

INDIA AS A DEVELOPED COUNTRY BY 2020 – MORE THAN JUST ECONOMIC REFORMS ¹

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SECTION 1: INTRODUCTION

Predicting the future is fraught with problems. Like Vitalstatistix's (the Gaul) fears, the sky may fall on our heads tomorrow, although for him at least, tomorrow never came. The world may end by 2020. As a political entity, India may cease to exist by 2020. Such possibilities do exist, although the probabilities are low, non-zero though they may be. The longer the time-frame, the greater the uncertainty associated with the prediction. However, 2020 is not all that far off. Why 2020? Probably because 2020 has a 20/20 vision kind of ring to it and probably because there are several extrapolations centred around 2020. For instance, in December 2002, the Planning Commission came out with such a document² and there are others at the level of the States. A projection for 2020 is slightly different from a projection that describes India as a developed country by 2020. The latter is primarily, though not exclusively, associated with President A.P.J. Abdul Kalam's books and speeches.³

The problem with such a statement is that the expression developed country or developed economy is not a precise one. The UN system has no such definition. The World Bank uses an expression like high income economy, while the IMF uses an expression like advanced economy. That apart, does one measure development on the basis on per capita income (even if it is purchasing power parity or PPP based) alone, or does one use physical quality of life indicators also? For instance, does one have in mind the UNDP's human development index (HDI), based on PPP per capita income, education (adult literacy, gross enrolment ratio) and health (life expectancy at birth)? If it is HDI one is after, a HDI value of more than 0.8 would classify a country as possessing high human development, although notwithstanding the imprecision, it is unlikely that a country would be accepted into the developed country club without a HDI value of more than 0.9. Similarly, in Atlas method or non-PPP per capita income terms, a country is unlikely to be accepted as developed as long as its per capita income is lower than 10,000 US dollars, in today's dollars.

The question of India becoming a developed economy by 2020 can therefore be posed somewhat differently. It is likely that India's per capita income will cross 10,000 US dollars by 2020 or that the HDI value will cross 0.9? The terminal figure in 2020 is a function of growth, as well as the base level. On per capita income by the Atlas method, the latest Indian data we have are for 2005, from the IMF's World Economic Outlook database.⁴ This shows a per capita income of 705 US dollars and a rank of 135th out of 182 countries. Understandably, India performs relatively better on PPP, as do all developing countries, since non-tradeables cost relatively less in such countries. From the same source and in the same year, India's PPP per capita income is 3320 US dollars and this gives India a rank of 122nd out of 181 countries. Finally, on HDI, the latest *Human Development Report* is for 2005 and data there are for 2003. This shows an Indian HDI value of 0.602 and a rank of 127th out of 177 countries. The haul to 2020 is therefore a long one.

¹ I am indebted to an anonymous referee for comments on an earlier version of this paper.

² GOI (2002).

³ For instance, Kalam and Rajan (2003) and Kalam (2004).

⁴ September 2006.

SECTION 2: THE GROWTH BULLISHNESS

There is no dearth of reports that are bullish about Indian growth prospects, some external, others internal or endogenous. Some of these are not concerned with the overall economy, but concentrate instead on segments like out-sourcing and software exports.⁵ Among those that focus on the overall economy, it is important to underline that some are bullish about the overall size of the Indian economy, especially in PPP terms. Suggesting that India will be the third⁶ largest economy in the world in PPP terms in 2020 (after the United States and China) is a slightly different proposition from saying that the Indian per capita income will explode.

In this list of bullish reports, the most widely quoted continues to be Wilson and Purushothaman (2003), better known as the first Goldman Sachs BRIC (Brazil, Russia, India, China) report. Note that much of the spectacular increase in the BRIC report happens after 2020, not before. Note also that the Indian real GDP growth projected is much lower than what is prevalent internally, within the country. For instance, the BRIC report has average real Indian GDP growth of 6.1% from 2005-10, 5.9% from 2010-2015 and 5.7% from 2015-2020. There is a component of rupee appreciation that other projections often do not factor in and this adds around 30% to the per capita income increase. Despite the bullishness, the Atlas method per capita income only increases to 1622 US dollars in 2020. Second, with a slightly different kind of focus, there is a study undertaken by the Economist Intelligence Unit (EIU) for Cisco Systems.⁷ What is pertinent here is that, from 2006-2020, India will contribute 12.2% to global growth, China contributing 26.7% and the United States 15.9%. In terms of share in world PPP GDP, India will account for 8.8% in 2020, up from 6.2% in 2005 and India will be the third largest economy in the world, although the real Indian GDP growth between 2006 and 2020 is projected at 5.9%. Third, there is a National Intelligence Council (2004) report. It is unnecessary to add more to the list of similar reports. At least from the point of view of these external reports, we seem to have a consensus along the following lines. By 2010, India will be the third largest economy in the world in PPP terms, having overtaken Japan. Unless Europe is counted as a single entity, by 2020, India will therefore be the third largest economy in the world in PPP terms. Around 2025, India will be the third largest economy in the world in Atlas method terms, again having overtaken Japan. In Atlas terms, the Indian per capita income in 2020 will be around 1600 or 1700, in today's dollars. And the average Indian real GDP growth between now and 2020 will be of the order of 6%.

