TRILLION DOLLAR STAKE
GROWTH OR DEVELOPMENT

MULTI BILLION DOLLAR IS PUMPED IN THE NAME OF DEVELOPMENT! WHERE’S THAT WE ARE HEADING?
“A Society where man is at the centre of all activities, a society where exploitation of man by man has been abolished, where he is cared for as an in a family, where “to each according to his need” is practised, a society where non bureaucratic National Economic Planning is given due importance for sustainable optimum growth, where adequate social safety net is a reality and yet market’s advantages are fully taken care of for creativity and entrepreneurship, such a society can be truly described as humane society and the vision as “Humanism”.

Dr. M K Chaudhuri
The Great Indian Dream, 2003, Macmillan India, New Delhi

“Let us together dream of a country where poor are not just merely reduced to statistics but where there are no poor. Let there be a day when small children are taken to a poverty museum like science museum where they shiver at the plight of the way people used to live in the last millennium. Let this dream take the form of a revolution and as long as our dreams keep outweighing our memories, India would remain a young and dynamic nation on this path to global equality. And for this let the wait not be for eternity. Let us together achieve this in the next 25 years.”

Prof. Arindam Chaudhuri
The Great Indian Dream, 2003, Macmillan India, New Delhi
IIPM: THE FUTURE IS HERE

Since its incorporation (1973), IIPM has been an institution with privileged traditions, in the diversity of its fraternity, its global outlook, its world class research and its commitment to alternative national economic planning process.

It can be said, without much oversimplification that there are no ‘underdeveloped economies’. There are only ‘under managed’ countries. Japan 140 years was ago was an underdeveloped country by every material measurement. But it very quickly produced management of great competence, indeed of excellence. The policy inference is that ‘management’ is the prime mover and ‘development’ is the consequence. At IIPM, every one considers that development is a matter of human energies rather than economic wealth. And the generation and direction of these human energies is the task of ‘management’. Accordingly, we formed The Great Indian Dream. Unlike any other dream, this is one dream which each one of us are determined to realise and that too in our own lifetimes. Each bit of cynicism and condemnation from pessimists makes us evolve even stronger and determined.

All our endeavours and initiative is towards realisation of this dream, where in we produce committed ‘bare foot’ managers and entrepreneurs who are needed by nation, on an insistent basis. As an educational institute, we aim at initializing a three dimensional personality in IIPMites, viz.

- Pursuit of knowledge in economics and management
- Commitment to economic, social, political and technological upliftment of masses and
- Cultivation of taste for literature, fine arts and etc.

Economists often have limited access to the practical problems facing senior managers, while senior managers often lack the time and motivation to look beyond their own industry to the larger issues of the global economy. It has set before it the twin tasks: to reorient education and research towards the needs of both the private and public sectors and to establish the link between the National Economic Planning and the development of private enterprises in Indian economy. IIPM dares to look beyond, and understands that what we teach today, other adopt tomorrow. IIPM’s service output (education, research and consulting,) is a unique combination of two distinct disciplines: economics and management. Through this integration, IIPM helps guide business and policy leaders in shaping the Indian and global economy, bringing together the practical insights of industry with broader national and global perspectives.

A hallmark of IIPM is that it is armed with the comparative advantage of engaging the committed, passionate and brightest management post graduates and undergraduates, who pursued the education at IIPM and subsequently joined it, to realise the dream. IIPM alumni, spread across the globe, holding crucial decision-making positions in the corporate sector, are bonded by the one ideology of making a positive difference, turning that ideology into a movement itself.

The India Economy Review is another humble initiative towards the realisation of the same and more distinctly, engaging the broader publics and pertinent stakeholders.

SEARCH, SIEVE, SCHEME...

In economics, like in everyday existence, it is imperative to hear, perceive and consider what others have to say. Each issue of The IER brings together a selection of important contributions on a particular theme, authored by some of the brightest minds in different areas of Indian economics. The provocation for publishing these issues arises from the fact that over the years economic journals have become copious, exclusive and expensive. Most of the journals and a good many of the books have gone beyond the cerebral and financial reach of general students and other scholars. It is for them that these issues are primarily being raised and debated here.

Much about India is transparent enough. One does not require detailed criteria, cunning calibration or probing analysis to pinpoint India’s problems and recognise its antecedents. There is in fact much that is perceptible about India. But not everything about India is even if simplistic is so simple. The learned reader would appreciate the fact that India is like an elephant that looms too large to be grasped within a distinct structure and paradigm the constituent parts of which would fail to reveal the entirety. Obviously and observably, no suggested solution to any protracted and complex socio-economic problem will satisfy all sides and stake-holders evenly. Consequently, there exists an enormous diversity in economic thinking and perspectives, as is also reflected in the viewpoints of different expert contributors in this issue. The intended outcome of this exercise is to facilitate the invention, improvement, deliberation and dissemination of innovation in economic thinking and national economic planning, insisting merely on well-grounded, open and unbiased debates, without predetermined outcomes. It is impossible to do justice to the entire field of Indian economics in a single issue. The topics selected for this issue are those which are of critical and immediate importance to India. Majority of them were freshly and exclusively written. Encapsulated, it is a constructive attempt aimed at helping India actualise its promises and potential. The editors hope that this issue of IER proffer the reader a flavour of dynamism and excitement and persuade her/him to participate in the journey towards realising ‘The Great Indian Dream’. At the same time, it illuminates the terrible, practical problems of India and Bharat.

ACKNOWLEDGEMENTS

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Dear Readers,

Economics is funny! I remember my professor used to say that instead of conducting classes in air-conditioned rooms with lights on devoid any ventilation, it is much better to conduct the same in open areas. By doing that, the later adds to our health while the former adds to our Gross Domestic Product (GDP). The more we burn power and thereby health, the more the economy grows! Funny, isn’t it? Well, the fact is that almost all critical social indicators viz. poverty, unemployment, health, environment and many other are comfortably swept under the carpet, in the veil of burgeoning GDP rates. With so much hype around economic boom, GDP has apparently come out as the only convenient panacea for all social imbalances. Whereas the fact remains that the GDP figure fails to depict a true picture of any economy. Thus, it is imperative that we need to institute a more holistic index which portrays the real economic picture. A Genuine Progressive Index (GPI) not only breaks the myth of economic growth that is fuelled by lopsided growth but also takes into account numerous other variables that play a major role in socio-economic well being, but had been largely sidelined on account of prevailing GDP calculations.

Let’s go step by step and understand that what this mad race of attaining higher growth has given us. It is no secret that despite India Inc. increasingly entering the billion dollar club and finding its place in the fortune 500 list, the gap between the executives and workforce has been consistently widening. In simple words wealth creation does not equate to wealth distribution, yet it adds to the GDP. Another case in point is the incidence of crime, which is quite rampant in India. GDP treats such expenses (money spent on court cases, lawyers, divorce cases) as additions to wellbeing while the GPI subtracts the costs arising from crime and related activities. In the same lines GDP ignores the contribution by household and volunteer work while the GPI includes such variables as the approximate cost incurred if the same work is done through professional contracts. A report by the Evangelical Social Action Forum and Health Brigade estimates that “the economic value added by Indian housewives would be nothing less than $600 billion annually that is equal to a staggering Rs 28,20,000 crore. In simple terms, it means that on an average an Indian housewife adds Rs 78,000 per year to the economy.”

Even the fluctuation in income distribution finds its place in the GPI. The GPI rises when the poor receive a larger percentage of national income and vice versa. This gain is significant. As per the UNDP HDI Report 2007-08, the poorest 10 percent had three percent share of the national income, the richest 10 percent enjoys 31 percent share on national income. Depletion in resources due to economic activity is seen as current income in GDP while, the GPI counts depletion as current cost. Same goes for pollution. GDP counts pollution as a double gain but the GPI subtracts the costs of pollution as measured by actual damage to the ecology. Just land degradation and deforestation itself lead to a loss of five percent in GDP of India! GPI also considers the loss due to climate change and the management of nuclear wastes which have no place in GDP calculations. Another significant aspect is productivity and man-hours. A one day productivity loss cost the nation Rs 13,000 crore, which again dents the economy to a large extent but does not feature in GDP but is a chief decider in GPI. Latest official reports reveal that 2.5 million man-days were lost in 2008. So, in order to gauge a true growth rate and steer the agenda of inclusive growth in right direction, it is important to focus on GPI that considers humanitarian and environmental costs along with the cost of inequities and environmental damages, unlike GDP. All in all, there is no doubt that economics is funny, but to embark on the path of something as lopsided as GDP calculations, is funnier!

Happy reading.

Best,

Prasoon S. Majumdar
In this crisis ridden world, economies around the world are experiencing high bouts of inflation and India is no exception to that. Indian economy is facing the effects of severe inflation in the form of rising food and energy prices. Indian government is either clueless about the cause of this inflation or is pretending to be clueless to fox the people from seeing the true cause of this rise in prices. Moreover, it is trying to divert everyone’s attention from the true cause of inflation by creating scapegoats like consumers (high demand), hoarders, speculators, food drought etc. This is an age old trick which all governments use to fool its populace when it embarks on the inflationary path in full speed.

The reason there is double digit inflation in India (and around the world) is this same government money printing process worldwide through its central banks, especially printing by US federal reserve i.e., the so-called ‘quantitative easing’ program (QE1, QE2 and soon to be announced QE3, QE4 and so on).

FALLACIES
Since the beginning of recent financial crisis in 2008, Indian government through RBI is printing and injecting gargantuan amount of money in the
economy. Here are the evidences:

1. **Stimulus package 1**: Newspaper, The Hindu (A. Dasgupta, 2008) reported that, unveiling the much-awaited stimulus package to shore up various sectors of the economy from the global downturn, the government on Sunday effected an across-the-board four percent cut in Cenvat to bring down the prices of cars, cement, textiles and other products, and earmarked an additional Rs. 20,000 crore for infrastructure, industry and export sectors for the current fiscal.

2. **Stimulus Package 2**: Indiaserver.com (Indiaserver.com, 2009) reported that, in less than a month since the UPA government announced a Rs 32,000 crore booster dose for the slowing economy, it came out with a more comprehensive and detailed stimulus package valued at over Rs. 20,000 crore. Montek Singh Ahluwalia, Deputy Chairman, Planning Commission announced the “Round II Package”, the last of this fiscal, focusing on stressed sectors like non-banking finance companies, real estate, infrastructure and small and medium businesses.

3. **Stimulus Package 3**: Finance buzz (Narayanan, 2009) reported that, India on Tuesday provided two percent cut in excise duty and service tax to give boost to the country’s economy. These duty reductions are likely to cost the treasury nearly Rs. 30,000 crore. This is above the four percent cut in Cenvat announced in December 2008, which has now been extended to beyond March 31.

4. The mega money printing process which started in 2008 still continues. For example, in October 2010 RBI bought back up to Rs. 12,000 crore of government securities as part of the government’s cash management operations (Roy, 2010). Just after couple of months, again in December 2010, RBI purchased government securities worth Rs. 12,000 crore (Prasad, 2010). Under this same mechanism, RBI purchased total Rs. 48,000 crore worth of government security in various rounds of Open Market Operations (Sampat, 2011).

5. Since November 2010 Indian banks are borrowing on an average one trillion rupees daily from RBI!!! (D’silva, 2010).

6. Indian government is pumping crores of rupees for bailing out bankrupt inefficient public sector units e.g., recent Air India bailout of Rs. 12 billion rupees (Reuters, 2010).

