy is not like the planetary system or the genetic code; something that is given once and for all and which one cannot alter; it is a product of culture, it is a product of human choices; of choice of values. That is why we have to choose the right values and put competition exactly in the balance with other values and decide what are the higher values for us. We have particularly provide people with tangible reasons to hope for the future" (Reddy, 2010). This takes back to the Mahatma.

Mahatma Gandhi had distilled the core of Indian philosophy from our ancient scriptures and evolved his own philosophy. In addition to basic needs of the common man being he first charge on the Society's resources, he had another important ingredient: the concept of trusteeship. We should hold our wealth as trustees and not as exclusive owners, so that this wealth is available for sharing by others who need it most. Dr. Swaminathan would like to add intellectual property rights as well to the concept of wealth.

From times immemorial, Indian philosophy has maintained that the all-round development of a society is best achieved through betterment of individuals which no doubt includes economic well-being but extends well beyond it. Social conscience must be inculcated among individuals through education at all stages and also professional training. All individuals must be sensitised, at their young age itself, to abject poverty, the squalor, disease, ignorance and illiteracy that surround us. They must begin to think in terms of what is our *dharma* or duty towards alleviating some of the infirmities that affect our less fortunate fellow human beings. Some Asian countries, recently, have introduced in school textbooks lessons on corruption. But that is a narrow and negative concept. More positively, we must aim at building a holistic concept of the right conduct.

One of the ancient scriptures of India The *Brihadarnyak Upanishad* enjoins us that our life must be guided by the following three Das – "Damya", that is control yourself, "Datta", that is give to others, and "Dayadhwam", that is be compassionate. Thus we must practice self-control, charity and compassion. Collectively, these three characteristics constitute "development conscience" (Mujumdar, 2007). Building up such conscience among all sections of the population

would go a long way towards evolving a compassionate Society – an ideal which the Mahatma sought to achieve. We must add this ingredient to our development approaches.

NOTE

1. This theme and sub themes have been developed over the years. For any further documentation and evidence in support of the statements made here, the reader is invited to refer to my following books. Financial Sector Reforms and India's Economic Development, two Volumes 2002; Economic Reforms *Sans* Development, 2004: Inclusive Growth, Development Perspectives in Indian Economy, 2007, India's New Development Agenda; Building a Value-based Society, 2011. All these books are published by Academic Foundation, New Delhi.

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