If there is disagreement between these external reports and those that emanate from within the country, that is primarily about this trend rate of growth of 6% or thereabouts, with an emphasis on the trend, as opposed to year to year fluctuations. Indian national accounts data emanate through the Central Statistical Organisation (CSO).⁸ Courtesy CSO, we know that real GDP increased by 8.5% in 2003-04, 7.5% in 2004-05, 8.4% in 2005-06 and 8.9% in Q1 (April-June) of 2006-07. Reforms in India are usually dated from 1991, often ignoring the point that there was an earlier cycle of reforms, although that was much more ad hoc and piece-meal and not as systematic and comprehensive as what has happened after 1991. There was a structural break in growth rates towards the second half of the 1970s, breaking away from the earlier trend of 3.5% or thereabouts. This break jacked up growth rates to around 5.5%. There was yet another structural break in the 1990s and average growth increased from a trend of around 5.5% to a trend of almost 6.5%. Since reforms are

⁵ Friedman (2005) is an example.

⁶ Unless Europe begins to be counted as a single entity, in which case, India will continue to be fourth.

⁷ EIU (2006).

⁸ A report of the National Statistical Commission (2001) casts some doubt on the quality of data collection and CSO data also go through various stages – advance estimates, revised estimates, quick estimates and final figures. It is fair to say that after a time-lag of around 18 months, notwithstanding the National Statistical Commission's criticisms, national accounts data are fairly accurate.

equated with post-1991 developments, most external projections assume that 6 to 6.5% is the base-line rate of growth now. The key question is whether there has been another structural break in 2003-04, with a base-line trend growth of 8% or thereabouts. Admittedly, 3 ¼ years is too short a time-span to judge. However, there are people within India who believe that yet another structural break has taken place.

There are several reasons for such a belief. First, the savings rate has increased. The last firm savings data are from 2004-05 and these show a savings rate of 29.1%. While there is a public sector component to this savings increase, there is also an income and demographic transition effect and by around 2010, the savings rate should be close to 32%. In parallel with the increase in the savings rate, the investment rate has also increased, fuelled by both domestic savings and foreign savings. In 2004-05, the last year for which data are available, the investment rate was 30.1%. If by 2010, the domestic savings rate increases to 32%, there is no reason why the investment rate should not increase to 35%.⁹ The Planning Commission has just produced a draft Approach Paper to the 11th Five Year Plan (2007-12) and a quote from that paper is illustrative.¹⁰ “To summarise, the task of achieving an average growth rate between 8 and 9 per cent in the 11th Plan is macro-economically feasible with a strong fiscal effort that is difficult but not impossible. It is, therefore, proposed that the target growth rate for the Eleventh Plan be placed at 8.5 per cent per annum.” For this to be possible, there are assumptions of a savings rate of 31%, an investment rate of 33.6% and a current account deficit/GDP ratio of 2.6%. For 9%, the savings rate has to be 32.3%, the investment rate 35.1% and the current account deficit/GDP ratio 2.8%. However, if the trend is already 8%, a target of 8.5% is ultra-conservative. Second, from the Planning Commission, one doesn't immediately know what India's assumed incremental capital/output ratio (ICOR) now is. It used to be around 5 in the decade of the 1980s and had even touched 6 once. It is now assumed to be around 4, which suggests that real growth of 9% is eminently doable. However, competition and efficiency improvements should have driven down the ICOR and indeed, in December 2005, the National Development Council talked about reducing the ICOR to 3.58 in the next few years. If that indeed happens, GDP growth should cross 9.5%. There is yet another change that is sometimes ignored, at least in this context. The share of agriculture and allied activities in GDP is now less than 22% that of industry is just over 23% and that of services is around 55%. No economy can drive 10%-plus growth rates on service sector euphoria alone and industry and manufacturing have to also grow. The 9% target growth scenario envisaged by the Planning Commission contemplates 4.1% growth in agriculture, 10.5% in industry and 9.9% in services. While this is a valid point, in the present context, what is pertinent is that the service sector tends to have a lower ICOR. That apart, if agriculture is growing relatively slowly and services is growing relatively fast, the sectoral shift from agriculture to services itself jacks up GDP growth as a statistical inevitability. Third, the effect of export growth on GDP growth is perhaps not always explicitly recognized. Exports can mean exports of goods (such data are obtained from the Directorate General of Commercial Intelligence and Statistics (DGCI&S) and Commerce Ministry) or exports of goods and services (such data are obtained from the Reserve Bank of India (RBI)). In dollar terms, DGCI&S data show an export growth of 20.36% in 2003-04, 24.13% in 2004-05, 22.97% in 2005-06 and 34.48% between April and August 2006.¹¹ For 2005, the World Bank gives an export/GDP ratio of 17.3%, meaning both exports of goods and services. Even if one accepts 10%, since one is talking about only exports of goods, the export growth rate implies more than a 2% increment to GDP growth. Fourth, while the demographic dividend and India's demographic transition is recognized, its impact on GDP growth is not always factored in, the BRIC report

⁹ A current account deficit of 3% of GDP is not a red flag, although this is also a function of how that current account deficit is financed.

¹⁰ GOI (2006).

¹¹ It is sometimes not remembered that India also exports refined petroleum products and there is an oil price effect on the export side too.

being an exception. Growth projections are thus based on capital inputs, ignoring the labour component and the Indian labour force is expected to grow at just below 2.5% a year between now and 2020. This labour contribution should itself add a clear percentage point to GDP growth, problems of education, skills and morbidity notwithstanding. Fifth, the population is young, with a median age of 24. This does things to entrepreneurship that we imperfectly understand.

