The Indian Economy Since Independence

India Wins Freedom

On 14 August 1947, Nehru had declared: "Long years ago we made a tryst with destiny, and now the time comes when we shall redeem our pledge. The achievement we celebrate today is but a step, an opening of opportunity, to the great triumph and achievments that await us." He reminded the country that the tasks ahead included "the ending of poverty and ignorance and disease and inequality of opportunity". These were the basic foundations on which India embarked upon its path of development since gaining independence in 1947. The purpose of this talk is to analyze how much has India really achieved in the last 55 years in fulfilling the aspirations on which it was founded.

Indian Planning process

The objective of India's development strategy has been to establish a socialistic pattern of society through economic growth with self-reliance, social justice and alleviation of poverty. These objectives were to be achieved within a democratic political framework using the mechanism of a mixed economy where both public and private sectors co-exist. India initiated planning for national economic development with the establishment of the Planning Commission. The aim of the First Five Year Plan (1951-56) was to raise domestic savings for growth and to help the economy resurrect itself from colonial rule. The real break with the past in planning came with the Second Five Year Plan (Nehru-Mahalanobis Plan). The industrialization strategy articulated by Professor Mahalanobis placed emphasis on the development of heavy industries and envisaged a dominant role for the public sector in the economy. The entrepreneurial role of the state was evoked to develop the industrial sector. Commanding heights of the economy were entrusted to the public sector. The objectives of industrial policy were: a high growth rate, national self-reliance, reduction of foreign dominance, building up of indigenous capacity, encouraging small scale industry, bringing about balanced regional development, prevention of concentration of economic power, reduction of income inequalities and control of economy by the State. The planners and policy makers suggested the need for using a wide variety of instruments like state allocation of investment, licensing and other regulatory controls to steer Indian industrial development on a closed economy basis.

The strategy underlying the first three plans assumed that once the growth process gets established, the institutional changes would ensure that benefits of growth trickle down to the poor. But doubts were raised in the early seventies about the effectiveness of the 'trickle down' approach and its ability to banish poverty. Further, the growth itself generated by the planned approach remained too weak to create adequate surpluses- a prerequisite for the 'trickle down' mechanism to work. Public sector did not live upto the expectations of generating surpluses to accelerate the pace of capital accumulation and help reduce inequality. Agricultural growth remained constrained by perverse institutional conditions. There was unchecked population growth in this period. Though the growth achieved in the first three Five Year Plans was not insignificant, yet it was not sufficient to meet the aims and objectives of development. These brought into view the weakness of economic strategy. We discuss the failure of the planning process in more detail in the next section.

A shift in policy was called for. The Fifth Plan (1974-79) corrected its course by initiating a program emphasizing growth with redistribution. To accelerate the process of production and to align it with contemporary realities, a mild version of economic liberalization was started in the mid 1980s. Three important committees were set up in the early 1980s. Narsimhan Committee on the shift from physical controls to fiscal controls, Sengupta Committee on the public sector and the Hussain Committee on trade policy. The result of such thinking was to reorient our economic policies. As a result there was some progress in the process of deregulation during the 1980s. Two kinds of delicencing activity took place. First, thirty two groups of industries were delicensed without any investment limit. Second, in 1988, all industries were exempted from licensing except for a specified negative list of twenty six industries. Entry into the industrial sector was made easier but exit still remained closed and sealed.

Hence, the roots of the liberalization program were started in the late 80's when Rajiv Gandhi was the Prime Minister of India, but the reach and force of the reform program was rather limited. There were political reasons as to why this program could not be enhanced which we talk about later.

<u>The Failure of the Planning Process</u>

While the reasons for adopting a centrally directed strategy of development were understandable against the background of colonial rule, it, however soon became clear that the actual results of this strategy were far below expectations. Instead of showing high growth, high public savings and a high degree of self-reliance, India was actually showing one of the lowest rates of growth in the developing world with a rising public deficit and a periodic balance of payment crises. Between 1950 and 1990, India's growth rate averaged less than 4 per cent per annum and this was at a time when the developing world, including Sub-Saharan Africa and other least developed countries, showed a growth rate of 5.2 % per annum.