Not only this, USA is also exporting inflation around the globe through its QE programs. How? Let us see.

The US dollar is an international reserve currency. That means citizens of every country need it for trade transactions with citizens of other country. Thus the demand for dollar is universal due to its international reserve currency status.

After the financial crash of 2007, US economy is in recession. To take the economy out of recession US central bank Federal Reserve and the Federal government is following Monetarists and Keynesian policies. In nutshell these policies are nothing but printing massive amount of money and thus increasing the money supply. These people (false) believe that spending huge amount of paper currency will spur the aggregate demand and that will lift the economy out of recession.

**CONCLUSION**

Inflation in India and all around the world is a result of government & central bank’s crazy Keynesian Monetarists policies of printing money to get economies out of recession. They don’t understand that, by printing money they are only going to create more havoc in people’s life by creating inflation or possible hyperinflation. Printing money is not wealth creation. It actually destroys wealth. It results in capital consumption which reduces the possibilities of higher economic growth in future. People need to understand that consumption never drives any economy. Economies grow because of savings, capital accumulation and production. Without production, consumption is impossible.

But, following their inherent inflationary nature, governments around the world are planning to blow another big economic bubble in the form of printing of 100 trillion dollar worth of fiat currency as a measure of global quantitative easing! This plan was discussed in recently concluded Davos World Economic Forum. Recently published papers of International Monetary Fund (IMF, 2010, 2011) lay out the blue print of future monetary system of one world paper currency named after Keynesian dream, Bancor. This plan, if successful, will plunge the world into a systemic worldwide inflation and ensuing global super depression.

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The views expressed in the article are personal and do not reflect the official policy or position of the organisation.)
Conceptions of how economic growth and political change can be made to support each other and provide a reliable basis for social stability have proved to be influential, as well as occasionally profound. Keynes certainly exaggerated the influence of ideas over economic interests when he asserted that:

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood.
from some academic scribbler of a few years back (1936).

Perhaps Keynes can be forgiven this exaggeration since he felt himself to be mortally at combat with a ‘Treasury View’ of the economy that opposed government spending and so consigned the world, in his view, to prolonged depression and political decay. Keynes’ reference to ‘a few years back’ is telling and reminds us that “Keynesian” policy recommendations have by now come in and out of favour several times over. At times economics appears to be little more than fads and fashions set in motion by adherents to rival political passions.

So it is important to remember that many of our foundational ideas regarding how the economy ought to contribute to social growth have not gone in and out of favour. This is especially true of Adam Smith thoughts on how the growth of commercial society ought to be made to benefit society. He was very worried about the difficulties that his society faced, and supposed that there was a narrow aperture through which commercial society must pass for it to attain wealth and stability. Education played an especially important role in threading this narrow passage so the relationship between the state and education had to be gotten right.

Let us start with Adam Smith and his justly famous division of labour. The notion that increased international trade is an essential input to faster rates of economic growth continues to have extremely able advocates, none more so than Jagdish Bagwati. While much of the Wealth of Nations reads as if it is only the per capita income of a nation that Smith seeks to increase, the discerning reader sees that distribution matters greatly to Smith and that his advocacy of pro-growth policies is strictly linked to their tendency to increase the wages of the ‘common workman’. So his chapter on the division of labour culminates in a discussion of how trade and productivity growth has made the woolen coat more available among the ‘common workmen’ in wet and chilly North Britain. In fact as far as a laissez fair or free market view of
the economy is concerned, Adam Smith adopted it with caution and only in particular settings. So trade monopolies were irksome to Smith because he saw them as lowering the demand for labour and so lowering wages. He declares the labour legislation of his day not because it allowed workers to combine for higher wages, but to the contrary because it provided employers with powerful means for preventing or persecuting the ‘combination’ of workmen while allowing combinations among the employers (to lower wages) to occur without challenge.

But serious discussion of the role of the state is reserved for the last book of the Wealth of Nations, that concerned with the duties of the sovereign or as we say today ‘public finance’. Three great tasks for the state are presented: defense, the provision of justice and the provision of public goods — or as Smith put it “those public institutions and those public works, which, though they may be in the highest degree advantageous to a great society, are, however, of such a nature, that the profit could never repay the expense to any individual…” (WN Vol. 2, 723). Infrastructure such as roads, bridges and improvements to navigation gets plenty of attention but special attention is devoted to the provision and financing of education. Education has a claim to public support because as commercial society and the division of labour progressed it became “necessary in order to prevent the almost entire corruption and degeneracy of the great body of the people”. Parents of rank and fortune are ‘sufficiently anxious’ to equip their children with “every accomplishment which can recommend them to public esteem”, but:

It is otherwise with the common people. They have little time to spare for education. Their parents can scarce afford to maintain them even in infancy. As soon as they are able to work, they must apply to some trade by which they can earn their subsistence. That trade too is generally so simple and uniform as to give little exercise to the understanding; while, at the same time, their labour is both so constant and so severe, that it leaves them little leisure and less inclination to apply to or even think of any thing else (WN Vol. 2, 781).

These are the people who should be taught, at an early age, to “read, write and account” (WN Vol.2, 785). Additionally Smith advocates the establishment of institutions for the instruction of people of all ages, by which he means adult education.

Several motives are evident in Smith’s advocacy of government support of education. First the more instructed the common or inferior people are the “less liable they are to the delusion of enthusiasm and superstition, which, among ignorant nations, frequently occasion the most dreadful disorders.” So he likens education to a form of public health expenditure, but one that prevents the spread of a peculiar social disease: political instability. Secondly “an instructed and intelligent people... feel themselves, each individually, more respectable, and more likely to obtain the respect of their lawful superiors”.

Respectability is politically good — it renders the population “more capable of seeing through, the interested complaints of faction and sedition” (WN Vol. 2, 788).
But respectability is something more. Quite a lot more. It is a balm that Smith prescribes to counter the terrific psychic pain that attends social isolation and insignificance. This pain is described in vivid detail in his first great work the Theory of Moral Sentiments. Here Smith sounds a theme that has recently been elaborated upon with great eloquence by Laureate Amyt Sen (Sen, 2004, Sen, 1999) across an alarmingly wide range of distinctive contexts. Third and lastly there are Smith’s observations, scattered throughout the discussion, that the subjects he recommends will genuinely be of use during working life.

Now the really interesting thing here lies in the fact that Smith sees government actions as often likely to backfire, and the state as he knew it as constituting a set of problems rather than a set of solutions. So a delicate balance between public and private is sometimes suggested. In the case of educating the young he notes that government payment of teaching salaries irrespective of the student’s experiences will produce ruin. So despite the poverty of their parents it appears that some part of the teacher’s pay must come from student fees, otherwise teachers will be lazy and useless. This leads Smith, very very reluctantly it must be said, to recommend that educational requirements be imposed upon the population—a self conscious violation of his general advocacy of a ‘system of natural liberty’. Another such balancing appears within his discussion of the public finance of local toll roads. Local roads should be paid for, he argues, by local taxes rather than nation-wide taxes because the benefits are largely local. So imposing a toll makes sense. But there must then be competent and public spirited overseers appointed by government to see to it that the tolls collected are only used to repair the roads and that they are so-used efficiently. He regards the pitiful state of most toll roads in his day as the predictable result of the absence of such oversight.

Few modern readers remain attentive through to the end of the Wealth of Nations. Those that do are always struck by Smith’s alarmist declaration that Britain must awake from its ‘golden dream’ of empire because the reality has been a painful cycle of wars and debts that cannot be sustained. It must either give up the imperial project or transform it into a polity representative of its far flung components. In a move that continues to divide his readers, Smith advocated the establishment of a ‘States General of the British Empire’ in which each part of the empire would be represented in proportion to the tax revenue it provided to the whole. While the big policy sting is reserved for the tail of the book, it helps us understand why the body of the book is so reluctant to portray government as a great shock absorber or impartial arbiter. Various views can be taken of his suggestion for government reform but it clearly indicated that big changes were needed if government wished to have the capacity to execute the tasks it had already committed itself to. So the broad message was that there were several distinct paths ahead that led towards sustained commercial and political growth, but that they were very few in comparison with those that led towards political and social instability.

ECONOMICS APPEARS TO BE LITTLE MORE THAN FADS & FASHION SET IN MOTION BY ADHERENTS TO RIVAL POLITICAL PASSIONS

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The views expressed in the article are personal and do not reflect the official policy or position of the organisation.

From THE INDIA ECONOMY REVIEW
THE GOLDEN BIRD
DEFYING RUST

Potentials of the Indian economy has stagnated at the level of mere expectations rather than transforming into reality — makes the optimism misdirected.
In times of volatile global and domestic conditions, an otherwise ‘dynamic and vibrant’ economic system is often regarded as being one that is ‘unstable and less secure’. The Indian economy however, has had the unique advantage of having been regarded as dynamic and vibrant, but has not been shunned by the latter traits. It is hence, not a surprise that investors, both foreign and domestic alike have ‘instilled faith in the growth story of the Indian economy’. The pertinent question, thereon is whether this optimism is misplaced?

This question may be answered frontally, in a mono-syllable “no”. At length, however, one may contend two questions — “is the optimism on the growth front unfounded?” The answer being “no”, and “is the optimism on the growth front misdirected?” The answer being “yes”. In a bid to substantiate, these responses let us look at some macro-economic performance indicators. This article primarily seeks its argumentative capacity from past trends redirecting contentions based on expected future inclination.

WHY THE OPTIMISM SURROUNDING THE INDIAN ECONOMY?

The Indian economy is one of the fastest growing economies in the world. For the last five years, the economy has registered strong growth in the range of 8.5-9%. Although major economies of the world saw some setback to production during the years of recession, India maintained a growth of eight per cent in FY10 over FY09. Advance estimates of growth in gross domestic product (GDP) reinforce this robustness, indicating that a growth of 8.6% may be expected in FY11. Commensurate with this growth is maintenance of growth in per capita net national product (NNP). Adjusting for an average growth of 1.5% in population, the growth in per capita NNP has been strong at 6.1% in FY10. This very distinctly hints that the gains of growth have not dispersed large and wide amid a growing population base, but rather suggests some improvement in the resources available to the existing population set.

The Indian economy has recorded a secular and permanent shift in its structure, graduating from being a primarily agriculture dependent economy to becoming a global service provider, with a strong foundation in industrial activity. The primary sector currently contributes around 14% to overall GDP while the secondary (inclusive of construction) and tertiary activities contribute 28% and 58% respectively. With greater disposable income and greater availability in choices, growth in the consumer goods segment of industry has been high, additionally yielding backward linkages for growth in the capital goods segment. The well diversified composition of Indian GDP coupled with dominant domestic demand, further makes the economy resilient and less vulnerable to sudden external shocks.

Savings and investments in the economy have posted robust trends over the last ten years. The savings rate of the Indian economy has thrusted itself above the historical barrier of 20% touching an average of 34% in the last five years. The investment rate has also recorded high levels of 35-36% in the last five years, with an incremental capital output ratio of around four times. This indicates that the efficiency in production in the economy has augmented, with lower investments required to generate an additional unit of output. Testifying the buoyancy in investments in India, is the eleventh five year plan (2007-12) estimating total investments as high as US $ 439 billion. A very encouraging aspect is that the lion’s share in these investments is targeted towards the infrastructure industry. Even in FY11, 32.4% of the current outstanding bank credit disbursed (as of March 31, 2011) was deployed in the infrastructure sector. India has also attracted 5.6% of total global FDI flows of US $ 410 billion and nearly 26% of global FII flows of US $ 153 billion in 2010.

