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INDIA 2025: ILLUSIONS, REALITIES AND DREAMS

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In the first decade of the twenty-first century, there is a striking optimism about the emerging India. The country which only had a past is beginning to be seen as a country with a future. The land of scarcities is being thought of as a land of opportunities. The land of snake charmers is now considered a land of fashion designers. The land of traditional crafts is increasingly perceived as a land of information technology. The land of bullock-carts, or steam trains, is beginning to be seen as a land of automobiles, or jet planes. This dramatic change of mood is particularly discernible among the rich and the literati in India. There is a similar change in thinking about India in the outside world, mostly among interested individuals or concerned institutions. The mood is contagious, and the images are larger than life, because those who articulate such views have both voice and influence.

I. TWO VIEWS, TWO WORLDS

It would seem that perceptions about India are changing rapidly. The realities are also changing, but much more slowly. And there is a mismatch. The perceptions, as also the realities, depend on who you are, what you do and where you live. Captains of industry, editors of newspapers, or ministers of governments see one India. So does the software engineer in Bangalore, the stockbroker in Mumbai, the lobbyist in Delhi, or the entrepreneur in provincial India. The picture is similar, even if shallower, for the investment banker in London, the mutual fund manager in New York, or the chief executive in the board room in Tokyo. These

images shape thinking about India 2025 in the world. But there are also contrasting images of India, which constitute an altogether different world. Poor tribals in Orissa or Madhya Pradesh, landless labourers in Bihar, dalits in Uttar Pradesh, peasants in villages everywhere, migrant construction workers in Delhi, slum children in Mumbai, pavement dwellers in Kolkata, or street vendors in Chennai, see quite another India. Their daily lives are such a struggle that they simply cannot think about, or imagine, a different India in 2025.

In thinking ahead about India 2025, aspirations and images obviously differ. The incorrigible optimists hope for a developed India that has caught up with industrial societies. Political leaders aspire for recognition as a nuclear power in the P-5 club, membership of the Security Council in the United Nations, and a seat at the dinner table with the G-8. Their ultimate aspiration is India as a superpower in the world. The corporate elite hope for dynamic entrepreneurship, technological capabilities, and wealth creation. Their ultimate aspiration is India as a lead player in the global market with its own transnational firms. The pink pages of our newspapers and the electronic media have similar, even if somewhat more nuanced, hopes for India two decades hence.

Such beliefs about India in the world stem primarily from aspirations about the economy in 2025: that it would become the third largest economy in the world in terms of national income at purchasing power parity; that it would become a middle-income country in terms of per capita income; and that poverty would be banished from the republic. And if China is the world's factory, India would be the world's office. These aspirations, in turn, are based on two assumptions. First, it is assumed that rapid rates of economic growth would be sustained. Growth matters because it is cumulative. If GDP growth, in real terms, is 6 per cent per annum, income doubles every 12 years, and if it is 8 per cent per annum, income doubles every 9 years. In the preceding 25 years, GDP growth was 6 per cent per annum, so that national income more than quadrupled. It is expected that in the next 25 years GDP growth would be 8 per cent per annum, so that national income should

multiply almost 8 times. But the complexity of economic growth cannot be reduced to a simple arithmetic of compound growth rates, for there is nothing automatic about growth! Second, it is assumed that a reliance on markets, combined with a rapid integration into the world economy, will help deliver such rapid growth. But there is no magic in the market. The invisible hand of the market, a la Adam Smith, is invisible only because it is not there!

It is not just that there are two sharply contrasting views of India in the world. There are two different, almost dichotomized, worlds in India. There is an India that is global and there is a Bharat that is local. What is more, there is a virtual disconnect between these two worlds. Of course, India is a society in which different cultures (traditional and modern), different divides (caste, class and religion), or even different centuries (nineteenth and twenty-first), co-exist. There is no clash between modernity and tradition. At the same time, the diversity and the pluralism are necessary as also desirable. But the dichotomy between India and Bharat is not. And where we can get to in 2025 depends on where we start out from.