An important assumption in the choice of post-independence development strategy was the generation of public savings, which could be used for higher and higher levels of investment. However, this did not happen, and the public sector-instead of being a generator of savings for the community's good- became, over time, a consumer of community's savings. This reversal of roles had become evident by the early seventies, and the process reached its culmination by the early eighties. By then, the government began to borrow not only to meet its own revenue expenditure but also to finance public sector deficits and investments. During 1960-1975, total public sector borrowings averaged 4.4 % of GDP. These increased to 6 % of GDP by 1980-81, and further to 9 % by 1989-90. Thus, the public sector, which was supposed to generate resources for the growth of the rest of the economy, gradually became a net drain on the society as a whole.

I will now try to give some reasons for the deterioration of the public sector in India.

1) The legal system in India is such that it provides full protection to the private interests of the so called 'public servant', often at the expense of the public that he or she is supposed to serve. In addition to complete job security, any group of public servants in any public sector organization can go on strike in search of higher wages, promotions and bonuses for themselves, irrespective of the costs and

inconvenience to the public. Problems have become worse over time and there is little or no accountability of the public servant to perform the public duty.

2) The ‘authority’ of governments, at both center and states, to enforce their decisions has eroded over time. Government can pass orders, for example, for relocation of unauthorized industrial units or other structures, but implementation can be delayed if they run counter to private interests of some (at the expense of the general public interest).
3) The process and procedures for conducting business in government and public service organizations, over time, have become non-functional. There are multiplicity of departments involved in the simplest of decisions, and administrative rules generally concentrate on the process rather than results. There is very little decentralization of decision-making powers, particularly financial powers. Thus, while local authorities have been given significant authority in some states for implementing national programmes, their financial authority is limited.

Hence during early 90’s it was imperative for India to correct its clearly faulty developmental process. There have been several reasons put forward for the failure of the developmental path which necessitated the reforms of Manmohan Singh in 1991. The way I would approach the analysis is through the approach of comparing and contrasting the viewpoints of two of the most prominent Indian economists of our times.

The Bhagwati-Sen debate

Jagdish Bhagwati and Amartya Sen, probably the two most influential voices amongst Indian economists, represent the two divergent ways of thinking about the development path. Though formally no such debates exists, apart from occasional jibes against Sen in the writings of Bhagwati, I believe by scrutinizing their positions a lot of introspection can be done. As Bhagwati says “my view as to what went wrong with Indian planning is completely at odds with that of Prof Sen”. My objective in this section is bring out the intellectual divergence amongst these two great minds and possibly to learn something from that.

Let us start with the points on which they agree. I think the fact that India needs an egalitarian development path is quite well acknowledged by both of them. The Nehruvian dream of an egalitarian growth process was what both of them would endorse. As Bhagwati says "I have often reminded the critics of Indian strategy, who attack it from the perspective of poverty which is juxtaposed against growth, that it is incorrect to think that the Indian planners got it wrong by going for growth rather than attacking poverty: they confuse means with ends. In fact, the phrase "minimum income" and the aim of providing it to India's poor were very much part of the lexicon and at the heart of our thinking and analysis when I worked at the Indian Planning Commission in the early 1960's". The key strategy that defined the resulting developmental effort was the decision to target efforts at accelerating the growth rate. Given the immensity of the poverty, the potential of simple redistribution was considered to be both negligible in its immediate impact and of little sustained value. Accelerated growth was thus regarded as an instrumental variable; a policy outcome that would in turn reduce poverty. He goes on to argue "Those intimately associated in India's plans fully understood, contrary to many recent assertions, the need for land reforms, for attention to the possibility of undue concentration of economic power and growth in inequality. These 'social tasks', which of course also can redound to economic advantage, were attended to and endlessly debated in the ensuing years, with reports commissioned (such as the Mahalanobis Committee report on income distribution in 1962) and policies continually revised and devised to achieve these social outcomes".