Banks in the country have registered a capital adequacy ratio of 14% and 14.5% under the Basel II norms in the last two years, well above the RBI minimum stipulation of nine percent. The central bank of the country has been proactive in monetary management. Globally, this promptness and vigil of the RBI in banking and macro-economic management has been appreciated. It has been one of the major contributors to India’s ability to resist excessive damage during economic and financial turmoil. Non-performing assets as a proportion of advances have been fairly constant over the past five years.

Financial markets in general have been buoyant, with the number of new issues and traded volumes increasing manifold, both in the primary and secondary markets. The ratio of market capitalization to GDP has fluctuated in the range of 80-100% in the past five years ending FY11, barring the years of global recession. Though Indian financial markets are young, the level of sophistication already attended is commendable.

On the external sector front, the monetary authority has very cleverly balanced the forces of the infamous ‘impossible trinity’, namely exchange rate, free capital flows (pertaining to interest rate decisions affecting inflows-outflows) and monetary independence (pertaining to the balance between the two policy targets of inflation and employment). The country is backed by a strong foreign exchange reserve position. By March 2011, foreign exchange assets of the country crossed the US $ 300 billion mark, thereby increasing the import cover for the country well above the 11 months level of FY10. The country has registered considerable improvement in other external sector parameters such as current account deficit, trade deficit and fiscal deficit as well. Post-recession, when most economies of the world, especially advanced economies have been pursuing expansionary fiscal policies to support and boost economic activity, India has already begun the process of fiscal consolidation and restraint in accordance with the Fiscal Responsibility and Budget Management Act.

Additionally, India is also strengthening economic ties by increasing inte-
INDIA NEEDS A SINCERE EFFORT AT IMPROVING PROCESS FLOWS THAT WOULD ENSURE SPEED AND EFFICIENCY IN THE ECONOMY

Integration with the rest of the world through free trade agreements at the level of nations and private corporate mergers, acquisitions and takeovers at a micro-level. A point in case being the recent EU-India FTA, that is currently in the stage of bilateral-talks.

WHY IS THE OPTIMISM MISDIRECTED?
The Indian economy might have the desired strengths to hoist itself as a global economic power, but it has been constrained in harnessing these strengths. Potentials of the economy have stagnated at the level of mere expectations, rather than transforming into reality. This makes the optimism misdirected.

Some of the greatest hindrances lie in the functioning of the economy and polity of the country. India undeniably suffers from problems such as corruption, money laundering, lack of adequate governance controls, transparency and slow judicial system coupled with a passive civil society. Though these attributes are gradually changing for the better, the pace of change is by far insufficient.

On the social indicators front, India has either been stagnant or has registered only minor improvements. Improvements in literacy rate from 64.8% in 2000-01 to 74% in 2010-11 and life expectancy from 63.5 years (in 2007) to 64.4 years (in 2010) are small. Globally as well, out of 169 countries ranked in the 2010 Human Development Index, India ranks a low 119. The private corporate sector of the country, in particular has immense potential — access to innovation, upgraded technology, larger markets (both international and local) and greater avenues to raise/invest finances. A necessary and sufficient condition for the private corporate sector to grow is open unrestricted policies. Support from the government on this front will enable unlock the risk-appetite of entrepreneurs and investors, small and large alike, across the country.

Bureaucracy is yet another limitation that the country is grappling with. While, blueprints such as the Direct Tax Code and Goods and Services Tax are revolutionary in nature; expected to take processes in the country closer to global best practices and unison, their implementation has missed deadlines more than once. As much as democracy and democratic processes are to be respected, the same due to lack of consensus and mismanagement of diversity is proving to become an economic cost for the country.
Gradualism, as against a ‘big-bang approach’ has historically worked well for India. However, if moderation and lack of interest sets in the very pace of gradualism, the objective of any change is lost. In brief, the efficiency levels of the Indian economy are low with utilisation of existing capacity (raw material base and technological competence) falling below expectations; theoretically speaking we are under-performing vis-à-vis the hypothetical full employment level.

THE WAY AHEAD — DEFYING THE RUST?

A two pronged approach is perhaps best suited to tackle the inherent ‘dualism’ of the Indian economy. While on the one hand, there is a section of the economy that has access to resources but is tied by inadequate choices in the modes of deploying them, on the other hand, there is another segment that is precisely cut-off from the very opportunities of development.

The strategy involves the promotion of competitive spirit for the entrepreneurial class, but consequent on providing a freer business environment. A uniform increase in caps and limits, such as limits on ECB holdings, FIIs and FDIs, access to foreign financial and consumer markets, takeover and acquisition and a fast fair judiciary may be perceived as composing the “horizontal expansion component”.

The second component of this two-pronged approach may be termed as the “vertical penetration component”. This would involve the targeting of social support programs that would primarily focus on reducing the proportion of individuals below the poverty line and secondly, provide prospects of income growth. Skill enhancement, training and provision of social security will further enable inclusion of the unorganized sector into the mainstream economy.

A concern that lingers in the economy is the concentration of growth in pockets. The axis of growth primarily remains confined to the western zone of the country. Though states in general have improved their financial positions and their overall economic strength; some states still grapple with impeded growth in priority sectors. A vertical penetration program can target developmental resources specifically towards these segments. Going forward, these regions and segments of the population shall provide for new markets, becoming drivers of growth.

CONCLUSION

The growth story of India still has immense potential. We firstly and definitely require a concerted effort at improving process flows that would ensure speed and efficiency in the economy. Secondly, considering that domestic and foreign fund flows have been strong, we need to prioritize and target these resources. Lastly, recognizing that any interest in the economy as an investment destination will last only as long as performance reflects, we have to ensure both quantum and quality in our deliverables. This would surely and steadily, lend a new direction to the optimism with regard to growth in the Indian economy.

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The views expressed in the article are personal and do not reflect the official policy or position of the organisation.)
Political interferences in developmental agendas have not only diluted the entire essence of the plans but also has led to embezzlement of funds and wrong representation of outcomes at Budgets.
The word ‘development’ in recent times has become more politicised than being agenda-centric. Development or shall I say ‘Inclusive Growth’ is a term that can be seen that is reused, abused and misused widely during election campaigns and budget sessions. In last six decades, we’ve seen our government rolling out numerous developmental programmes aiming towards refurbishment of tainted socio-economic fabric.

Even after six long decades of developmental plans, India’s dream of being a developed and equitable society by all virtues remains a distant dream. Given the multifarious and sullied rivalry among political satraps, the proper implementation of development agenda in all likelihood looks infeasible.

The issue here is not much about the futility of the schemes but more about how these are implemented. Surprisingly, most of tried and tested developmental schemes fail to reap benefit in India. Be it SEZs (Special Economic Zones) or NREGA (National Rural Employment Guarantee Act) — that have done wonders in other nations — none of these plans have shown a desirable and impressive outcome despite huge fund and resource allocations. Despite huge budgetary allocations year after year, the developmental plans fail to deliver. Either they fall short of funds or funds are returned to the central government at the end of the fiscal year. Most of our schemes suffer from huge political interferences and non-uniform modus operandi (mode of operating), so that they show different results in different states. Take for instance, NREGA. On the one hand where it failed in states like UP and Bihar, on the other hand it proved to be blessing in southern part of India. It’s no hidden fact that huge sums of money is directed and channelised towards middlemen and into the coffers of politicians. A brief glance through Comptrollers and Auditor General’s (CAG) report would be enough to gauge the rampant theft of funds. From money meant for Mid-day Meal Scheme to funds allocated for teachers’ recruitment, a huge fraction of money is seen being engulfed away in the delivery process by the middlemen and corrupt politicians.

Beside this, political interferences and ego-clashes also lead to delays and disturbances during implementations. The implementation of TATA Singur plant or Women’s Reservation Bill are case in point. Even DDA flats allocation a few years back, CWG flats sale and Adarsh colony scam speak volume about the menace political interferences cause in developmental plans. Plans like Common Minimum Programme or the much touted Millennium Development Goals that were launched with huge pomp not only failed to keep up to its promise but also became an avenue for corrupt officials to steal and embezzle funds. Recently, the Telangana issue rocked the nation to an extent that it paralysed the entire functioning of the state and made it unattractive for foreign investors. Development is so discreet and non-uniform that states like Kerala enjoy high literacy rate but in states like UP and Bihar, political parties keep the access to education low for their own political mileage. The ego clashes between right wing and left wing kept West Bengal in Jurassic age for decades and other northern states experienced steep competition between political parties in looting state resources. So much so that sector like railways, that is said to be the backbone of economy, found itself being ping-ponged between political leaders. When Laloo headed the ministry, all trains started from Bihar. But with Mamta becoming the new head, all new railway services departure point shifted to Bengal. Riots and religious discrimination, shutting down projects initiated by the previous government and creating turmoil in parliament even for issues of national concern are not only rampant but lead to a huge cost and time overrun.

ENDANGERING EMPLOYMENT

The success and opportunity to earn a living that NREGA provides are based on two principal prerogatives. First, the work is of 100 days. And second, compensation is in minimum wage.
These two entitlements in union form the minimum level of income for a rural household. The wage rate can be fixed either by Central Government or by State Government. However, it is the prerogative of Central Government to fix it and if they fail — the minimum wage rate of State Government will be implemented. One of the most conspicuous examples of flouting State Government’s minimum wage rates happened in Tonk district of Rajasthan, where 99 workers were paid a mere Re. 1 per day for 11 days of work! There was also rampant delay of payments before it was fixed at 15 days. As consequence to that “Mazdoor Haq Satyagraha” had staged a protest rally in Jaipur for 47 days to demand proper enforcement of the legalities of NREGA by the state government; so that they have the right to earn the minimum wages. In case of districts like Tonk, Dungarpur, Dausa and Hanumangarh, NREGA funds were used for purchase of desktops and laptops worth Rs. 3.83 crores. Still, the matter after initial euphoria has gone to the back burner. A few years back, the CAG report also indicted the government for making available only 37.05 man-days of work against the promised 100 man-days. For the year 2007-08, the more shocking revelation that was made by CAG was that while the government had allocated more than Rs 51,000 crores to NGOs for implementing welfare schemes, the government literally doesn’t have any record about where or whether that money has at all been spent. These cases are politically motivated with interest to fudge NREGA funds.

WANDERING WOMEN EMPOWERMENT
What can be worse than political intervention in women’s empowerment? A nation that is suffering from female feticide, honour killing, high mortality rate, low women literacy and huge gender divide — an act of politicising women empowerment is nothing less than a criminal offence. The latest one being the women reservation bill that promises one-third seats being reserved for women in parliament. However, when one compares the ratio of the nation’s total women population to that of women in the parliament, the statistics reveals a different picture altogether. In the case of India where women population is around 50 crore, a mere 61 women in parliament depicts a poor picture of the status of women in India. The ratio boils down to one woman representative for every 81 lakh women. Going by the researches, most of the women MPs had got ticket because of their political lineage. Ironically, the very parties that are in favour of women reservation have low women representation at party level. Political parties had only 6.88% women candidates. The CPI had only 7% of total contesting candidates as women. Likewise, Congress Party’s had 10% women candidate while the BJP and Samajwadi Party had 11% and 6% respectively! As per researches, in 2009, the following was the share of their women contestants — BSP had 28; SP had 15; JD(U) had 3 and RJD had 2. This is in spite of huge hue and cry for women reservation bill in parliament. Women do play a major role in economy of a nation. For the matter of fact, if we
were to add the contributions made by housewives to their respective households — to the National Income — then Indian GDP would go up by a staggering four folds! Shamefully, neither do we give space to women in politics and not in economy, but yes, when it comes to appointing them as puppets at different positions, our politicians don’t even think twice.