At the turn of the century, more than 50 years after independence from colonial rule, India is unable to meet the basic needs of hundreds of millions of citizens. It is estimated that more than one-fourth, possibly 30 per cent, of our 1 billion people live in absolute poverty. The poor do not even have enough food, let alone clothing, shelter, healthcare and education. In fact, there are more poor people in India now than the total population at the time of independence. It is worth citing some evidence, circa 2001, which is also the latest available, on social indicators of development. More than one-third of our population is still illiterate. This proportion is significantly higher in rural India at 40 per cent and much higher for women at 45 per cent. The infant mortality rate at 66 per 1000 is among the highest in the world. The maternal mortality rate at 407 per 100,000 live births is far higher than in most developing countries. 22 per cent of the population does not have access to drinking water, while 64 per cent of the population does not have access to sanitation facilities; these aggregate figures conceal the reality that the

problem is far more acute in rural India even if the situation is somewhat better in urban India. Although enrolment rates in primary school are more than 95 per cent, drop-out rates are as high as 40 per cent. Enrolment rates in secondary school are 33 per cent, but drop-out rates are 66 per cent. Thus, more than 65 million children who should be in school are not; of these, 55 million are in rural India and 10 million are in urban India. Only 6 per cent of the population enters into the world of higher education. And 42 per cent of the adult population, as many as 240 million people, remains illiterate.

This is not the India I want. What is more, thinking ahead to 2025, such an India is neither ethically acceptable nor politically sustainable. Therefore, my vision of India 2025 is somewhat different. Its focus is on people, rather than on the nation. I want a society in which India and Bharat become one: connected and integrated. The India of my dreams, then, is one that provides capabilities, opportunities and rights to people, ordinary people, so that they can exercise their choices for a decent life. In the pursuit of this objective, it is essential that we provide not only food and clothing but also shelter, healthcare and education, for all, to create a world without poverty, deprivation and exclusion. This will need employment creation and sustainable livelihoods. But development must also enhance the well-being of people in terms of expanding freedoms. This must extend beyond freedom from hunger, disease and illiteracy, so that development creates economic opportunities, promotes social inclusion and ensures political liberties for people.

There could be a temptation, on the part of some, to dismiss this as the thinking of an incurable romantic or a committed ideologue. But I am neither. And it needs to be said that this is the dream of a concerned citizen. It is no less plausible than other visions of India 2025. Indeed, this is a realizable vision. For it is possible to overcome hunger, disease and illiteracy, just as it is possible to eradicate poverty, deprivation and exclusion, during the first quarter of the twenty-first century. So many countries in Asia have done so in shorter spans of time. The resources exist. Mahatama Gandhi put it very simply: “There is enough in the world for

everybody's need, but there cannot be enough in the world for everybody's greed". And I am convinced that a better world is possible. But, by themselves, growth and markets cannot deliver such a world. It needs far more. Above all, it needs good governance in economy, polity and society, which we had *circa* 1950, where governments are accountable to people and people are centre-stage in the process of development. This may be different from, but is not inconsistent with, other, grander yet narrower, visions of India. I believe that we cannot imagine India as a superpower in politics, which some do, or as a powerhouse in economics, which others do, unless it is built on the strong foundations of our most abundant resource and most valuable asset: people.

II. GROWTH IS NOT ENOUGH

Economic growth is clearly necessary but not sufficient to bring about a reduction in poverty. This may be attributable to the logic of markets which give to those who have and take away from those who have not, as the process of cumulative causation leads to market driven virtuous circles and vicious circles. This may be the outcome of patterns development where economic growth is uneven between regions and the distribution of its benefits is unequal among people, so that there is a growing affluence for some and persistent poverty for many. This may be the consequence of initial conditions and institutional frameworks, as similar economic performances in the aggregate could lead to egalitarian economic development in one situation and growth which bypasses the majority of people in another situation.