If we follow the writings of Sen on the other hand, in his recent book "Development As Freedom", Sen argues that "the usefulness of wealth lies in the things that it allows us to do- the substantive freedoms it helps us to achieve….an adequate conception of development must go much beyond the accumulation of wealth and the growth of gross national product and other income-related variables. Without ignoring the importance of economic growth, we must look well beyond it". I don't think that there is any divergence of view on this front with that of what Bhagwati says. It is worth mentioning at this juncture that this has been a common misconception amongst economists about the divergence of two different developmental paths. It is often misunderstood that Bhagwati's view stresses just on economic growth while Sen argues against economic growth and the importance of markets. The above paragraphs reveal that this is certainly not the case. Both of them is sufficiently concerned with economic growth as well as the basic issues of poverty, health and social issues.

The points of divergence

I believe the real disparity concerns the means of achieving these common goals. Bhagwati's arguments can be summarized as follows. The development process consists of two steps. As a first step, a growth accelerated strategy would generate enhanced investments and whose objective was to jolt the economy up into a higher investment mode that would generate a much higher growth rate. The planning framework rested on two legs. First, it sought to make the escalated growth credible to private investors so that they would proceed to invest on an enhanced basis in a self-fulfilling prophecy. Second, it aimed at generating the added savings to finance the investments so induced. His argument crucially rested on the following logical theory. For the higher growth rate to achieve it is very important for the economy concerned to be open. If the effective exchange rate for exports over the effective exchange rate for imports (signifying the relative profitability of the foreign over the home market), ensured that the world markets were profitable to aim for, guaranteeing in turn that the inducement to invest was no longer constrained by the growth of the domestic market. It is worthwhile to recount India's performance as far as the public sector savings is concerned, which was considered a major hindrance towards the success of the Indian plans. Continuing with the argument, the generation of substantial export earnings enabled the growing investment to be implemented by imports of equipment embodying technical change. If the Social Marginal Product of this equipment exceeded the cost of its importation, there would be a 'surplus' that would accrue as an income gain to the economy and boost the growth rate.

The role of literacy and education comes at the next stage. The productivity of the imported equipment would be greater with a workforce that was literate and would be further enhanced if many had even secondary education. Now his argument is based on the fact that the enhanced growth would demand and lead to a more educated workforce. Thus he considers that primary education and literacy plays an enhancing, rather than initiating role in the developmental process.

Sen on the other hand considers a larger view of development. He believes that questions such as whether certain political or social freedoms, such as the liberty of political participation and dissent, or opportunities to receive basic education, are or not “conducive to development” misses the important understanding that these substantive freedoms are among the constituent components of development. Their relevance for development does not have to be freshly established through their indirect contribution to the growth of GNP or to the promotion of industrialization. While the causal relation, that these freedoms and rights are also very effective in contributing to economic progress, the vindication of freedoms and rights provided by this causal linkage is over and above the directly constitutive role of these freedoms in development.

I think that it is precisely at this point where some of Sen’s writings on economics and philosophy should be considered. According to Sen, economics as a discipline has tended to move away from focusing on the value of freedoms to that of utilities, incomes and wealth. This narrowing of focus leads to an underappreciation of the full role of the market mechanism. For example, take the example of the most important finding on the theory of the markets- the Arrow-Debreu equilibrium. That theorem shows that a competitive economic system can achieve a certain type of efficiency (Pareto efficiency to be precise) which a centralized system cannot achieve, and this is due to reasons of incentives and information problems. But if we suppose that no such imperfections do exist and the same competitive equilibrium can be brought about by a dictator who announces the production and allocation decision, then are these two outcomes the same? In a much celebrated paper, Sen brings out the distinction between “culmination outcomes” (that is, the only final outcomes without taking any note of the process of getting there) and “comprehensive outcomes” (taking note of the process through which the culmination outcomes come about). Along these lines we can argue that Sen would disagree with Bhagwati’s point of view in that it does not consider the “comprehensive outcomes”. Though the outcomes may be the same if we bring about a simultaneous increase in investments in education, health and other social activities, with that of growth, as against a framework where growth brings about a derived demand for those activities (a la Bhagwati), these are not the same thing.