One should not therefore be surprised if GDP growth turns out to be something like 9% between 2010 and 2015 and accelerates to 10% between 2015 and 2020, ignoring the effect of exchange rate changes. With a base of 705 US dollars in 2005, 8% growth between 2005 and 2010, 9% between 2010 and 2015 and 10% between 2015 and 2020, with an assumed population rate of growth of 1.5%, takes the Atlas method per capita income to around 2085 US dollars in 2020 in today's dollars, as opposed to between 1600 and 1700. That will transform the nature of poverty in India, as we know it today. But it won't make India a developed country.

SECTION 3: ECONOMIC REFORMS

One can now turn to the question of what one means by economic reforms. Sometimes expressions like first generation and second generation are also used, suggesting that the first generation reforms were introduced in the first post-1991 flush and that the second generation is what awaits us now. Unfortunately, the expressions first generation and second generation are never very precisely defined. However, two overlapping interpretations are possible. First, first generation refers to reforms that concern the external sector – elimination of quantitative restrictions (QRs) on exports, rationalization and elimination of export subsidies and their replacement by a system of export incentives¹², reduction in import duties, a market-determined exchange rate with a convertible rupee¹³, a liberal policy on foreign institutional investments and opening up to foreign direct investments (FDI). On each of these, reforms have already been introduced, or there is a time-frame for their further introduction, although external sector reforms are also linked to negotiations, multilateral, regional or bilateral. They cannot always be introduced unilaterally. In contrast, second generation reforms concern the domestic economy, although a neat water-tight compartmentalization between the domestic and the external isn't always possible. Understandably, political economy considerations and vested interests are stronger in domestic economic reforms, compared to the external. Second, one can also interpret the first generation as reforms that concerned and were under the purview primarily of the Centre, or the Union government. In contrast, in a federal setup, second generation concerns reforms that have to be introduced at the State-government level.¹⁴ Thanks to the first generation having been implemented, the focus of policy change has thus shifted from the Centre to the States. The cutting, and the blunting edge, of reforms thus lies at the level of the States and different States have reacted differently to liberalization. What is also of note is that most product market policies are with the Centre, while most factor market (labour, land) policies are with the States.

Beyond the taxonomy, there will be a reasonable degree of consensus about what the major pending reform areas are, the so-called second generation agenda. At best, depending on

¹² The latter is WTO-compatible. Even when WTO-compatible, the former can be subjected to countervailing duties by trading partners.

¹³ This has to be a phased transition and recently, a RBI-appointed committee has submitted recommendations on capital account convertibility, current account convertibility already being in place.

¹⁴ The Seventh Schedule to the Indian Constitution sets out a Union List, a State List and a Concurrent List.

one's perspective, there may be disagreement about the priorities. The following is a list of this core reform agenda.

(1) Reforms in the rural sector – Rural/urban has a Census definition and according to the 2001 Census, 72.2% of India's population lives in rural areas. This is equated with earning a living from agriculture, but that is not quite true. The National Sample Survey (NSS) undertakes large (or thick) surveys roughly at five-yearly intervals and the last such survey was for 2004-05. In this survey, 67% of rural male workers reported themselves as earning a living from agriculture.¹⁵ If this is indicative, for males, only 48% of the labour force earns a living from agriculture. Hence, there is an agricultural reform agenda and there is a rural reform agenda that does beyond agriculture. Within the agriculture set, there are issues like allowing corporate sector involvement in agriculture, removal of government imposed restrictions on production, marketing and distribution¹⁶, refocus of public expenditure away from input subsidies to infrastructure¹⁷ and extension services¹⁸, dis-intermediation of distribution chains, forward markets, contract farming, revamping credit and insurance, and freeing up of land markets¹⁹. All these are linked to encouraging commercialization and diversification. There is also an issue of encouraging off-farm employment and this is where rural sector reforms kick in, through provision of physical and social infrastructure. Out of India's 600,000 villages, there are around 100,000 where both are hardly present.²⁰

(2) Taxation reforms – These have both a direct and an indirect tax component, and the latter includes import duties. Barring agriculture, which is in a category of its own, the timeline for reduction in tariffs on industrial or manufactured products is reasonably clear. In 2004-05²¹, the last year for which such figures are available, India's tax/GDP ratio was 17.6%. This includes Central and State taxes. Had all exemptions been removed, the tax/GDP ratio would have been 5.7% higher. The broad shape of indirect tax reform is clear and has been set out in the Kelkar (2002a) report, among others. There should be a combined goods and service tax (GST), with service sector taxation integrated into a VAT (value added tax) framework instead of being a tax on turnover. This will be accompanied by a withdrawal of all other taxes like central excise, central sales tax, octroi, State-level sales tax, entry tax, stamp duties, transportation taxes and so on. All that has happened at the moment is a limited VAT, in the sense of unification of State-level sales tax, and the time-frame for introduction of a GST is 2010 onwards. A GST is also required to make the export incentive system WTO-compatible, introduce appropriate countervailing duties and allow better defence against anti-subsidy and anti-dumping investigations. Unfortunately, the mindset of allowing discretions and exemptions get in the way of standardization and harmonization. That apart, there is an even more serious issue of lack of financial devolution within States, down to urban local bodies and *panchayats*. In its absence, it becomes impossible to eliminate local taxes. There is a parallel exemption issue for direct taxes, both for personal income taxes and corporate taxation and here too, the recommendations of Kelkar (2002b) are clear enough, including the taxation of farm income. However, because exemptions are not eliminated, the effective corporate tax rate is less than 20% and not more than 10 million individuals pay personal income taxes.²²

¹⁵ However, the figure was 83% for females.