**HUMILIATING THE HEALTH**

NRHM (National Rural Health Mission), which was established in 2005, implemented in 18 states, with primary goals of greater access to public health services, reducing infant and maternal mortality rates, avoidance and control of diseases and encouraging different lifestyle and medicine systems. The implementation on NRHM has been a failure in most of the states, as is indicated by the figures of Uttar Pradesh with highest neo natal mortality rate with 96 deaths in 1000 births, followed by Madhya Pradesh with 94, Orissa with 91, and Rajasthan with 85 deaths. Government has been largely nonchalant with this disturbing statistics, as Union Women and Child Development Minister Krishna Teerath simply intoned “We will take this up with the Health Ministry.” The above figures are nowhere near the NRHM target to bring down the infant mortality rate to 30 per 1,000 births by the end of 2012. But there is no answer from Union Government to reprimand this sorry state. While allocating funds for NRHM, the government has allotted lesser funds to states where health infrastructure is almost in ruins. States like Bihar and Assam got very little allocation compared to Gujarat, Tamil Nadu and Kerala. Then there is arguments and blame-game among political parties in implementation of NRHM. In another case in MP, more than Rs 1.37 crores meant for improving medical facilities was siphoned off. Since last four years, the state government has been depositing Rs 10, 000 in the bank account of the village health committee but then there is no account of where the money has disappeared. It comes as no surprise that 40% of people are

**IN INDIA, WHERE WOMEN POPULATION IS AROUND 50 CRORE, A MERE 61 WOMEN IN PARLIAMENT DEPICTS A POOR PICTURE**

pushed below the poverty line due to out-of-pocket expenditure in healthcare and why not when the money meant for these poor people goes into pocket of a few ‘power that be.’

**ERASING EDUCATION**

India has made progress in terms of increasing primary education attendance rate and expanding literacy to approximately two-thirds of the population. India’s improved education system is often cited as one of the main contributors to the economic ascent of India. But the paradox gets unearthed as soon as one goes through our budgetary allocations for education. India is amongst the lowest spenders on education. Couple this with the fact that India also houses the maximum number of illiterates in the world! Putting the numbers into perspective, if the total allocated money (Rs 31,036 crores as per the budget 2010-11) were to be disbursed directly to 192 million children (or 19.2 crores children) who officially come under the ambit of SSA (Sarva Shiksha Abhiyan), then each student would receive more than Rs 1600 each this year. Considering that a student generally has to pay an average monthly fee of Rs 100 (actually ranges from Rs 70-150 in rural areas) at rural elementary schools in India, giving Rs 1600 annually to students directly would enable them to pay the annual fees. In addition to that one more prominent setback of Indian education system is corruption. The UNESCO’s International Institute of Educational Planning study on corruption in education revealed that at 25% teacher absenteeism in India is among the highest in the world (global average of teacher absenteeism is about 20%), second only to Uganda. All the elucidations to these problems come to focus only during
election campaigning. In their latest manifesto, BJP has made promises to strengthen SSA besides ensuring universalisation of secondary education. Congress camp vows for the deprived communities. The party said education at primary, secondary and university level will be free in all respects for boys and girls belonging to Dalit and Adivasi communities. But the irony is that these promises are forgotten even before election results are out. Of course, what else can be expected in a nation where one can find 2.4 million temples but only 1.5 million places of education (62.5% of place of worship)!

Development agenda in current times has got confined to the definition of growth. Mere numbers and statistics are used to represent development in terms of rosy growth figures without taking into consideration the perforated delivery mechanism and output to real beneficiaries. In simple words, outlays are given priority than outcomes, which is more like misrepresenting development through numbers! High time India stops pretending that the trickle-down theory works in India, that 8-9% growth in GDP annually will remove poverty and attendant ills of the economy and the society. Need we remind ourselves that the menace of naxalism is spreading further in India, forcing even the PM to acknowledge that it is the single biggest problem India is currently facing.

In essence, politics in development is strengthening its presence where as developmental politics is losing its ground. Well, this is the true manifestation of development deficit.

(With research assistance from Sayan Ghosh, Research Associate, The IIPM Think Tank)
The biggest question is that who needs social justice and whose human rights are denied. What makes service delivery systems and administration of social justice defunct?
PRO-POOR GOVERNANCE REMAINS SOLE AGENDA FOR DEVELOPING NATIONS
India is the fastest growing economy with all the states contributing immensely. The country is making advancements in all spheres and a number of social sector and poverty alleviation programmes like Mahatma Gandhi National Rural Employment Guarantee Act (NREGA) have caught attention of developing nations. The only challenge is to reach out the deprived and weed out corruption. Preventing the leakage of public money is the most urgent task before the nation. Indian states need to come forward and prescribe effective, innovative and replicable strategies. Public service delivery systems need fundamental improvements and innovative remodelling. A vast country like India needs effective governance, IT-enabled transparent systems, innovative people-centric programme designing and pro-poor approach to policy making. We are striving to make Madhya Pradesh a model in pro-poor governance. The reason is that the benefits of economic growth must reach out to the deprived.

There is no other country like India that having socio-economic and cultural diversity. The ethnic diversity posts challenges before the policy makers as every community needs specific development interventions and for every initiative requires a specific implementation mechanism. We have pursued the concept of Antyodaya that means economic rising of those unreached so far. The Public Service Delivery Guarantee Act 2010 serves a unique example in the country to ensure timely services to people. We are the first among Indian states to have enacted this path-breaking law. The objective is to make administration responsive and accountable to people. There is a time limit for every service. In case of delay, the officials responsible for delivery of services will be fined Rs. 250 per day until the delivery of services. Tendency of delaying the services on the part of concerning officials may invite disciplinary action. Within six months of implementing the legislation, enthusiastically prompt disposal of applications seeking different services from nine key departments was reported. So far, 48 lakh applicants taking help of the Act have been got services within time frame. Now Bihar, Uttar Pradesh, Jammu and Kashmir, Goa, Delhi Governments are adopting the Act due to its effectiveness. I describe it as a pioneer initiative as it would promote a work culture answerable to the common people.

To me, corruption is a world wide phenomenon. All developing nations are suffering from menacing corruption, which halts development process. We can make stringent laws to prevent corruption but cannot motivate persons to shun their greed for money. It is only by creating models and examples, the possibilities of corruption can be averted and gradual evolution corrupt practices can be checked. Recently, we enacted radical legislation that enables the state government to confiscate properties of corrupt public servants amassed by illegal means. The confiscated properties can be used as public asset.

Mechanism for direct cash transfer to the stake-holders is another way to prevent leakage of public money. This avoids chances of corruption as money reaches out directly to the needy. Madhya Pradesh is the only Indian state to have tried it with encouraging success. Thousands of wheat growing farmers are receiving the remuneration of their produce directly into their accounts immediate after sale in the farm produce trading yards. Similarly, parents are getting cash to purchase cycles and uniforms. This simple decision has addressed many grievances of parents.

The Indian states need simultaneous growth of social and economic infrastructures. Those deprived need social justice delivery systems and those having resources need growth opportunities. Entrepreneurship training on a massive scale for the rural and urban youths is an urgent task. The idea of social justice is deeply embedded into the governance systems in India. The preamble of the Indian Constitution itself is an
embodiment of the concept social justice. Mechanism for delivery of social justice, precautionary legal measures and social safeguards suggested in the Constitution for protection of human rights have been demonstrated well in the public policies and programmes.

The biggest question is that who needs social justice and whose human rights are denied. What makes service delivery systems and administration of social justice defunct? Legislature makes laws that reflect people’s aspirations. Executive implements them in letter and spirit and Judiciary protects legal rights and entitlements bringing justice to the needy. These organs of India’s parliamentary democracy function according to their specific mandate. Now it is the time to improve governance systems for effective delivery of social justice and creating a congenial environment in which there is not a slightest possibility of violation of human rights.

The States have been given enough powers and flexibilities to evolve their own governance practices. Many have performed well. We have novel schemes like Ladli Laxmi and Mukhya Mantry Kanya Dan. The former assures education of daughters of poor families and later is about marriage of daughters, whose families can not bear the expenses of marriage ceremonies.

The only problem states face is the understaffed service delivery system and geographical distance between service delivery system and the physical dwelling of the prospective beneficiaries. The composition of village also creates a problem. In states like Madhya Pradesh, one village is composed of even seven to eight hamlets and distance between two hamlets is sometimes more than 10 kms. In geographical constraints like this, the only solution is to reach out to the needy populations.

(The views expressed in the article are personal and do not reflect the official policy or position of the organisation.)
Global Financial crisis has highlighted the importance of consumer protection and financial literacy for the stability of financial sector to ensure inclusive growth.

More than two billion people worldwide go without access to formal financial services, many of them are the world’s poorest. Until the recent global financial crisis, the global economy was adding an estimated 150 million new consumers of financial services each year. Most of these new consumers are in developing countries where consumer protection and financial literacy are still in their infancy. Household use of financial services has been rising rapidly in emerging countries, yet consumer protection and financial literacy remain weak. The recent global recession had further worsened the plight of consumers. The global financial crisis has highlighted the importance of consumer protection and financial literacy for the stability of the financial sector.

Financial inclusion refers to ensuring access to appropriate financial products and services needed by vulnerable groups, such as weaker sections and low income groups, at an affordable cost in a fair and transparent manner from the mainstream service providers. The biggest challenge India is facing today is to ensure inclusive growth. It is important to ensure that while the Indian economy grows rapidly; all segments of society are part of this growth process, preventing any regional disparities from derailing such growth. Thus, there is an urgent need today to link all households that are excluded from formal financial services.

Financial inclusion includes access to financial products and services such as no frill bank account, check in account, micro-credit, savings products, remittances & payment services, insurance, health-care, mortgage, financial advisory services, entrepreneurial credit, pension for old age, business correspondence and self help group branchless banking etc. Lack of access to financial services are due to several reasons such as shortage of sources of financial services in our rural areas, high information barriers and low awareness, inadequate access to formal financial institutions etc. among many others. Those who are excluded are: marginal farmers, landless labor, workers in unorganized sector, urban slum dwellers, migrants, ethnic minorities and other socially excluded groups.

Extent of Exclusion in India
However the reality is that out of 1.21 billion Indians, only about 40 percent citizens have access to banking services. Only 38 percent (32,000 branches) of the
INFORMATION ASYMMETRY BETWEEN CONSUMERS AND BANKS PUTS CUSTOMERS OF FINANCIAL SERVICES AT DISADVANTAGE

Bank branches are in the rural areas. More importantly, rural India accounts for just nine percent of total deposits, seven percent of total credit, 10 percent of life insurance and 0.6 percent of non-life insurance business. In rural areas 39 percent of the population is banked against 59 percent in urban areas.

In addition, information asymmetry between consumers and banks regarding financial products and services puts customers of financial services at a disadvantage. This imbalance is greatest when customers are less experienced and the products are more sophisticated. Progress on financial inclusion therefore carries the risk of producing more inexperienced and vulnerable customers.