So as we can see, the primary difference in the approach is that Bhagwati argues that poverty and social dimensions can be taken care of in the second step of the development process while Sen argues that social opportunity is a constitutive element in the developmental process. In this respect it is helpful to scrutinize the East Asian case, where countries like Japan, South Korea, Taiwan (so called Asian Tigers) achieved phenomenal rates of growth in the 80's and much of the early 90's. The interesting fact about these countries is that they achieved this with a significant high record on the social dimensions. Both Bhagwati and Sen has commented directly on the achievement of these countries. As Bhagwati states "The East Asian investment rate began its take-off to phenomenal levels because East Asia turned to the Export promotion (EP) strategy. The elimination of the 'bias against exports', and indeed a net excess of the effective exchange rate for exports over the effective exchange rate for imports (signifying the relative profitability of the foreign over the domestic market), ensured that the world markets were profitable to aim for, guaranteeing in turn that the inducement to invest was no longer constrained by the growth of the domestic market as in the IS strategy".

I personally think that there is nothing disputable in this analysis but it does not strengthen his argument that the social achievements in these countries followed their phase of growth. In fact the pioneering example of enhancing economic growth through social opportunity, especially in basic education, is Japan. Japan had a higher rate of literacy than Europe even at the time of the Meiji restoration in the mid nineteenth century, when industrialization had not yet occurred there but had gone on for many decades in Europe. The East Asian experience was also based on similar connections. The contrasts between India and China are also important in this aspect. The governments of both China and India has been making efforts for sometime now to move toward a more open, internationally active, market-oriented economy. While Indian efforts have slowly met with some access, the kind of massive results that China has seen has failed to occur in India. An important factor in this contrast lies in the fact that from a social preparedness standpoint, China is a great deal ahead of India in being able to make use of the market economy. While pre-reform China was deeply skeptical of markets, it was not skeptical of basic education and widely shared health care. When China turned to marketization in 1979, it already had a highly literate people, especially the young, with good schooling facilities across the bulk of the country. In this respect, China was not very far from the basic educational situation in South Korea or Taiwan, where too an educated population had played a major role in seizing the economic opportunities offered by a supported market system.

Indeed it is often argued that it is a mistake to worry about the discord between income achievements and survival chances-in general- the statistical connection between them is observed to be quite close. It is interesting, in this context, to refer to some statistical analyses that have recently been presented by Sudhir Anand and Martin Ravallion. On the basis of intercountry comparisons, they find that life expectancy does indeed have a significantly positive correlation with GNP per head, but that this relationship works primarily through the impact of GNP on (I) the incomes specifically of the poor and (2) public expenditure particularly in health care. In fact, once these two variables are included on their own in the statistical exercise, little extra explanation can be obtained from including GNP per head as an additional causal influence. The basic point is that the impact of economic growth depends much on how the fruits of economic growth are used.

Sen argues that a focus on issues on basic education, basic health care and land reforms made widespread economic participation easier in many of the East Asian and Southeast Asian economies in a way it has not been possible in, say, Brazil or India, where the creation of social opportunities has been much slower and that slowness has acted as a barrier to economic development. I believe that one has to take note of the examples of say, Sri Lanka, the Indian State of Kerala or pre-reform China where on the contrary, impressive high life expectancy, low fertility, high literacy and so on, have failed to translate into high economic growth. I would like to see a theory which explains this. But to elucidate Sen’s view, he would rather prefer a situation of that of Kerala or Sri Lanka than that of Brazil or India.

I would suggest that what one needs is such critical studies which would illuminate the failure of Brazil on one hand as against Sri Lanka on the other, to illustrate the fact that why an egalitarian growth process was not successfully implemented in these cases. We will have useful lessons to learn in that case for the future of development. The debate between Bhagwati and Sen (or rather the created debate in this paper) gives rise to such an agenda.

The Reforms of Manmohan Singh

At the beginning of 90's the reform process was started by the then Finance Minsiter of India, Manmohan Singh. The way I will organize this section is the following: First, I will give a short summary of the reform process , in the sense what were its general goals and ideas. Then I will mention some aspects of the reforms which I think are very encouraging. After that I will scrutinize the reforms more stringently in order to assess whether there is real cause for such jubilation that we tend to observe regarding India.