¹⁶ For instance, the Agricultural Produce Marketing and Control (APMC) Acts and orders under the Essential Commodities Act.

¹⁷ Plus decentralization in management of rural infrastructure.

¹⁸ There is also a research and development agenda, but it is not necessarily obvious why this has to be public sector driven. Extension services will have to be largely public sector driven.

¹⁹ There are two distinct issues of ownership laws and tenancy laws here. The former is contentious, the latter less so.

²⁰ Partly because villages (and habitations) where population sizes are less than 1000 are simply not viable. If the transport infrastructure improves, some of these villages will disappear and become mainstreamed.

²¹ That is, the financial year 1st April 2004 to 31st March 2005.

²² Therefore, contrary to popular impression, this is not a simple evasion issue, although evasion also exists. Availing of exemptions is perfectly legal. 10 million individuals actually pay taxes, although the number of

(3) Public expenditure reforms – This has a Centre, State and even local body aspect. Although the importance of each element is a function of the level of government that one has in mind, a substantial chunk of public expenditure is on interest payments, wages and salaries and pensions. In the short-run, these expenditures are inflexible, although in the long run, one can borrow less, employ fewer people and enter into new pension arrangements with new entrants into the civil service. Compared to a work force of 374 million (the labour force is slightly larger at 390 million), 18.5 million people work for the government, including 3.5 million who work for the Central government and 6 million who work for the public sector. If one includes those who work for quasi-government bodies, the number increases from 18.5 million to around 30 million. On reforming civil services in India, several recommendations have been made. The Report of the Fifth Central Pay Commission (January 1997), the 10-volume report of the Expenditure Reforms Commission (ERC) (2000), the Surendra Nath Committee Report (2003) and the Committee on Civil Service Reforms (2004) are examples. The issues of downsizing, identifying surplus manpower, retraining, voluntary retirement schemes (VRS), contractual appointments, lateral entry and evaluation and vertical mobility keep recurring and the reform agenda is also known. However, what are invariably implemented are hikes in salaries and a Sixth Pay Commission has now been announced. This is estimated to cost anything up to 1.5% of GDP, if the impact on States and quasi-government bodies is also taken into account. In addition to borrowing and expenditure on the administrative machinery of the government, public expenditure also includes public services. These are not necessarily in areas where market failure exists, so that the classic public good argument has doubtful validity. Nor can a merit good argument be used, since subsidies are never targeted. That apart, expenditure is never linked to tangible improvement in outcomes and administrative costs of delivery are extremely high.²³ Yet, the present government has introduced or expanded several so-called public expenditure flagship programmes – National Rural Employment Guarantee, Sarva Shiksha Abhiyan²⁴, the Mid-Day Meal Scheme, National Rural Health Mission, Jawaharlal Nehru Urban Renewal Mission, Bharat Nirman²⁵ and a Backward Regions Grant Fund. Had public expenditure alone been the answer, India would no longer have been poor and backward. This is the right place to mention why this paper will not list out two commonly-cited issues in the core reform agenda – budgetary deficits and infrastructure. The former is indeed important and there is a Kelkar (2004) report on implementation of the FRBM (Fiscal Responsibility and Budget Management) Act. However, deficits (fiscal or revenue) are symptoms rather than the disease and in the absence of revenue (tax and non-tax) and expenditure reform, talking about deficit reduction is neither here nor there. The second commonly-cited reform area that will not be listed separately is infrastructure, although there are estimates that if all infrastructure is available efficiently, the increment to GDP growth will be of the order of 1.5%. There are different kinds of infrastructure and what works for one kind of infrastructure, may not work for others.²⁶ Some parts of infrastructure are Central government subjects, while others are State or even local body subjects. However, the reason for not listing infrastructure separately is a different one. In the absence of resolving the subsidy issue and appropriate user charges, the infrastructure problem will remain. That too, is a symptom rather than a disease.

individuals who submit income tax returns is approaching 35 million. The tax reform agenda was to make taxation simple and transparent. However, some recent attempts (cess, fringe benefit tax, cash withdrawal tax, securities transaction tax) represent a retreat from that objective.

²³ A quote by Rajiv Gandhi is often recalled, because he said that out of every one rupee that is spent on poverty alleviation programmes, not more than 15% reaches the target beneficiary. It is commonly assumed that 85% is swallowed up in leakage and corruption, but that is not quite true. Leakage and corruption no doubt exist. However, 85% also includes administrative costs of delivery.

²⁴ For primary education.

²⁵ For irrigation, rural roads, rural housing, rural water supply, rural electrification and rural telecom connectivity.

²⁶ The outstanding success of infrastructure reform is in the area of telecom and the outstanding failure in the case of power. But a revolution is happening in roads, triggered by the National Highway Development Programme (NHDP) and this revolution has probably not been sufficiently appreciated yet.