INCREASING COMPETITION

The financial services sector in India has grown rapidly in the past two decades after the economic reforms initiated by the government in the early 90s. Increasing competition from private sector banks and multinational banks has forced the state-owned banks to revamp their marketing strategies and revamp their operational models. Promoting competition in financial services is a key element in ensuring good consumer protection. The creation of a more competitive environment in banking was one of the explicit objectives of the banking sector reform in India and the degree of competition has increased to some extent within the banking system. Several new private banks have started operations and foreign banks have also been allowed to expand their branches more liberally than in the past.

INNOVATIVE TECHNOLOGIES AND ALTERNATIVE BUSINESS MODELS

Recent developments in technology have transformed banking from the traditional brick-and-mortar infrastructure to a system supplemented by other channels like automated teller machines (ATM), credit/debit cards, internet banking, online money transfers, etc. Globally, about four billion mobile phone subscriptions were reported in 2009, well over half of them in the developing world. Mobile phone penetration in developing countries has almost tripled in the past five years, with Asia in particular showing high growth rates. As on February 2011, India alone accounts for 752 million mobile users. Out of this only 54 percent (406 million) are having Bank accounts. Hence proliferating mobile phones open another delivery channel for basic financial services to poor people. This technology drastically reduces the costs of convenient and real-time financial transactions, expands access points, lessens the need to carry cash and attracts previously unbanked customers. Several country cases illustrate the promise of mobile payments for financial inclusion.

ROAD MAP

Many times, the poor, migrants, disadvantaged and marginalised people, struggle to open a bank account in the absence of a proper identification or address proof. Even the onus of proving identity has been transferred to the individual. Hence they are cut off from the formal chain of financial services.

Hence a key facilitator for enabling the country’s banking system to spread its reach in the coming days can be the unique identification (UID) number. UIDAI (Unique Identity Authority of India), targets to provide unique identity to 600 million residents in next five years, which will address many of the current challenges faced by the banks in delivery of financial services. UIDAI have identified financial inclusion as the main driver for UID and enabling e-governance.

The concept of ‘bank account number portability’, which is in practice in some countries, is that consumers would own their identity reference and could move it between Banks. It is the same way mobile phone numbers are portable and would further stimulate competition within the banking industry. Once gain momentum this would be a dramatic shift forward for consumers of financial services.

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The views expressed in the article are personal and do not reflect the official policy or position of the organisation.)
Neglect of Education, de-valuation of merit and intellect (reservation based on caste), poorly implemented welfare activities — the trend of development in India

India’s economy has been, soon after liberalisation in 1991, growing at an enviable eight percent and above. The growth of population has slowed down; it has come down from 2.8% to about 1.7% per annum. These rates help doubling of the per capita income (PCI) in about 12 years. This is in contrast to the miserable 3.5% annual growth in GDP and 2.8% population growth per annum before 1991. At those rates it would take 70 years for PCI to double! The pre-1991 miserable performance was due to the Nehruvian permit-licence-quota socialism which stifled the initiative of the growing number of enterprising engineers, MBAs and other highly qualified young people. Is economic growth a sufficient condition to build a prosperous, powerful, intellectual and ethical India? The prosperity should not be only for the few enterprising people. If that is so, the great wealth that is being created will be concentrated in a small section of our population. Inequality as between the enterprising and wealth creating sections of the people and the hardly educated, unemployable masses would grow.
Growing inequality creates envy and instability in the society. These are the fuel for the Maoist above-ground intellectual and underground guerilla armies and castelist groups (some of which are fostered and financed by multinational conversion (MNC) enterprises) to indulge in militant socially disruptive and destructive activities. The public policy of all political parties and governments should be to contain this inequality and help the economically lower strata of people to lift themselves up into prosperity.

**Opium Feed to the Poor**

Soon after independence, the budget of the Government of India was a total of about Rs. 110cr.; by the year 2011-12 the tax revenues are over Rs. 8 lakh cr; Government will borrow Rs. 4 lakh cr. The budget is a total of 12 lakh cr. In the early 1950s there was very little social sector spending. It has now risen to over Rs. 4 lakh cr. There are subsi-
at the highest rate anywhere in the world). Obviously, the multitudes will get restive and in order to contain their restiveness, political parties are competing to distribute money directly as in the NREG and in addition, by way of appliances like TVs, laptops, mixis, grinders, light bulbs and so on as in Tamilnadu. As time passes, political parties will have to promise more and more welfare competing with one another thus detracting from the spend on education and very grievously, on the defenses of India. our Chiefs of staff of Navy, Air and Army have already drawn the attention of the nation to the fact that China’s military power is three times India’s; Pakistan has near parity with India in regard to the defences. Gen. Shankara Ray Choudhury, former Chief of Staff wrote that we would have to fight two and a half wars simultaneously against China, Pakistan and Maoists within the country. When we are overwhelmed by a three to one superiority by China alone, imagine what could happen to India if we are to wage war with all the three which is not inconceivable.

LOAN MELAS
Another give-away is the waiver of debts, Rs. 70,000 cr for farmers. A moratorium would have been better. Taking a cue from the central government, Andhra Pradesh government waived another Rs. 5000 cr to farmers who have paid the debts to bring them to parity with those who have defaulted and got the loan waiver. In Andhra Pradesh there was a debt waiver mela — over Rs. 1900 cr for the SCs, Rs. 450 cr for Muslims, Rs. 350 cr for weavers and so on. Government of Andhra Pradesh (I am sure many other governments also) are urging people to take loans like for example when the former Chief Minister Y.S.Rajasekhara Reddy gave a lakh of Rupees as loan to one crore women to make them lakhpathis. Now when they are due to repay, political parties including Congress are agitating that these loans should not be collected. So governments and political parties are urging people to take loan and at the same time, they are organizing them for waiver of the loans. These actions are subverting the work ethic, the saving ethic and instead promoting dependency ethic; that is, government should give free housing, non-repayable loans, free provisions — from rice at Rs. 2/Kg; then Rs.1/Kg; and now 35 Kgs free per month, marriage, pregnancy and child-birth grants; old age pensions. Government does not expect anything from them. It is promoting laziness. No nation which has spent more than what it produces has lasted for long as a great nation. For example, we see the decline of America because an average American addicted to credit card use is indebted to the extend of 18 months of his PCI. That is the reason why American power is declining.

A FEW RIGHT ACTIONS
What is right is work must be got from people availing NREG but not in the village where they are. Work must be guaranteed for those who are willing to work at project sites where dams and canals are being built, where houses are being constructed, roads are being laid. They can be transported at government cost and housed in tents with their children also being looked after by government. Only those people willing to work at sites shown by government should be guaranteed a job. In addition to this, government must have program of totally stopping all welfare for families who have more than two children; that is the moment a third child is born all welfare must cease because that is an unsupportable burden on the rest of the people. If somebody says that God is giving them children, then they should apply to God for welfare and not to the poor government and poor citizens. It is this Manthra that China has been following one-child norm since 1978. It is because of this that there is hardly any growth in its population and that it has been able to build prosperity and power and
The India Economy Review

become the second largest economy in the world in the shortest span of time and is poised to over-take the USA in the next few years. Government, leaders and responsible citizens must constantly emphasize the virtues of education and its quality work and saving ethic. They should say that people should try to live within their ability to earn and during the period of development, they should have only one or two children. That is one by choice and the second only by mistake.

Slogans like garibhi hatao, inclusive growth, Muslim First and social justice are all sweet words. They are unethical and totally populist. The purpose of populism is to get votes; the purpose of vote gathering is to get elected to legislative and ministerial positions cover up the real intention of feeding welfare opium to the people to keep them away from movements against corruption, inflation, loot of public money and its stashing in Swiss banks and for building vote banks. Pre-election promises of give-aways are no different from I.O.U.s and should amount to distribution of cash for votes; hence punishable.

If the huge wealth our entrepreneurs are creating of which governments are getting about a third is used properly to build up human resources, through education and health and housing and drinking water, limited families then our nation can really become prosperous and powerful. Education rid of unnecessary and unjustifiable reservations will be productive of intellectual property (IP) that the country needs to sustain its prosperity and power. And above all, ethical and moral values like that one should live within one’s own means, one should not covet wealth without work, one should not produce children who will be a burden upon the society are what should be taught in the home and school and at large by all responsible people. This nation cannot afford wealth creation with increasing inequality. This nation should not create opportunities and incentives for the wealthy to take away the money and keep them in Swiss bank.

If we make a mockery of reservations, launch festivals like loan melas and their waivers; if we bribe people by give-aways like in NREG, indiscriminate and unreasonable fee-reimbursements; cash grants for marriages, pregnancies, child-birth and pilgrimages while those in government loot money in collusion with contractors, licensees, land-grainers (in the name of SEZs which are later utilized for real estate activity), we will surely be incubating popular, deadly up-rising as in Algeria, Egypt, Libya.... The political class and the collusive greedy get-rich quick business operators will be bringing disaster upon our country even as our “friendly” neighbours undermine our sovereignty and plan to slice off our territory in the north-east and north-west. (ER)

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AS TIME PASSES, POLITICAL PARTIES WILL HAVE TO PROMISE MORE AND MORE WELFARE COMPETING WITH ONE ANOTHER

and was engaged by the CIDA (Canada) for writing the Green Paper for restructuring of Telecoms in South Africa and for drafting Information and Communications Policy in Nepal. He was Member of the Prime Minister of India’s National Task Force on Information Technology and Software. Dr. Chowdary was Information Technology Advisor in the rank of Minister of State to the Government of Andhra Pradesh, mentoring the State’s extensive programmes for e-Governance, Government to Citizen services (e-Seva), establishment of Internet Kiosks, computer education in schools and colleges and broadband applications. Dr Chowdary was Fellow of Satyam Computer Services and the founding Director of the Center for Telecom Management and Studies and also serves as a Chairman of Pragna Bharathi. He is the author of several books on telecommunications, information technology, Indian culture and politics.

The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)
Indus river flooding and other natural catastrophes suggests how our blind addiction to productivity is leading us down the path toward natural disaster and is increasing disparity between the rich and the poor.

Last summer, as twenty percent of Pakistan lay beneath what once was a tamed Indus River, I recall reading a story of the plight of 40-year-old taxi driver Bakht Zada, who wondered aloud as he watched his livelihood, history and culture being washed downstream toward the Indian Ocean, “If this is not God’s wrath, what is?” The River he was watching flow through his town had, until then, been largely held in check by miles of levees and an upstream dam system that rivaled other modern engineering marvels around the world; in check, that is, until what United Nations officials are calling the worst natural disaster attributable to climate change drove the River beyond its banks, rendering the dams and levees meaningless, forcing thousands to flee and adding their desperation to the plight of millions in the region already in need of relief.

What we now know all too well is that the flooding, misery and desolation in Pakistan were not the wrath of a vengeful God but the direct result of...
frequently well-intentioned but typically misguided attempts to tame a River, and to put it to more “productive” use by exploiting its natural and human resources, and developing within its floodplains — all hampering the River valley’s natural resiliency and thwarting an innate human capacity to adapt and survive. And all perversely compounded by a climate run amuck at our own hands.

Pakistan was not alone in its misery while a fifth of its land drowned. At the same time, Russia’s drought-ridden landscape burned (and 700 people died there each day), China saw its worst flooding in decades, ice loss from Greenland’s ice sheet was expanding rapidly up its northwest coast, and Iowa in the United States was soaked by its wettest 36-month period in nearly 130 years of record-keeping.