It cannot suffice to say that outcomes of economic policies should be moderated by social policies, in the form of safety nets. The dichotomy between economic and social policies is inadequate, just as the dichotomy between economic and social development is inappropriate. In fact, no such distinction is ever made in industrial societies. And the experience of the industrialized world suggests that there is a clear need for integration, rather than a separation, of economic and social

policies. Thus, I believe, it is important to create institutional mechanisms that mediate between economic and social development. We know from theory, history, and experience, that markets tend to widen disparities between regions and people through a process of cumulative causation. Better endowed regions experience rapid growth. Like magnets, they attract resources and people from elsewhere until congestion or pollution halts the process. In contrast, disadvantaged regions tend to lag behind. The same is true of poor people or excluded groups who are disadvantaged because they do not have sufficient income or assets, are not skilled or educated, and live in backward regions.

The extent of exclusion can be limited by providing public goods and services to such people, groups or regions, which are vulnerable, marginalized and excluded. For the people who remain excluded, it is essential to widen and strengthen safety nets. This provides the rationale for poverty alleviation programmes which have been in existence for some time. It also explains the economic need for, and the political logic of the Employment Guarantee Act. But we must remember that safety nets represent transfer payments in perpetuity and cannot provide a sustainable solution to problems of those who live in deprivation. There is a wonderful sentence from Joan Robinson that is most appropriate in this context: “There is only one thing that is worse than being exploited by capitalists. And that is not being exploited by capitalists”. The same can be said about markets and globalization. There are two essential correctives: foster inclusion where markets exist, and create markets where they do not exist.

The inclusion of poor people, where markets exist, requires a spread of education and an increase in social consumption. To foster inclusion, we need to develop the capabilities of people, particularly through education, just as we need to develop a social infrastructure which provides the poor with access to shelter, healthcare, clean water, sanitation and ensures a steady increase in social consumption that depends almost entirely on the government in a country such as India. The creation of markets, where they are missing, requires a substantial

investment in physical infrastructure, particularly in rural areas and backward regions. For example, roads which connect hinterlands to the world outside are essential for the creation of markets. The government must therefore find resources for stepping up public investment in infrastructure, especially power, transport and communication. The withdrawal of the government from these sectors, in keeping with the ideology of marketisation and globalization, is premature simply because sufficient private investment, whether domestic or foreign, is simply not forthcoming.

III. AN ECONOMIC ROLE FOR THE STATE

We have gone through a curious swing of the pendulum in thinking about the State. In the 1950s, we believed that the State could do nothing wrong. The language of political discourse, then, was strongly influenced by a ‘virus of socialism without substance’. In the 1990s, we believed that the State could do nothing right. The language of political discourse, then, was strongly influenced by a ‘virus of liberalization without understanding’. These are caricatures of perceptions. The juxtaposition of government failure and market failure as either-or choices is a false debate. Both failures are a fact of life, for neither markets nor governments are, or can ever be, perfect. Indeed, markets are invariably imperfect and governments are without exception fallible. It is important to introduce correctives against both set of failures. Interestingly enough, the State and the market provide mutual checks and balances, so that one can correct for failures of the other. And we need to remember that efficient markets need effective States. Therefore, it is time for us to reflect on the role of the State *vis-a-vis* the market. And my understanding is set out simply in the form of two basic propositions. First, the State and the market cannot be substitutes for one another but must complement each other. Second, the relationship between the State and the market cannot be specified once-and-for-all, as the two institutions must adapt to one another in a cooperative mode over time.