(4) Law reforms – This category subsumes several different elements – statutory law reform, faster speed of dispute resolution and reforms of administrative law, so that procedural costs are eased. Within statutory law reform, there are issues of rationalization and harmonization across statutes that have been enacted at various points in time²⁷, eliminating old laws that serve no purpose, junking unnecessary State intervention in many of these statutes and even introducing new legislation where none exists.²⁸ On faster dispute resolution, a new Arbitration Act has been in place since 1996, but conciliation/mediation is still not credible. Within the court system, there is an estimated backlog of 25 million cases stuck in courts, not including those that are stuck in quasi-judicial forums. There have been faster clearances in the Supreme Court, but not yet in High Courts and Lower Courts, with understandable variations across States. About two-thirds of pending cases are criminal ones. With amendments to the Civil Procedure Code in 2001 and 2002, dispute resolution should become faster for civil cases and there is some evidence of this having happened. However, there hasn't been much progress on reforming the criminal justice system, despite a Malimath Committee on reforms in the criminal justice system having submitted a report in 2003. On the third strand of law reform, beyond civil service reform, the broader agenda of administrative law reform involves two kinds of relationships that can overlap – dealings between the citizen and the government and dealings between an enterprise and the government. The latter can again be divided into three phases of an enterprise's existence - entry, functioning and exit.²⁹ The former involves birth certificates, death certificates, land titles, assorted requirements of establishing one's own identity and issues connected with accessing public services. For both the citizen and the entrepreneur, the years since 1991 have witnessed the exertion of countervailing pressure, documenting corruption and inadequate delivery of services, even if this countervailing pressure tends to be located in certain geographical parts of the country. Partly as a result of such pressure, a *Central Right to Information Act* has now been passed. Two commonly-cited items are again not being listed in this paper in the core reform agenda and an explanation is again in order. First, there is no separate listing of labour law reform, because that has been subsumed in this heading of law reform.³⁰ Second, there is no separate listing of governance as a heading, even though that is a buzzword. While governance means different things to different people, this deliberate exclusion is because most items included in governance, unless one has in mind electoral processes, civil rights and a free press, have already been included elsewhere.

While there is no disagreement about these reform areas being important, why have the required reforms not been implemented? This is because of the political economy, not because these areas are unimportant, but because there is lack of consensus. And if one tracks the debate and distils out where there is lack of consensus, the debate boils down to one simple issue, regardless of the reform area. There is lack of consensus about the role of the government and core governance areas. The core governance areas for any State ought to be ensuring law and order, an efficient dispute resolution mechanism and intervention in some areas of physical and social infrastructure, sometimes through financing rather than through actual provisioning. It is because the Indian State is asked to do many more things that these four core reform agendas continually get stuck.

²⁷ Consequently, the case law also varies, causing further confusion.

²⁸ For instance, public monopolies may now be replaced, infrastructure is an example. Unbundling facilitates this and there will be need for regulators.

²⁹ The World Bank's *Doing Business* database tells us that in 2006, it took 35 days to start a business in India, 270 days to comply with permits and licences, 62 days to register property, 27 days for export procedures and 10 years to close a business. There are more such figures and India also compares unfavourably within the region, not just in comparisons with developing countries.

³⁰ But the point needs to be made that labour law reform is much more than changing some sections of Chapter V-B of the Industrial Disputes Act.

SECTION 4: BEYOND GROWTH

Why is the question of whether becoming a developed economy means more than economic reforms, at all asked?

At one level, this could be because economic reforms are equated with growth and increases in per capita incomes and there are question marks about whether the trickle down benefits of growth have percolated down evenly. In answering this question, one ought to differentiate between poverty (which is an absolute concept) and inequality (which is a relative concept). Poverty need not of course mean income poverty alone. If income poverty³¹ is the criterion, there is an international poverty line of PPP 1 US \$ per day (or 2 US \$ per day) at constant 1985 prices and an internal Indian poverty line³², although in money terms, the figures are more or less similar. As is common with other countries, there are also issues of matching growth data (obtained through national accounts) and expenditure data (obtained through household surveys) and there are discrepancies between the two. As has already been mentioned, expenditure data are collected through NSS and these large sample surveys are undertaken once every five years.³³ The last three data points for these large samples were 1993-94, 1999-2000 and 2004-05 and there was a special problem because data for 1999-2000 were not quite comparable with data for 1993-94. On a comparable basis³⁴, data now show that the poverty ratio or head count ratio (percentage below the poverty line) declined from 36% in 1993-94 to 28% in 2004-05. There is no denying that the decline has happened, although one might have hoped for a faster rate of decline.³⁵ However, given the working composition of the population, that faster rate of decline is contingent on the composition of growth, that is, it is a function of how well agriculture and the rural sector perform. Without agriculture and the rural sector performing better, a faster rate of decline is impossible. Nor is it the case that there are States or categories (SCs, STs, women) where absolute poverty declines haven't taken place. However, it is also true that poverty declines haven't been proportionate across all categories. Some categories have benefited more than others. If one extrapolates, by 2020, India's poverty ratio should be around 15%, if not lower. In all probability it is likely to be a bit lower, since income and expenditure distributions tend to be log normal and one therefore has faster rates of decline when the thick part of the distribution passes above the poverty line. In passing, India's Gini index of inequality is 32.5, lower than in most countries of the world.³⁶ At 3.9%, the share of the poorest 10% in consumption is also more than in most countries in the world.