(i) The Background: India's economic reforms began in 1991 under the Narsimha Rao Government. By that time the surge in oil prices triggered by the Gulf War in 1990 imposed a severe strain on a balance of payments already made fragile by several years of large fiscal deficits and increasing external debt as was discussed before. Coming at a time of internal political instability, the balance-of-payments crises quickly ballooned into a crisis of confidence which intensified in 1991 even though oil prices quickly normalized. Foreign exchange reserves dropped to $1.2 billion in 1991, barely sufficient for two weeks of imports and a default on external payments appeared inevitable. The shortage of foreign exchange forced tightening of import restrictions, which in turn led to a fall in industrial output.

A digression: The politics of reforms

In a very engaging article on the politics of reforms Ashutosh Varshney has raised an extremely important question as to why was India's minority government in 1991 successful in introducing economic reforms, whereas a much stronger government, with a three-fourth majority in parliament, was unable to do so in 1985 (under the Prime Ministership of Rajiv Gandhi)? His argument draws a distinction between mass politics and elite politics. He believes that "this distinction has not been adequately appreciated in the voluminous literature on the politics of economic reforms. Scholars of economic reforms have generally assumed that reforms are, or tend to become, central to politics. Depending on what else is making demands on the energies of the electorate and politicians- ethnic and religious strife, political order and stability, corruption and crimes of the incumbents- the assumption of reforms centrality may not be right". In the largest ever survey of mass political attitudes in India conducted between April-July 1996, only 19 percent of the electorate reported any knowledge of economic reforms, even though reforms had been in existence since July 1991. Of the rural electorate, only about 14 per cent had heard of reforms, whereas the comparable proportion in the cities was 32 per cent. Further nearly 66 percent of the graduates were aware of the dramatic changes in economic policy, compared to only 7 per cent of the poor, who are mostly illiterate. In contrast, close to three-fourths of the electorate – both literates and illiterates, poor and rich, urban and rural- were aware of the 1992 mosque demolition in Ayodhya; 80 per cent expressed clear opinions about whether the country should have a uniform civil code or religiously prescribed and separate laws for marriage, divorce, and property inheritance; and 87 per cent took a stand on caste-based affirmative action. Thus according to Varshney, elite politics is typically expressed in debates and struggles within the institutionalized settings of a bureaucracy, of a parliament or a cabinet. Mass politics takes place primarily on the streets. In democracies, especially poor democracies, mass politics can redefine elite politics, for an accumulated expression of popular sentiments and opinions inevitably exercises a great deal of pressure on elected politicians. The economic reform's during 1991 kept progressing because the political context had made Hindu-Muslim relations and caste animosities the prime determinant of political coalitions. The reforms were crowded out of mass politics by issues that aroused greater passion, and anxiety about the nation. And hence the reforms could go as far as they did.

(ii) The Reforms in a Nutshell: The reforms had two broad objectives. One was the reorientation of the economy from a statist, centrally directed and highly controlled economy to what is referred to in the current jargon as a 'market-friendly economy'. A reduction direct controls and physical planning was expected to improve the efficiency of the economy. It was to be made more ‘open’ to trade and external flows through a reduction in trade barriers and liberalization of foreign investment policies. A second objective of the reform measures was macro-economic stabilization. This was to be achieved by substantially reducing fiscal deficits and the government’s draft on society’s savings.

(iii) Results: Compared with the historical trend, the impact of these policies has been positive and significant. The growth rate of the economy during 1992-93 to 1999-2000 was close to 6.5 per cent per annum. The balance of payments position has also substantially improved. Despite several external developments, including the imposition of sanctions in 1998 and sharp rise in oil prices in 2000-01, foreign exchange reserves are at a record level. Current account deficits have been moderate, and India’s external debt (as a percentage of GDP) and the debt servicing burden have actually come down since the early nineties. There is also evidence of considerable restructuring in the corporate sector with attention being given to cost-competitiveness and financial viability. The rate of inflation has also come down sharply.