It has become necessary to redefine the economic role of the State in a changed national and international context. In the earlier stages of development, it is about creating the initial conditions: building a physical infrastructure through government investment, developing human resources through education, and facilitating institutional change through legislation or reform. In the later stages of development, the State is neither a promoter nor a catalyst. It should provide functional intervention to correct for market failure, institutional intervention to govern the market, and strategic intervention to guide the market in the long term. The real question about economic intervention by the State is not 'how big' or 'how much' but 'what sort' and 'how good'. In this era of globalization, surprisingly enough, the role of the State is more critical than ever before. This role extends beyond regulating domestic markets or correcting for market failures. It is about creating the initial conditions to capture the benefits from globalization, about managing the process of integration into the world economy in terms of pace and sequence, about providing social protection and safeguarding the vulnerable in the process of change, and about ensuring that economic growth also creates employment and livelihoods for the well-being of people. It is also about acting as a guardian of civil society. In sum, governments need to regulate and complement markets so as to make them people-friendly. The reason is simple. Governments are accountable to people, whereas markets are not.

The object of any sensible strategy of development in a world of globalization, over the next 25 years, should be to create economic space for the pursuit of national interests and development objectives. In pursuit of this goal, we need to think big and we need to think long. Such thinking must extend across several spheres: first, the creation of a world class infrastructure, to remove supply constraints and support social consumption, where any premature withdrawal of the State is a recipe for disaster; second, the development of human resources, through education, both as a means and as an end, because investing in human beings is important at every stage of development; and, third, the fostering of managerial capabilities in individuals and technological capabilities in firms at a

micro level, which are the essential foundations on which international competitiveness is built and without which no latecomer to industrialization has ever succeeded.

It follows that the role of the State in the process of development will continue to be important for sometime to come, even as the scope of the market increases through liberalization in the wider context of globalization. Most would find this argument persuasive. Yet, many would doubt whether such a role is feasible in terms of politics. And the mood of the moment is not receptive to such ideas anywhere, for there is a disillusionment with the economic role of the State which goes much beyond economists to political leaders, opinion-makers, media persons, so that scepticism about the State runs deep. And if we look at the world around us, it is obvious that States are not Plato's guardians. They are sectarian in terms of the interests, groups or classes they represent. Indeed, in extreme situations, the State is treated as family property or private property. Even so, I believe that there are some things that markets can and should do. There are other things that governments can and must do. If governments do those things badly, it does not mean that we can dispense with governments. We have to ensure that governments perform better. There is perhaps reason for pessimism but not for gloom or despair. We must not give up hope as if we have entered Dante's hell. And I must confess that I am an optimist.

IV. THE IMPORTANCE OF GOOD GOVERNANCE

We need have neither an optimistic view nor a fatalistic view of the State. We need to have a realistic view of the State. For if politics is the art of the possible, change is in the domain of the feasible. We must recognize that our strength lies in our political democracy. We must also recognize that our weaknesses lie in the absence of transparency and accountability in that democracy. We do not have to be incurable romantics to believe India can and must be changed.

The paramount strength of our political system is democracy. It has taken deep roots at the level of citizens in society, who are increasingly conscious of their rights and do not hesitate to assess the performance of governments at election time. The media in India provides support in the form of checks and balances, although there are limits to this process. For one, the media is sometimes influenced by the intimidation of the State and often co-opted by the patronage of the State. For another, public memory is short, as yesterday's scandals are overtaken by today's disasters. What is more, the print media can only reach out to those who are literate. The weaknesses are also clear enough. There is little transparency in our political system, even when the government has nothing to hide or nothing to fear from public scrutiny. Information is not disclosed as a rule. Information provided on a selective basis often misleads. There is almost no accountability in our government or politics. It has diminished rapidly with the passage of time. The corrupt go unpunished. The incompetent are not penalized. And it would seem that neither *netas* nor *babus* are accountable for the consequences of their actions in the discharge of public responsibilities.

For transparency, we must move from secrecy to openness in government so that the disclosure of information is the rule and not the exception. Information should be made available by the government not only to the parliament and the media but also to interested citizens. And there should be no holy-cows that are exempted from public scrutiny. The Right to Information Act is an important beginning, but we have miles to go. Information should not be made available only on specific request. Much of it should be placed in the public domain. For accountability, the most important thing is the creation of ombudsman-like institutions at every level which can investigate charges of corruption against those in government. And the guilty must be punished. Accountability should ultimately mean that there are rewards for ability and integrity, combined with penalties for incompetence or dishonesty, in public life.