If one moves beyond income poverty, one can judge India either on the basis of improvements in indices like HDI or in terms of a similar kind of question about progress towards the Millennium Development Goals (MDGs). HDR (2005) shows a life expectancy at birth of 63.3 years for India, an adult (over 15 years of age) literacy rate of 61.0 years, a combine gross enrolment ratio for primary, secondary and tertiary schools of 60% and a PPP per capita GDP of 2892 US dollars. All three (per capita income, health, education)

³¹ The NSS does not collect data on income. So this is actually expenditure poverty.

³² The Indian poverty line is based entirely on food (80%) and clothing (20%). Items like education and health do not figure, because it was assumed that there were public goods that would be provided by the State and need not figure in personal consumption expenditure. The poverty line has a different money figure, depending on the State, rural/urban status and age and gender.

³³ In between, there are thin or small samples, not generally regarded as very reliable.

³⁴ That is, effectively excluding 1999-2000.

³⁵ Incidentally, the head count ratio was virtually unchanged for three decades – the 1950s, the 1960s and the 1970s. Declines only began in the 1980s, when growth rates began to pick up.

³⁶ As has been mentioned earlier, this is expenditure inequality. The source for this figure is *Human Development Report* for 2005 and this has data till 2003. In any event, the Gini index based on NSS's 2004-05 sample hasn't yet been computed.

feed into the HDI value of 0.602³⁷. India's HDI rank is 9 places below its GDP per capita rank, that is, despite its low level of per capita income, India should have done better.³⁸ This is a valid point to make. The time-line of India's improvement in HDI should also be borne in mind – from 0.438 in 1980 to 0.476 in 1985, 0.513 in 1990³⁹, 0.546 in 1995, 0.577 in 2000 and 0.602 in 2003. What is noticeable about this improvement, especially since the 1990s, is that it has primarily been driven by improvements in per capita income, that is, by growth. Indeed, improvements in education indicators haven't yet filtered in into HDI computations. For instance, Census 2001 shows an Indian literacy rate of 65%, up from 52% in 1991.⁴⁰ HDR (2005) has an adult literacy rate of 61%, but that is because the segment below 15 years has been excluded. The point being made is that there is a significant chunk of adult illiteracy and once that is out of the system, the Indian literacy rate will shoot up. That can be spliced with the argument that improvements in primary education indicators haven't yet been factored into the HDR system. For instance, there has been a sharp increase in enrolment and the number of out-of-school children has dropped from around 40 million at the beginning of the Tenth Five Year Plan (2002) to less than 10 million now (2005).⁴¹ Universal elementary school enrolment should be doable. This is not to deny problems associated with quality of education, retention and drop-outs, not to speak of discriminations based on caste and gender. However, the simple point is that there has been a noticeable improvement in the education indicators since the 1990s and a literacy rate of pretty close to 90% by 2020 should be possible. The HDI value should also be on the verge of India crossing over into the high human development category of 0.800-plus. Unfortunately, those sharp improvements in education are not yet mirrored in improvements in health indicators.

One forms a similar kind of impression if one considers the Millennium Development Goals (MDGs), to be attained by developing countries by 2015, on a base of 1990. There are eight such goals. (1) Eradicate extreme poverty and hunger; (2) Achieve universal primary education; (3) Promote gender equality and empower women; (4) Reduce child mortality; (5) Improve maternal health; (6) Combat HIV/AIDS, malaria and other diseases; (7) Ensure environmental sustainability; and (8) Develop a global partnership for development. Stated thus, these sound like vague motherhood statements. However, it is targets under these goals that make the goals operationally meaningful and enable one to quantify and measure progress towards the MDGs. There are 18 such targets, the 7 targets under goal 8 of developing a global partnership for development are irrelevant for present purposes. The targets for the other goals are shown in Table 1. One does notice that targets are a bit more precise up to Goal 5. There is a country report on India's progress towards the MDGs, released earlier this year. Based partly on this, three additional columns have been added in Table 1, showing the 1990 base, the present status and finally, a subjective assessment of whether that particular target can be reached. Attaining the MDGs doesn't get India anywhere near towards becoming a developed country. But the point to be noted is that India seems to be on target on all the MDGs except the health ones (which of course represent a significant component) and the one on gender disparity in education.

³⁷ Other human development or deprivation indicators, not included in computation of HDI, need not be recapitulated, because they only reinforce the point. Under-weight children, poverty indices, immunization, access to clean drinking water and sanitation, infant mortality rate and maternal mortality rate are examples.

³⁸ There is gender discrimination. But to the extent that the GDI (gender-related development index) is an aggregate indicator of gender discrimination, India does not stick out. Ditto for the gender empowerment measure (GEM).

³⁹ That meant crossing into the medium human development category.

⁴⁰ There may be complaints about the definition of literacy, but that is neither here nor there. That deficiency has been constant over time. Since the definition of literacy hasn't deteriorated, the improvement in literacy levels must be acknowledged.

⁴¹ The government attributes it to the success of the Sarva Shiksha Abhiyan (SSA). However, there has been greater private sector entry into elementary educations and surveys in many States show that anything between 20 and 30% of poor households send their children to private schools. With improved quality, the demand for education seems to have increased.