Climatologists are now openly saying what laypeople have been wondering aloud for years. Last summer’s Pakistani flooding and Russian heat wave, and the other extreme weather events occurring to this day around the globe are linked to and exacerbated by climate change. As the Indus River overflowed, sixteen of Australia’s leading scientists, speaking through the Australian Academy of Science and across a range of disciplines, pointedly confronted climate change deniers in an effort to set the record straight on climate science in the middle of a national election in which the validity of climate change had been hotly contested. At the same time that Russian farms, prairies and forests were aflame, scientists at the World Meteorological Organization reported that “the sequence of current events matches . . . projections of more frequent and more intense extreme weather events due to global warming.”

Researcher, writer and university professor Wolfgang Sachs once noted that “Nothing is ultimately as irrational as rushing with maximum efficiency in the wrong direction.” From where I sit, Professor Sachs has captured the human condition very well, as we heedlessly stroll down a road toward catastrophe at an all-too-efficient pace; wanting more, producing more and consuming more along the way. And all the while — as we want, produce and consume — the tempo at which we constrain and exploit nature ecosystems while pumping carbon dioxide into the atmosphere continues to increase, while evidence mounts daily that following such a path is folly.

The degree to which the Pakistani flooding and other extreme weather events are due to climate change layered upon more typical climatic cycles (or, even as Mr. Zada suggests, the wrath of God) is certainly debatable. However, that climate change is occurring at all can no longer be questioned by people of good conscious. Nor can we continue to rationally deny humanity’s historic and continued contributions to climate change. Yet, some still question and debate the latter point and still deny the former; fiddling, in effect, while the world — sometimes all too literally — burns.

THE IDOL OF PRODUCTIVITY

That some still question (or concede but ignore) the human influence on climate change is ironic, to say the least, since the underlying cultural basis for rising greenhouse gas production — the perceived need for continuous economic growth built upon an ethos of ever-increasing production and ever-improving efficiency — goes largely unquestioned. In fact, the need for continuous growth and increased productivity is not only an unchallenged truism, but growth and productivity have been deified, particularly in western culture, where people take sophomoric pride in being proficiently productive. The more productive and efficient a people are, the cultural myth goes, the more likely we are to prosper as a nation, to survive as a culture and to be individually comfortable while doing so. We reach, yearn and strive for higher productivity; trying our utmost to do more, make more and consume more with less effort, less money, less guilt. And all the while we never even deign to question the precept that doing, producing and consuming more for less — all iconic measures of efficiency — are undoubtedly virtuous.

Many of our parents in Western society used to teach us as children that “cleanliness is next to godliness.” Today, we can add “productive” and “efficient” to the list of qualities that raise us closer to the divine.

And while we continue to bow to the God of economic growth, scientists warn that the entire ice mass of Greenland will disappear if the earth’s temperature rises by as little as two degrees Celsius; a group of nine Nobel laureates announce that unless the world starts reducing greenhouse gas emissions within six years, we face devastation; the U.S. Geological Survey reports that many of Asia’s glaciers are retreating as a result of climate change; China’s state news agency declares that rising sea levels caused by climate change contribute to a growing number of coastal disasters; climate legislation has been officially pronounced “dead” in the United States; Canada has decided that it will delay greenhouse gas emission reduction efforts for at least another five years; officials in India assert that the nation will not agree to binding commitments to reduce carbon
emissions; and Chinese analysts conclude that Western carbon dioxide emission reduction plans are inadequate and inconsequential.

Rachel Carson once observed that we live in a time “in which the right to make a dollar at whatever cost is seldom challenged;” seldom challenged, because we have elevated efficiency and productivity to a godlike status. Increasing factory productivity goes unquestioned, even if it means sacking workers who have dedicated themselves to a company for decades. Efficiently producing and employing ever-improved weapons of destruction goes unquestioned, even when it results in shifting all-to-limited resources from life-giving endeavors to the killing of tens of thousands of fellow humans; civilian and military alike. Proficiently pumping pollutants into the air we breathe and water we drink is rewarded, so long as we are comfortable while productively poisoning the planet and one other.

“Any intelligent fool can make things bigger, more complex, and more violent,” Albert Einstein warned, “It takes a touch of genius and a lot of courage to move in the opposite direction.” What we need now is a little less intelligent foolishness and a lot more people of courage to question our blind devotion to the god of productivity: to ask “why,” when output is deemed sacrosanct; to question power, when the idol of unbridled growth goes unchallenged; and to speak truth in the face of torrents of misinformation. As we look forward toward a potential future steeped in growth and productivity, I humbly suggest that we reframe the ingrained perspectives and policy and preferences that suck our economies, cultures and lives down that untenable path toward oblivion; that we envision and then follow a different, sustainable course.

A PATH FORWARD
Here’s what I believe is happening that directly and increasingly contributes to catastrophes like those in Pakistan and elsewhere around the world; while at the same time making it increasingly difficult to find a path forward toward economic and environmental sustainability — happening not just in the Indus River valley, but everywhere. We are divided into two camps. Put most simply, they are “yours” and “mine.” You may have heard them referred to in other terms: east and west, urban and rural, farm and city, business and environmental, young or elderly, immigrant or resident, liberal and conservative, rich and poor. The specific labels matter little, really; because, in the end, this vision of the world always comes down to “yours” and “mine.” That perspective must change before we can ever hope to let go of our need for control based on a principle of limitless production and growth. Before moving on to transform our deification of growth at the expense of others, in other words, we must ultimately transform our very notion of “otherness.”

Radical transformation is never easy; and change appears most threatening to those in institutional power; however, speaking from the figurative epicenter of global power in Washington, DC, I would offer that such reframing is necessary if we are to collectively move from an invalid model of infinite growth within a finite world, and toward a balanced, sustainable and equitable paradigm of society and its connections to the natural world.

The Bakiga people inhabit the mountains and valleys around Lake Victoria in what is today Uganda — at the very headwaters of another river as great as the Indus — the Nile. Over hundreds of generations, their ties to the land and water and each other have informed an ancient wisdom strikingly opposed to the “yours and mine” mentality sweeping much of the world: “united jaws crush the bone.” That wisdom teaches that it has never really been a world of “yours and mine.” There’s is not a world vision based upon “you and me;” but upon “ours” and “us.” The Bakiga teach that all are connected. Everything is connected. Everywhere there are connections.

This wisdom from the Bakiga is a lesson for us all. What the people of the Nile River valley learned so many generations ago is that neither you nor I are right or wrong; good or bad; evil or moral; friend or enemy. We are simply different. In each place we speak different languages, hold to different customs, connect differently, interact with government differently, relate to nature differently. This is just who we are and what we do as blessedly assorted human beings. And the solutions that may work very well in one river town or on one farm or in one city might not work so well in another. And the only way to really determine how to live sustainably together — to determine what will work and what might not — is to listen to people where they live and work and play: along the banks of the Indus River; in the steppes of Eurasia; within the cities of Europe; among the islands of Micronesia; and in every home and shop and hamlet around the world.

What we will discover if we truly listen to one another is that we have everything to learn and nothing to fear from each other. We will find that diversity of opinion, when embraced honestly, is what animates thinking and provokes imagination. We will discover that the irrational fears keeping us apart — keeping us from solving difficult but very solvable problems — are, in the end, simply fear of losing control — control over things we really cannot control to begin with. Just ask the people of Pakistan who tried in vain to hold back the rising waters of the Indus River.

SCIENTISTS WARN THAT ICE MASS OF GREENLAND WILL DISAPPEAR IF THE EARTH’S TEMPERATURE RISES BY AS LITTLE AS TWO DEGREES CELSIUS
To solve what seem to be intractable problems allied with the unrealistic vision of perpetual growth, we will need to provide the room and carve out the time desperately needed to listen to each other. To listen to store owners who cannot maintain their businesses; listen to city officials whose tax bases are eroding and to farmers whose soils and livelihoods are washing away; listen to the scientists who tell us the earth’s natural places are unique treasures; listen to the workers and their families who can’t make ends meet; meet with artists, talk to politicians, speak to industry leaders, join with teachers, pay attention to the children and the poor and our elders, because everyone is a member of the economic and ecological quilt that forms our rich human tapestry, and all have a part to play in its protection.

All of us, together — not “you;” not “I” — had better make sure that this listening and understanding and cooperation and innovation come to pass; before 40-year-old taxi drivers and 22-year-old mothers and five-year-old children and 60-year-old shopkeepers, just like Bakht Zada, watch as our livelihoods, and histories and cultures wash figuratively, if not literally, downstream. If we do not — if we fail to cooperate as a global community; if we do not move from glorifying the mythic god of growth to bowing toward and respecting one another — then I fear that Pakistani taxi driver Bakht Zada will have been correct all along. And that humanity’s demise, in the end, will be the result of a god’s wrath, albeit a god of our own making. If that is not God’s wrath, what is? 

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The growth of infrastructure, transport and communication in the organised sector are expected to create supply side effects but these effects have failed to create comparable effect in the informal economy. The so-called trickle down does not work here.

Why have recent high rates of growth failed to create noticeable effects on India’s poor people? Why is the funnel through which the proverbial ‘trickle’ is to drop down so constricted? I will like take up one of the reasons here. It is a structural feature of our economy, the informal sector.

The informal sector usually refers to units with the following features. They are engaged in production with the primary goal of generating employment and income for a group of persons, rather than profit. They work on small scale with non-contractual employment mostly based on kinship and personal relations. Often the supply of labour and capital cannot be clearly distinguished. In most cases production activity is difficult to separate from other economic activities of the persons involved and hence production accounting is blurry. Concerned persons raise finance at their own risk and are fully liable for any debts and other payables. I will stretch the scope of my discussion a bit by including small units that do produce for profit but share most of the other features mentioned above. I will use the phrase informal sector to refer to this bigger group.

We do not have good estimates of the size of the informal sector’s output and employment. But there is statistical information on the unorganised sector which, as defined by the National Commission for Enterprises in the Unorganised Sector (NCEUS), includes all private unincorporated enterprises employing less than ten workers. This includes several types of units in which we are not interested in this essay, like cooperatives, trusts, private and limited companies. The informal sector as I described above is a subset of the unorganised sector of NCEUS. Based on 2004-2005 data, NCEUS estimated unorganised sector employment around 393 million of the country’s total employment.
of 457 million for that year. From the same sources, 50% of the GDP came from the unorganised sector. It would mean that unorganised sector labour productivity was around a sixth of that of the organised sector. Even if we leave agriculture out, which hardly produces any formal employment, 72% of Indian work force was in the unorganised sector. There is no reason to believe that the ratio of unorganised and organised employment and that of their productivities have changed very much in the last few years. Further, we should expect labour productivity and income of the informal part of the unorganised sector to be less than the unorganised sector average. This low productivity is directly reflected in the abysmally low income of a large majority of our employed work force.

Let us look at the informal sector units along the ascending order of their operating surplus. Those at the bottom end: farm labourers and the so-called ‘own-account enterprises’ like rickshaw-pullers, street vendors, and others in similar activities form the bulk of the people below and close to the poverty line. Those with somewhat more (but nevertheless very low) operating surplus work with family labour and a few outsiders hired at abysmally poor wage rate. From this end as we move towards higher levels of operating surplus, wage does not increase all that much. Relatively prosperous informal units that work for profit in construction, food processing, garments, gems & jewellery, leather goods, restaurants, transport and retail trade are notorious for the low wage, poor working conditions and the lack of employee benefits.