These principles must extend beyond governments to political parties. There should be a complete disclosure of contributions received and expenditures incurred by political parties in the form of audited accounts available for public scrutiny. This process may be helped by a partial public-funding of elections and more realistic ceilings on electoral campaign expenditure. The manifestos of political parties must say what they mean and mean what they say, rather than posture before the elections only to change their stance afterwards. Ideology, then, is an important point of reference, because transparency in this form carries with it some accountability.

It is possible to make a beginning now. First, we have moved from the age of one-party-majorities to an era of coalition-politics. Political parties in coalition, when in power, have a higher stake in transparency and accountability, at least *vis-à-vis* each other for that can be the only basis of a stable coalition. Political parties in opposition, when out of power, also have a stake in transparency and accountability, for it enables them to oppose the government and come to power the next time around. Second, there may be widespread disillusionment but there is also a political consciousness among voters who judge political parties and their performance. And it is possible to discern an increasing, almost silent, participation and mobilization by our people in the democratic process.

This emphasis on transparency and accountability is not only about morality in public life. Nor does it stem from a desire to preserve the letter, or even the spirit, of the constitution in political life. These principles also have an important instrumental value in a democracy and provide a means of combining sensible economics with feasible politics. The economic priorities of the people will be reflected more and more in the political agenda of parties if there is transparency in the system. And the political agenda of parties will be reflected more and more in the reality of economic development if there is accountability in the system. Once this two-way process gathers momentum, transparency and accountability will create a commitment to the long-term objectives of development in the context of a

political democracy where governments are bound to change through elections over time.

The real issue is not about more or less government. It is about the quality of government performance. And the importance of good governance cannot be stressed enough. Governance is largely about rules and institutions that regulate the public realm in civil society. A democratic system seeks to provide for equal participation of the rich and the poor, or the strong and the weak, individuals as citizens in political processes. And good governance is a process characterized by communication and consultation, through which disputes are resolved, consensus is built and performance is reviewed on a continuous basis. The basis for good governance is a democratic political system that ensures representative and honest governments responsive to the needs of people. This involves more than simply free and fair elections. It implies a respect for economic, social and political rights of citizens. The rule of law is a foundation. An equitable legal framework, applied consistently to everyone, defends people from the abuse of power by State and non-State actors. It empowers people to assert their rights. The need for good governance extends to economic, social and political institutions. A vibrant civil society is just as important for good governance insofar as it provides checks and balances when governments do not act as they should. In this context, it is essential to stress the importance of values. In effect, values provide the foundations of ethical principles and social norms which, in turn, ensure the effectiveness of institutions and the accountability of actors. Much of this exists in principle. In practice, however, good governance is not possible without transparency and accountability in the political system.

V. SOME FORGOTTEN ESSENTIALS

The debate in India tends to focus on what is said or done, but does not always consider what is not said or not done. In the process some essentials are forgotten.

First, it is essential to remember that the well-being of humankind is the essence of development. Therefore, development must bring about an improvement in the living conditions of people, ordinary people. It should ensure the provision of basic human needs for all, not just food and clothing but also shelter, healthcare and education. This simple but powerful proposition is often forgotten in the pursuit of material wealth and the conventional concerns of economics. Yet, people view the world through the optic of their living conditions and daily lives. The litmus test for the performance of an economy, hence government, is neither economic growth, nor economic efficiency, indeed not even equity in an abstract sense, but whether or not it meets the basic needs and the growing aspirations of people. Austerity now for prosperity later is neither credible nor acceptable. The essence of the tension between the economics of markets that works on the principle of one-rupee-one-vote, and the politics of democracy that works on the principle of one-person-one-vote, must be recognized. For those excluded by the economics of markets are included by the politics of democracy.