Table 1: MDG Goals and Targets

Goal 1	Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than \$1 a day	37.5% (1990)	28% (2004)	Yes
	Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger			
Goal 2	Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	Drop-out rate of 41.96% in 199-92	Drop-out rate of 34.89% in 2002-03	Barely possible
Goal 3	Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015			No
Goal 4	Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	125 per thousand in 1988-92	98 per thousand in 1998-2002	No
Goal 5	Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	437 per 100,000 in 1991	407 per 100,000 in 1998	No
Goal 6	Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS			No
	Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases			No
Goal 7	Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources			
	Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation	12% access in 1990	30% access in 2001	Yes
	Target 11: Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers			Yes

Before completing this section, one should come back to the question of governance. Governance is also about processes and it is difficult to define, measure or quantify governance. There are assorted indicators of governance and several governance surveys float around, with value judgements and subjectivity built into all of them. The most robust of these is probably The World Bank Institute's Governance Matters set of indicators⁴², with governance measured under six aggregate heads or clusters – voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and corruption. In an indirect kind of way, comments have already been made about government effectiveness, regulatory quality, rule of law and corruption. What is to be noted is that in cross-country comparisons, India doesn't perform too badly on voice and accountability and political stability and absence of violence. There is correlation between governance and economic development. In other words, a developed country should improve on governance indicators. But it should be mentioned that there are various indicators of governance and such strong positive correlations do not characterize all indicators of governance. In addition, does this correlation establish causation, and if so, in

⁴² www.worldbank.org/wbi/governance.

what direction is the causal relationship? Does better governance lead to a benign effect on per capita incomes? Do higher incomes lead to governance improvements? Or is the correlation entirely spurious and are there other factors that lead to improvements in both economic development and governance? In any event, bad governance does not seem to be the most important constraint that will hold up India's leap into the developed country category, although improvements in governance are necessary.⁴³

One should also reiterate the role of civil society pressure and the empowerment that has taken place through urban local bodies and *panchayats*, particularly the latter. Other than the media, civil society and citizen pressure has sometimes been driven by a return of non-resident Indians. For citizen pressure, one can mention the Public Affairs Centre in Bangalore, *Lok Satta* in Hyderabad, the *Mazdoor Kisan Shakti Sangathan (MKSS)* in Rajasthan, *Jana Agraha* in Bangalore, the Centre for Science and Environment in Delhi, the work of the Administrative Staff College in Hyderabad, the Consumer Education and Research Centre in Ahmedabad or *Parivartan* in Delhi. These have questioned also executive inaction through public interest litigation (PIL)⁴⁴. Admittedly, these pressure groups tend to be located in urban areas and certain parts of the country and one is still not very clear about how they can be up-scaled and cloned. What are the prerequisites for success and what ensures failure?

SECTION 5: DISPARITIES AND DIVIDES

In this concluding section, one would like to document India's most important policy challenge from the point of transiting towards developed country status. The test of a developed country should be in its ability to handle disparities and divides and diffuse tensions. One interpretation of disparities is in terms of personal distributions of income. This doesn't seem to be a very important issue. Nor do disparities across caste, class, gender or religion seem to be that important.⁴⁵ The rural/urban divide seems to offer an imperfect understanding of what is happening in India today, although the divides are fundamentally geographical and spatial. To state the obvious, India is a large and heterogeneous country. There are wide divergences in development and in deprivation. Such disparities also exist in other large economies, the United States and China being two ready examples. However, the polity in China is completely different and the regional disparities in the United States are certainly not as high as they are in India today.

There are different ways to look at the economic geography of a country, depending on the administrative division one has in mind. State administrative boundaries are natural dividing lines to use. Academic work and popular impression have often used the BIMARU (Bihar, Madhya Pradesh, Rajasthan, Uttar Pradesh) nomenclature, with a pun on the word *bimar*, meaning ill or sick. While this is still useful as a starting-off point, the States of Bihar, Madhya Pradesh and Uttar Pradesh have now been sub-divided and Orissa is often worse than some of these 4 traditional BIMARU States. BIMARU thus becomes BIMAROU, not to speak of deprivation, according to some indicators, in Jammu & Kashmir and the North-East. Although undivided Madhya Pradesh and Rajasthan are no longer as deprived and backward as Bihar and the eastern parts of Uttar Pradesh and Uttaranchal is better off than Uttar Pradesh, many of these traditionally backward areas tend to be concentrated in the North. In understanding India's development, especially after the 1991 reforms, one thus tends to often use a North-South framework. Contrary to the international usage of North as

⁴³ One need not list several initiatives in the area of e-governance, often at the level of the States and sometimes involving public-private partnerships. Corporate governance is a separate issue.

⁴⁴ Environment protection is an obvious example. The issue of the judiciary stepping into the executive's arena naturally arises.