It is expected that rapid income growth, like we are experiencing now, would generate effects outside the sectors where the initial stimuli originate. The transmission of growth from the formal to the informal sector, if there is any, has been termed as trickle down. The transmission is expected through consumption demand and the demand for production inputs. Also, the growth of infrastructure, transport and communication in the organised sector and any improvement of governance services are expected to create supply side effects. All these effects have been working within the formal economy over the last two decades. But they have failed to create comparable effect in the informal economy. Hence the widespread belief that the so-called trickle down does not work.

However the transmission of demand from the organised to the informal sector has not been entirely absent. But this demand fails to create much income change in the informal sector. Let me outline the strands of the transmission process to explain why the increase of demand fails to raise income significantly.

(i) Income growth in the organised sector creates consumer demand increase for several informal sector products. Relevant goods and services include transport, retail services, eateries, processed food,
and garments and so on. But this does not produce proportionate impact on poverty for several reasons. First, value added as a ratio of price being very low in these activities the demand produces a relatively small change of income. Secondly, the increase of demand attracts more own-account producers to join informal production. For example rapid growth has led to an explosion in the number of rickshaws in our smaller towns; the same is true of street vendors, road-side eateries, domestic help and so on. As long as a local market allows income to exceed the reservation income, it tends to attract more actors. Hence in equilibrium, the income of own-account producers remains at that reservation level close to subsistence. Thirdly, in most cases entry requires the permission of local mafia or political bosses and hence new entrants have to part with some income. Further, they rarely own the ‘means of production’—the rickshaw, the hand cart, the three-wheeler or the taxi for example. These are owned by renters to whom they have to surrender a part of the income. The result is that a significant part of the increased income is siphoned out, leaving the workers not much better off.

(ii) Like consumption goods, there is also increase in the demand for informal goods and services to be used as input into formal production. Agricultural goods in general, processed food, fruits, flowers, forest products, handicrafts and a variety of ethnic and cultural items are used as inputs in formal sector. But because of the relatively low value added the effect on informal income, and particularly wage income, is not significant. Similarly, services like security, local transport, hosting and event management, cleaning and laundry, cooking etc are bought by the organised sector as inputs. But these services are mostly provided by informal enterprises that employ contract workers on very low wages.

In all cases, the transmission of income is hampered by the abysmally low wages prevailing in the informal sector, which results from low labour productivity. For formal sector growth to have more substantial effect on the majority of the working people, we need ways to increase the labour productivity of the informal sector.

**TO INCREASE PRODUCTIVITY**

We can think of a gearing ratio to describe the relation between the growth of the organised sector and the resulting effect on the informal sector. We can define it as the incremental growth of the informal sector income attributable to one percent growth of the organised sector. To get more from the organised sector growth we need policies for increasing this gearing ratio. I will discuss the broad outlines of a number of strategies. Their details need to be thought out at the level of application as the challenges at the ground level can hardly be anticipated. Relevant policies would be different depending on the income status of the units. I will start from the poorest.

**OUTSIDE THE OWN-ACCOUNT: SMALL FIRMS:** Small units in the informal part of the economy form the backbone of a number of important industries, like forestry and fishing; wood, wood products, furniture and fixtures; textiles and clothing; leather goods and substitutes; construction; beverages and tobacco products; plastic goods. They produce substantial share of output, employment, as well as export. But in spite of it, they transmit the formal sector growth process with but a very feeble gearing ratio. These units are known to be extremely competitive. But, unfortunately, competition is handled by wage repression and avoiding any spending on working conditions. Typically, the response to a rush of demand growth in these units is to stretch working hours and employ more underage workers at lower wage. Hence though formal sector growth creates increase in informal output, it does not create much income rise for the poor working people there.

With some exceptions, these units adopt wage repression as a way of business because they cannot afford new capital and technology to enhance their competitive edge. This in turn happens because they are cut off from the organised capital market. Financial institutions are wary of lending to unregistered units with scarcely anything to secure their loans with. Exclusion from organised finance results in worn out plant and machinery and lack of technical and organisational improvement. The only exceptions are units that subcontract for bigger firms or produce parts for them. They are helped with finance and technology by their collaborators. But it is the others that are more numerous. They have been in difficulty since liberalisation as they find it difficult to compete with imports with their outdated technology and equipment. Even when they manage to keep the cost and price down, they fail to match quality. While the decline of the struggling toy industry is well-publicised, that is not the only industry that has been
THE AGENCIES MOSTLY ARE AFFLICTED BY DISINTERESTED AND CORRUPT OFFICIALDOM AND POLITICAL FAVOURITISM AT LARGE

The agencies mostly are afflicted by disinterested and corrupt officialdom and political favouritism at large. To create an inclusive growth process we have to transform these small informal units into a vibrant group of forward looking, technologically up-to-date smart small firms. Small scale production can be very nimble and can pioneer new practices as the experience of a number of Asian countries show. In India too we have isolated examples of excellence and technical and managerial breakthrough among many small units. We should aim to bring the entire small-scale informal sector up to that standard. This can improve the gearing ratio between the formal sector growth and that of the rest of the economy dramatically. It requires a package of effective measures to provide access to finance and technology and assistance with skill development and upgrade.

There exists a range of agencies of the central and state governments as well as those run by NGOs for assisting with these issues. But it is fair to say that they do not measure up to the task, and very few are at all effective. In most instances the agencies are afflicted by the country’s general problem: disinterested and corrupt officialdom and political favouritism. Nor are the agencies organically related to one another so as to develop a co-ordinated vision or program. We require more integrated and visionary institutions. One possibility is to set up working stations at major habitats of small informal industrial units to attend to industry clusters in an integrated way. The stations should be multipurpose in nature, attending to finance, technology, marketing and managerial issues. They should be staffed by business/commerce graduates and experts in the production/technology of the products of the given cluster. Stations in a wide geographical area should be laterally connected with regular exchange of case experience and data, and should be part of a bigger regional organisation.

Their work should include consultancy, counselling and persuasion even as they provide connection with financial institutions, technology, markets and business practices. They would not only liaison with local banks but also draw up strategies, together with the banks, for successful funding activity.

All this cannot be achieved without registration of the units and giving them formal identity. Registration, identity, and establishing the ownership of units are pre-conditions for getting organised sector finance. The units should be gradually persuaded into more formal accounting and making payments including wages through their banks. Obviously, all this would require a cadre of motivated and able workers, and their remuneration and incentives should be designed to attract and retain the best. Because we are talking about such a large proportion of the GDP and jobs, we can stake a significant amount of expenditure for establishing a dedicated cadre and chain of organisations. It is easy to have a rough idea of how much we might gain in terms of GDP for any given percent increase of the gearing ratio, given today’s parameters. That in turn would provide a guide to how much we can spend. Note that the changes would amount to modernising the economy in the true sense of the term.

Turning to the so-called ‘recession-proofness’, I would note that it is indeed true but that does not constitute a reason for nursing the informal sector. Recession-proofness is the result of the miserable labour productivity and income of the informal sector. It arises because a fall in formal sector income, even though it reduces demand for the informal sector, does not affect its income very significantly. For a given contraction of demand the corresponding contraction of informal sector income is much smaller. But this is just the obverse of the fact that when there is formal sector growth, informal sector income growth is much smaller. Both result from the low value added and poor productivity of the informal sector. It is odd to justify low productivity on the ground that it keeps people adequately poor so that their income would not matter much for economic cycles! If the productivity of the informal sector was to increase, surely recessions would have more ‘bite’ in this sector. But growth of the formal sector would also generate more growth here. Given that recessions are rarer than upward movement of income, the economy would gain by more formal organisation in the informal sector.

Informal units present a few other challenges for the economy and governance. The administration is powerless to regulate unregistered units who easily escape important regulations on environment and safety, labour conditions, child labour and so on. Given that the overwhelming majority of workers work in the informal sector, the inability to regulate these units leads to overall failure of regulation. Further, though most of the informal sector reflects a desperate struggle to earn just a living, there exist rogue units who use the sector as cover to escape scrutiny. They escape wage and workers’ benefit norms and taxes apart from other regulations and even steal land and power. Some of them help formal sector businesses to hide their output and profit and thus work to produce black income.

Overall, I take the position that an important step for making our growth more inclusive would be to reform the informal sector. If that is done, forums of the future would discuss horizontal income transmission across the economy, not ‘trickle downs’ — a phrase that would lose currency.

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The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)
Hot and arid tropical countries should start to invest in large water resource systems to maintain progress in human development and economic growth.

As water scarcity hits many developing regions of the world, there is now a renewed interest in understanding how growing threats to water security affect future progress in human development and economic growth of nations (Grey and Sadoff, 2005). The international development debate is, however, heavily polarized between those who believe that policy reforms in the water sector would be crucial for bringing about progress in human development and those who believe that economic growth itself would help solve many of the water problems countries are facing today (HDR, 2006: pp66). Such debates, that are often not healthy, are causing delays in deciding investment priorities in water sector, particularly in the developing world (Biswas and Tortajada, 2001).

The theoretical discussion on the returns on investment by countries in water infrastructure and institutions is rich (Sadoff and Grey, 2005). The evidence available internationally to the effect that water security can catalyze human development and growth is quite robust (World Bank, 2004; 2006a & b; Briscoe, 2005). But, the number of regions for which these are available is too small for evolving a global consensus on this complex issue. Till recently, there were no comprehensive database on various factors influencing water security for sufficient number of countries which are at different stages of human development and economic growth. This contributed to the complexity of the debate. The water poverty index (WPI), conceived and developed for countries by C. Sullivan (2002), and the international comparisons now available from a recent work by Lawrence, Meigh and Sullivan (2003) for 145 countries enable us to provide an empirical basis for enriching the debate.

The WPI is a composite index consisting of five sub-indices, viz., water access index, water use index, water endowment index, water environment index and institutional capacities in water sector (Sullivan, 2002). In order to realistically assess the water situation of a country, which can capture the crucial attributes like access to water for various uses; level of use of water in different sectors; condition of the water environment; and technological and institutional capacities in water sector, a new index called Sustainable Water Use Index (SWUI) is derived from WPI. The paper provides empirical analysis using global database on SWUI and many other water and development indicators to enrich the debate “how water security is linked to human development and economic growth”.

THE GLOBAL DEBATE ON WATER, DEVELOPMENT AND GROWTH

The debate on the linkage between water, growth and development is growing strong internationally. While the general view of international scholars, who support large water resource projects, is that increased investment in water projects...
such as irrigation, hydropower and water supply and sanitation acts as engines of growth in the economy, while supporting progress in human development (Briscoe, 2005; Braga, 2005; HDR, 2006). They harp on the need for investment in water infrastructure and institutions. Grey and Sadoff (2005) suggests that there is a minimum platform of water security, achieved through the right combination of investment in water infrastructure and institutions and governance, which is essential if poor countries are to use water resources effectively and achieve rapid economic growth to benefit vast numbers of their population. They suggest an S-curve for growth impacts of investment in water infrastructure and institutions in which returns continue to be nil for early investments. They argue that for poor countries, which experience highly variable climates, the level of investment required to reach the tipping point of water security would be much higher as compared to countries, which fall in temperate climate with low variability. But, they suggest that for developing countries, the returns on investment in infrastructure would be higher that in management and vice versa for developed countries.

Many environmental groups, on the other hand, advocate small water projects which, according to them, the communities can themselves manage. The solutions advocated are: watershed management; small water harvesting interventions; and community-based water supply systems; and, micro-hydro electric projects (Dharmadhikary, 2005; D'Souza, 2002).