(iv) A Closer Scrutiny: When we talk about GDP growth we talk about the aggregate figures. Let us closely look at the sectoral composition. If we look at the growth rates with respect to different sectors we find that the growth rates of agricultural and industrial production have not increased at all in the nineties, compared with the eighties. The increase in overall growth in the 1990’s is overwhelmingly driven by accelerated growth of the ‘service’ sector. The service sector includes some very dynamic fields, such as uses of information technology and electronic servicing, in both of which India has made remarkable progress. This was largely a result of the liberalization policies initiated by Manmohan Singh. Similar comments apply to the phenomenal expansion of software-related export services. Now the relevant question is, what is wrong in the fact that the services sector is driving the growth process in India? What is a bit disturbing is the fact that it is not clear as to the extent to which the rapid growth of the service sector as a whole contributes to the generation of widely-shared employment, the elimination of poverty, and the enhancement of the quality of life. And also employment in the service sector is often inaccessible to those who lack the required skills or education. The current restructuring to the Indian economy towards this skill and education-intensive sector reinforces the resources to a certain section of the society.

How has the Reforms been successful in creating a widely shared developmental process?

The issue as to whether the reforms have been successful in eliminating poverty to a greater extent than say in the 80's is a contentious issue. Experience prior to the 1990s suggests that economic growth in India has typically reduced poverty. Using data from 1958 to 1991, Ravallion and Datt (1996) find that the elasticity of the incidence of poverty with respect to net domestic product per capita was –0.75 and that with respect to private consumption per capita it was –0.9. However, the 1990s are more contentious. Some observers have argued that poverty has fallen far more rapidly in the 1990s than previously (for example, Bhalla, 2000). Others have argued that poverty reduction has stalled and that the poverty rate may even have risen (for example, Sen, 2001). The basic question of measuring India's poverty rate has turned out to be harder to answer than it needed to be because of difficulties with coverage and comparability of the survey data. Correcting for all those, Datt and Ravallion in a recent study find that India has probably maintained its 1980s rate of poverty reduction in the 1990s, though they do not find any convincing evidence of an acceleration in the decline of poverty. It is probably apt to remark here that oftentimes the public rhetoric fails to take the incomparability problems in the surveys from which the poverty estimates are calculated and try to interpret the estimates to reinforce their particular arguments. Even the Finance Minister's 'budget speech' of Feb 2001 concluded firmly that 'poverty has fallen from 36 percent in 1993-4 to 26 percent or less now'. It is worth noting that even if one were to endorse the official 1999-2000 headcount ratio of 26 per cent, which is known to be biased downwards, one would find that poverty reduction in the 90s has proceeded at a similar rates as in the earlier decades, in spite of a significant acceleration in the economic growth rate. As things stand, this is the most optimistic reading of the available evidence.

All of the estimates were made with respect to head-count indexes. I think it is necessary to move away from this narrow index and to consider a broader range of social indicators. Much of the debate in this area has focused on what has happened to expenditure on social sector development in the post reform period. Dev and Mooji (2002) find that central government expenditure toward social services and rural development increased from 7.6 per cent of total expenditure in 1990-91 to 10.2 percent in 2000-01. During the first two years of the reforms when the fiscal stabilization constraints were dominant it dipped a little, but after that it increased. However, expenditure trends in the states, which accounts for 80 percent of total expenditures in this area, show a definite decline as a percentage of GDP in the post-reform period. Taking central and state expenditures together, social sector expenditure has remained more or less constant as a percentage of GDP.

Starting with areas of concern, the decline of infant mortality appears to have slowed down in recent years. During the 80s India achieved a reduction of 30 per cent in the infant mortality rate – from 114 to 80 between 1980 and 1990. During the 90s, however, the infant mortality rate declined by only 12.5 per cent- from 80 to 70.

Similarly, the growth rate of real agricultural wages fell from over 5 percent per year in the 1980’s to 2.5 percent or so in the 1990s. Given the close association between real agricultural wages and rural poverty, this pattern is consistent with the belief that poverty has continued to decline in the 90s, but perhaps at a slower rate than in the 80s.