⁴⁵ The SC issue does become politicized. As does the ST issue, but the ST issue is fundamentally geographical.

developed countries and South as developing countries (or least developed countries), the Indian perception has the North as under-developed and the South as developed. Two simple explanations are often used to explain this phenomenon. First, in the pre-1991 era, when licensing and proximity to the centre that granted licenses was important, the North performed relatively better. With licensing having disappeared, at least for manufacturing, this relative advantage has vanished and the South has come into its own. Second, given the inadequacy of internal transport infrastructure, coastal regions, where this inadequacy is less manifest, tend to flourish. While both these arguments have a grain of truth, and property rights that govern land are also important, this North-South dichotomy is a trifle too simplistic. As is the East-West dichotomy, with a dividing line vertically drawn between Kanpur and Chennai, regions to the West of this line performing better than regions to the right. Indeed, the use of State boundaries to facilitate our understanding is itself somewhat flawed, since development and deprivation do not follow such administrative distinctions. However, there is an in-built bias in favour of using States, since data problems are easier to handle then. Data problems become more difficult to overcome if one thinks of India's regions, or even districts and villages. Of India's 600 districts, around 100 are truly backward, by any objective criterion. The National Food for Work Programme had a list of 150 backward districts, the Rashtriya Sama Vikas Yojana (RSVY) increased the number to 167 and the National Rural Employment Guarantee Act has a list of 200 backward districts. Most of these backward districts are geographically contiguous and are also associated with violent movements. Similarly, out of India's 600,000 villages, around 125,000 are truly backward.

Consider the following. If India grows at 8% a year till 2020 and States continue at their present rates of growth, Table 2 shows where some of these States will be in the year 2020, measured in PPP exchange rates (as of today).

Table 2: 2020 Projections for States

State	Per capita PPP income in 2020	Like this country today
Bihar	1696	Bangladesh
Uttar Pradesh	2478	Zimbabwe
Madhya Pradesh	2862	Azerbaijan
Chhattisgarh	2926	Indonesia
Uttaranchal	5739	Algeria
Rajasthan	6044	Colombia
Himachal Pradesh	9528	Chile
Punjab	10198	Mauritius
Haryana	10290	Estonia
Delhi	26684	Australia/Japan
Chandigarh	36901	United States
India	7587	Brazil

Or consider Table 3, based on Planning Commission (2002).

Table 3: Human Development in India

State/UT	HDI (1991)	HDI (2001)	GDI (1991)	% below poverty line (1999-2000)	Literacy (%), 2001	Infant mortality rate (per thousand), 1991
Andhra Pradesh	0.377	0.416	0.801	15.77	61.11	55
Arunachal Pradesh	0.328		0.776	33.47	54.74	91
Assam	0.348	0.386	0.575	36.09	64.28	92
Bihar	0.308	0.367	0.469	42.60	47.53	75
Goa	0.575		0.775	4.40	82.32	51
Gujarat	0.431	0.479	0.714	14.07	66.43	78
Haryana	0.443	0.509	0.714	8.74	68.59	52
Himachal Pradesh	0.469		0.858	7.63	75.91	82
Jammu & Kashmir	0.402		0.740	3.48	54.46	
Karnataka	0.412	0.478	0.753	20.04	67.04	74
Kerala	0.591	0.638	0.825	12.72	90.92	42
Madhya Pradesh	0.328	0.394	0.662	37.43	64.08	133
Maharashtra	0.452	0.523	0.793	25.02	77.27	74
Manipur	0.536		0.815	28.54	68.87	28
Meghalaya	0.365		0.807	33.87	63.31	80
Mizoram	0.548		0.770	19.47	88.49	53
Nagaland	0.486		0.729	32.67	67.11	51
Orissa	0.345	0.404	0.639	47.15	63.61	125
Punjab	0.475	0.537	0.710	6.16	69.95	74
Rajasthan	0.347	0.424	0.692	15.28	61.03	87
Sikkim	0.425		0.647	36.55	69.68	60
Tamil Nadu	0.466	0.531	0.813	21.12	73.47	54
Tripura	0.389		0.531	34.44	73.66	82
Uttar Pradesh	0.314	0.388	0.520	31.15	57.36	99
West Bengal	0.404	0.472	0.631	27.02	69.22	62
Andaman & Nicobar Islands	0.574		0.857	20.99	81.18	69
Chandigarh	0.674		0.764	5.75	81.76	48
Dadra & Nagar Haveli	0.361		0.832	17.14	60.03	81
Daman & Diu	0.544		0.714	4.44	81.09	56
Delhi	0.624		0.690	8.23	81.82	54
Lakshadweep	0.532		0.680	15.60	87.52	91
Pondicherry	0.571		0.783	21.67	81.59	34
Uttaranchal					72.28	
Jharkhand					54.13	
Chhatisgarh					65.12	

There are considerable variations within States, such as the differences between the western and eastern parts of UP. These regional issues are often not analyzed because there is a data problem. Data are easier to obtain at the State level. There are 78 regions in the country, as per the NSS (National Sample Survey) classification. Based on these regions, the World Bank (2004) identifies 18 regions where human development is low – Central Bihar, Vindhya in Madhya Pradesh, Malwa in Madhya Pradesh, South Madhya Pradesh, Northern Madhya Pradesh, South Eastern Rajasthan, Tripura, Western Uttar Pradesh, Eastern Uttar Pradesh, Southern Uttar Pradesh, Jharkhand, Northern Bihar, Central Madhya Pradesh, Southern Orissa, Central Uttar Pradesh, Southern Uttar Pradesh, South Western Madhya Pradesh and Southern Rajasthan.⁴⁶ The issue of deprived districts has already been mentioned.

This is normally outside the purview of a conventional economic reform agenda. But India's ability to handle this regional problem will determine the transition towards developed country status. This is probably the most serious policy issue that confronts India today.

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⁴⁶ Also see, World Bank (2006).