The second essential we have almost forgotten is that there is a rural hinterland. Indeed, India lives in its villages. Yet, the discourse proceeds as if the rural sector does not exist, or if it exists it does not matter. This is incredible in an economy where two-thirds of the work-force is employed in agriculture and where three-fourths of the population lives in the rural sector. The rural-urban divide is wider than ever before. And farmers' suicides, or starvation deaths, are symptoms of an acute problem. Even if the share of rural India in national income is less than its share in the population, its share of votes is directly proportional. And rural India decides for the republic at election time. The electoral, if not political, compulsions of a democracy cannot be set aside for long.

Third, it is not recognized that distributional outcomes are important. So are employment and livelihoods. Structural reforms associated with economic liberalization have important implications for employment creation and income

opportunities. For example, in so far as such reform increases the average productivity of labour, through the use of capital-intensive or labour-saving technologies, or through a restructuring of firms which increases efficiency, it reduces the contribution of any given rate of economic growth to employment growth. There is a contraction of employment in some sectors without a compensatory expansion of employment in other sectors. As employment elasticities of output decline, employment creation slows down. For any given level of employment, a globalization of prices without a globalization of incomes also threatens livelihoods. The poor at the margin are most vulnerable, but the non-rich are not immune. And, in so far as there are some winners and many losers, distributional outcomes in the sphere of economics shape electoral outcomes in the realm of politics.

Fourth, the debate on economic reforms does not make a clear distinction between means and ends. For example, it does not recognize that markets, as much as States, are institutions evolved by humankind, that are means and it is development that is the end. What is more, there is a presumption that what is necessary is also sufficient. The management of incentives, motivated by the objective of minimizing costs and maximizing efficiency, or even unleashing creativity and innovation at a micro level, is based on a set of policies that are intended to increase competition in the market place. Competition is obviously desirable, but there is nothing automatic about competition. Policy regimes can allow things to happen, but cannot cause things to happen. The creation of competitive markets that enforce efficiency may, in fact, require strategic intervention on the part of the government. The essential missing link is that this debate does not consider transition paths. It confuses *comparison* of one equilibrium position with another, with *change* from one equilibrium position to another. But it does not tell us anything about how we move from one position to the other.

Fifth, the fundamental importance of good governance is not quite recognized. Good governance, where governments are accountable to citizens and

people are centre-stage in development, is essential for creating capabilities, providing opportunities and ensuring rights for people. Governance capabilities matter in a much more concrete sense, whereas the role of the State is somewhat more abstract. Indeed, the quality of governance is an important determinant of success or failure at development. The most striking illustration of this proposition is provided by the wide diversity in economic performance across States in India despite common policies, similar institutions and an economic union.

VI. IN CONCLUSION

In reflecting on the times to come, there is a short-termism that characterizes our politics. That is a cause for concern. We need to think long. And we need to think big. My vision of India 2025, where there is no poverty, deprivation or exclusion, is shaped by such a perspective. It must be said that such an India which provides capabilities, opportunities and rights to people, ordinary people, can also deliver power and prosperity for the nation so cherished by some. In this endeavour, economic growth is essential. But it cannot be sufficient. What is more, it is neither feasible nor desirable to separate economic growth from distributional outcomes because they are inextricably linked with each other. This link is provided by employment creation. Jobless growth is not sustainable either in economics or in politics. If we create employment, it would only reinforce economic growth through a virtuous circle of cumulative causation. There is a critical role for the State in the process. This role cannot be more of the same. It must be redefined to recognize the complementarities between the State and the market. The moral of my story in our quest for development is not less government but good governance. Indeed, without good governance, this dream about India simply cannot become a reality. Even if it is an imperative, however, there is no magic wand that can deliver good governance. In the realization of this objective, political democracy, which provides not only checks and balances but also early-warnings and alarm-bells, is our real asset. What it needs is transparency and accountability. Despite its flaws, the deeply embedded political democracy is the basis of my optimism about the future of India.

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