The proponents of sustainable development paradigms believe that the ability of a country to sustain its economic growth depends on the extent to which natural resources, including water, are put to efficient use through technologies and institutions, thereby reducing the stresses on environmental resources (Pearce and Warford, 1993). Here, the focus is on initiating institutional and policy reforms in water sector. An alternative view suggests that countries would be able to tackle their water scarcity and other problems relating to water environment at advanced stages of economic development (Shah
and Koppen, 2006). They argue that standard approaches to water management in terms of policies and institutions work when water economies become formal, which are found at an advanced stage of economic development of nations.

**WATER AND INCLUSIVE GROWTH**

Before we begin to answer this complex question of “what drives what”, we need to understand what realistically represents the water richness or water poverty of a country. A recent work by Kellee Institute of Hydrology and Ecology which came out with international comparisons on water poverty of nations had used five indices, viz., water resources endowment; water access; water use; capacity building in water sector; and water environment, to develop a composite index of water poverty (Laurence, Meigh and Sullivan, 2003).

Among these five indices, we chose four indices to be important determinants of water situation of a country and the only sub-index we excluded is the water resources endowment. We consider that this sub-index is more or less redundant, as three other sub-indices viz., water access, water use and water environment take care of what the resource endowment is expected to provide. Our contention is that natural water resource endowment becomes an important determinant of water situation of a country only when governance is poor and institutions are ineffective, adversely affecting the community’s access to and use of water, and water environment. Examples are the droughts in Sub-Saharan African countries. This argument is validated by a recent analysis which showed strong correlation between rainfall failure and economic growth performance in these countries. That said, all the four sub-indices we chose significant implications for socio-economic conditions and are influenced by institutional and policy environment and therefore have human element in them. Hence, such a parameter will be appropriate to analyse the effect of institutional interventions in water sector on economy.

All the sub-indices have values ranging from 0 to 20. The composite index developed, by adding up the values of these indices, is called sustainable water use index (SWUI). It is being hypothesised that the overall water situation of a country (or SWUI) has a strong influence on its economic growth performance. This is somewhat different from the hypothesis postulated by Shah and Koppen (2006), where in they have argued that economic growth (GDP per capita) and HDI are determinants of water access poverty and water environment.

It is important to provide empirical evidence to this. Worldwide, experiences show that improved water situation (in terms of its access to water; levels of use of water; the overall health of water environment; and enhancing the technological and institutional capacities to deal with sectoral challenges) leads to better human health and environmental sanitation; food security and nutrition; livelihoods; and greater access to education for the poor (UNDP, 2006). This aggregate impact can be segregated with irrigation having direct impact on rural poverty (Bhattacharyya and Narayananamoothy, 2003; Hussain and Hanjra, 2003); irrigation having impact on food security, livelihoods and nutrition (Hussain and Hanjra, 2003), with positive effects on productive workforce; and domestic water security having positive effects on health, environmental sanitation, with spin off effects on livelihoods and nutrition (positive), school drop out rates (negative) and productive workforce.

According to the Human Development Report (2006), only one in every five people in the developing world has access to an improved water source. Dirty water and poor sanitation account for vast majority of the 1.8 million child deaths each year (almost 5,000 every day) from diarrhoea making it the second largest cause of child mortality. In many of the poorest countries, only 25% of the poorest households have access to piped water in their homes, compared with 85% of the richest. Diseases and productivity losses linked to water and sanitation in developing countries amount to two percent of GDP, rising to five percent in Sub-Saharan Africa more than the aid the region gets. Women bear the brunt of responsibility for collecting water, often spending up to four hours a day walking, waiting in queues and carrying water; water insecurity linked to climate change threatens to increase malnutrition to 75–125 million people by 2080, with staple food production in many Sub-Saharan African countries falling by more than 25%.

The strong inverse relationship between SWUI and the Global Hunger Index (GHI), developed by IFPRI for 117 countries provide a broader empirical support for some of the phenomena discussed above. In addition to these 117 countries for which data on GHI are available, we have included 18 developed countries. For these countries, we have considered zero values, assuming that
these countries do not face problems of hunger. The estimated R square value for the regression between SWUI and GHI is 0.60. The coefficient is also significant at one percent level. It shows that with improved water situation, the incidence of infant mortality (below five years of age) and impoverishment reduces. In that case, improved water situation should improve the value of human development index, which captures three key spheres of human development such as health, education and income status.

That said all the sub-indices of HDI have strong potential to trigger growth in economy of a country, be it educational status; life expectancy; or income levels. When all these factors improve, they could have a synergistic effect on the economic growth. The growth which occurs from human development, would also be “broad-based” and inclusive. Hence, the “causality” of water as a prime driver for economic growth can be tested if we are able to establish correlation between water situation and HDI. This we would examine at a later stage.

Before that, we would first look at how water situation and economic growth of nations are correlated. Regression between sustainable water use index (SWUI) and PPP adjusted per capita GDP for the set of 145 countries shows that it explains level of economic development to an extent of 69 percent. The coefficient is significant at one percent level. The relation between SWUI and per capita GDP is a power function. Any improvement in water situation beyond a level of 50 in SWUI, leads to exponential growth in per capita GDP.

This only means that for countries to be on the track of sustainable growth path, the following steps are needed: (i) investment in infrastructure and institutional mechanisms and policies to: (a) improve access to water for all sectors of use and across the board, (b) enhance the overall level of use of water in different sectors, and (c) regulate the use of water, reduce pollution and provide water for ecological services; and (ii) investment in building human resources and technological capabilities in water sector to tackle new challenges in the sector. Regression with different indices of water poverty against economic growth levels shows that the relationship is less strong, meaning all aspects (water access, water use, water environment and water sector capacity) are equally important to ensure growth.

Major variations in economic conditions of countries having same levels of SWUI, can be explained by the economic policies of which the country pursues. Some countries of central Asia viz., Uzbekistan, Kyrgyzstan and Turkmenistan and Latin American countries viz., Ecuador, Uruguay, Colombia and Chile have values of SWUI as high as North America and northern European countries, but are at much lower levels of per capita GDP. While North America and north, west and southern European countries have capitalist and liberal economic policies, these countries of old soviet block and Latin America have socialist and welfare oriented policies.

**CAN WATER SECURITY ENSURE ECONOMIC GROWTH?**

International development discussions are often characterised by polarised positions on whether money or policy reform is more crucial for progress in human development (various authors as cited in HDR, 2006: pp 66). If the stage of economic development determines a country’s water situation rather than vice versa, the variation of human development index, should be explained by variation in per capita GDP, rather than water situation in orders of magnitude. We have used data for 145 countries to examine this closely. The regression shows that per capita GDP explains HDI variations to an extent of 85 percent. But, it is important to remember that HDI already includes per capita income, as one of the sub-indices.

Therefore, analysis was carried out using decomposed values of HDI index, after subtracting the GDP index. The regression value came down to 0.69 ($R^2=0.69$) when the decomposed index, which comprises education index and life expectancy index, was run against per capita GDP. What is more striking is the fact that 16 countries having per capita income below 2,000 dollars per annum have medium levels of decomposed index. Again 42 countries having per capita GDP (PPP adjusted) less than 5,000 dollars per annum have medium levels of decomposed HDI. Significant improvements in HDI values (0.30 to 0.9) occur within the small range in per capita GDP. The remarkable improvement in HDI values with minor improvements in economic conditions, and then “plateauing” means that improvement in HDI is determined more by factors other than economic growth. Our contention is that the remarkable variation in HDI of countries belonging to the low income group can be explained by the quality of governance in these countries, i.e., whether good or poor.

Many countries that show high HDI also have good governance systems and practices and institutional structures to ensure good literacy and public health. For instance, Hungary in eastern Europe; some countries of Latin America viz., Uruguay, Guatemala, Paraguay, Nicaragua and Bolivia; and countries of erstwhile Soviet Union viz., Turkmenistan, Kyrgyzstan and Armenia have welfare-oriented policies. They make substantial investment in water, health and educational infrastructure.

Incidentally, many countries, which have extremely low HDI, have highly volatile political systems and ineffective governance, and are characterized by corruption in government. In spite of huge external aid, consequently, the investments in building and maintenance of water infrastructure are very poor in...
these countries. Sub-Saharan African countries, viz., Angola, Benin, Chad, Eritrea, Ethiopia, Burundi, Niger, Togo, Zambia and Zimbabwe; and Yemen from Middle East belong to this category. Sub-Saharan Africa has the lowest irrigated to rain-fed area ratio of less than three percent (FAO, 2006, pp 177), where as Ethiopia has the lowest water storage of \(20 \text{m}^3/\text{capita in dams}\) (World Bank, 2005). How water security decoupled human development and economic growth in many regions of the world were illustrated in the recent human development report (HDR, 2006: pp 30-31).

The public expenditure on health and education is extremely low in these African countries and Yemen when compared to the many other countries which fall under the same economic category (below US $ 5,000 per capita per annum). Over and above, the pattern of public spending is more skewed towards military (based on data provided in HDR, 2006, pp 348-351). Besides, access to water supply and sanitation is much higher in the countries which have higher HDI, as compared to those countries which have very low HDI (based on data in HDR, 2006, pp306-309).

Some of the striking features of these regions are high incidence of water related diseases such as malaria and diarrhoea, high infant mortality, high school drop out rate mainly due to lack of access to safe drinking water; and scarcity of irrigation water in rural areas, poor agricultural growth, high food insecurity and malnutrition (based on HDR, 2006). Consequently, their HDI is very low, as also shown by the international literature which illustrates how water insecurity decouples human development from economic growth.

CONCLUSIONS AND POLICY

Scholars have provided robust evidence to the effect that water security catalyses human development and economic growth. But, number of regions for which the evidence is available is too limited to evolve a global consensus on this complex issue. Water poverty index, conceived and developed by C. Sullivan (2002), and the international comparisons now available from Laurence, Meigh and Sullivan (2003) for 147 countries enable us to provide an empirical basis for the argument. A new index called SWUI was derived from WPI using four of its five sub-indices to assess the water situation of a country. Analysis was carried out using data on SWUI, GHI, HDI, per capita GDP and per capita water storage in dams to understand the nature of linkage between water situation of a country and its economic growth.

The analysis shows that improving the water situation can trigger economic condition in a nation. As this occurs through the human development route, the growth would be inclusive. This strong linkage can be partly explained by the reduction in malnutrition and infant mortality, with improvement in water situation. Further, nations could achieve good indicators of development even at low levels of economic growth, through investment in water infrastructure and welfare-oriented policies. Many countries of the erstwhile Soviet Union, and communist countries of Latin America, which have low income, spend a significant portion of public funds in health and education, against many poor countries of Sub-Saharan Africa, which spend much less for health and education and more for military.

Countries which fall in tropical semi-arid and arid climate can improve their economic conditions through enhancing the reservoir storage. Greater storage provides increased water security, which reduces the risks associated with droughts and floods. Such natural calamities, which cause huge economic losses, are characteristic of these countries. Nevertheless, the impact of storage could depend on the nature of uses for which the resources are developed, the effectiveness of the institutions that are created to allocate the resource and the nature of institutional and policy regimes that govern the use of the resource.

Findings show that economically poor countries, which also show very poor indicators of human development, need not wait till the economic conditions improve to address water sector problems. Instead, they should start investing in building water infrastructure, create institutions and introduce policy reforms in water sector that could lead to sustainable water use. Only, this can support progress in human development and sustain economic growth which is inclusive. But, a prerequisite for hot and arid tropical countries is that they invest in large water resource systems to raise the per capita storage. This will help them fight hunger and poverty, malnutrition, infant mortality, and reduce the incidence of water-related disasters.

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