At the same time it is worth noting that literacy has greatly improved during the reforms. The literacy rate increased from 52 percent in 1991 to 65 percent in 2001, a faster increase in the 1990s than in the previous decade, and the increase has been particularly high in some of the low literacy states such as Bihar, Madhya Pradesh, Uttar Pradesh and Rajasthan.

Lastly it is important to note the rising economic inequalities of the 90s. Two aspects are well established. First, inter state economic disparities have risen in the 90s, when states that were already comparatively advanced (notably in the western and southern regions) grew particularly fast. Second, there is also strong evidence of rising rural-urban disparities in the 90s, as one might have expected given the sectoral imbalances discussed earlier. As Datt and Ravallion comment “We find large differences across states in the poverty impact of any given rate of growth in nonagricultural output. States with relatively low levels of initial rural development and human capital development were not well suited to reduce poverty in response to economic growth. Our results are thus consistent with the view that achieving higher aggregate economic growth is only one element of an effective strategy for poverty reduction in India. The sectoral and geographic composition of growth is also important, as is the need to redress existing inequalities in human resource development and between rural and urban areas."

Conclusion

Let us go back to Bhagwati-Sen debate which was used as a theoretical underpinning for my analyses on the developmental process since Independence. As Bhagwati argues, "India had a major setback in her planning process when she turned inwards following the balance of payments crises in 1956-57. The explicit strategy of an IS strategy (Import Substitution) was desired then, reflecting the economic logic of elasticity pessimism that characterized the thinking of Indian planners. The result was that the inducement to invest in the economy was constrained by the growth of demand from the agricultural sector and the public sector savings. But agriculture has grown nowhere by more than 4 per cent per annum over a sustained period of over a decade. And we discussed the issue of public sector savings earlier. By contrast, the East Asian investment rate began its take-off to phenomenal levels because East Asia turned to the Export Promotion strategy. In that case, the world markets were profitable to aim for, guaranteeing in turn that the inducement to invest was no longer constrained by the growth of the domestic market as in the IS strategy." Hence the liberalization program of Manmohan Singh in 1991 was a welcome step towards achieving the logic which has been argued by Bhagwati. Unfortunately, the second step of the developmental process, that of derived demand for education and other social issues, have been far from being realized atleast a decade after the reform process.

On the other hand, Sen's contention that the planning process failed was because of the government's complete neglect throughout of issues on literacy, health and other social indicators. The fact that the reform process did actually achieve a higher growth rate in the 90's with the opening up of the economy is actually received quite encouragingly by Sen (as against some assertions made on the contrary). But I personally believe that he is critical of the fact, that inspite the achievement in the growth rate, the governmental neglect on the above mentioned issues still continues. In fact during the 90’s the concerns have become more stark in some sense, whereas India has achieved a respectable growth rate while on the other hand problems on literacy, health, living conditions continue to exist at an increasing rate. So he would argue that the reform process is largely an incomplete work.

While I agree to Sen’s views I think there is one issue that he often ignores in his writings. It’s a kind of counterfactual reasoning but nonetheless it is important. The situation that India faced in the early 90’s (which led to the reform process in the first place) was an extreme situation. Hence Manmohan Singh’s initial years as Finance Minister was trying to cope up with this crises in some sense. Given budget constraint considerations it was impossible for Dr Singh to allocate more resources into those neglected issues. According to Dr Singh, the government had planned more resources for health, education and social sectors after the economy recovered from the crises. Unfortunately the Congress government had to leave soon given the rise of BJP and its subsequent control of the Parliament. Hence I think, that Manmohan Singh’s achievements have to be evaluated in this light given the initial conditions from which he started. It would have been likely that India would have fallen into a situation such as that of Argentina in the current years, if not because of the timely reform process. In this aspect I think Prof Sen often ignores the feasibility issue and the conditions in which the reform process started.

Nonetheless, given the rhetoric of the ‘market economy’ being so loosely used in a lot a contexts, a voice like Amartya Sen is extremely important. Otherwise we would be left gloating in our achievements without sufficient introspection in the neglected dimensions of our economy.