Danger Zones of High Economic Growth

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The powerful feedback mechanism of raising growth and inequality simultaneously combines restraint on government welfare spending, wilful default of bank loans by corporate houses and land acquisition for them. This creates not just a vicious circle but a rising and expanding spiral driven by a strategy of promoting the climate for private investment.

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The Indian economy is like the proverbial glass with some water. For the optimist the glass is half full; for the pessimist the glass is half empty. According to the latest government calculation (base year changed from 2004–05 to 2011–12, *Economic Survey* 2015–16) the gross domestic product (GDP) growth rate increased from 7.2% in 2014–15 to 7.6% in 2015–16. When compared to the world GDP growth rate of 3.1%, it has been claimed that the Indian economy is the fastest growing major economy in the world. According to another estimate, GDP increased about more than sevenfold in current prices in the last two decades. With higher than world average growth, India's share increased from 4.8% of the world GDP in 2001 to 7% into 2016 creating the impression that India is emerging as a global economic power. And yet, the Indian economy remains among the poorest economies in the world; even among its immediate neighbours. With a per capita GDP (on purchasing power parity basis) measured at $5,214 in 2013 this is 54% lower than that of Maldives, 44% lower than that of Sri Lanka and 27% lower than that of Bhutan (UNDP 2015). In other words, even ignoring all problems of income distribution implied by the per capita measure, India is still a very poor country.

Turning to the pessimistic side, the conditions of the majority of people in terms of health, education, housing, old-age security, gender, caste or religious divide are simply dismal. Infant mortality rate per 1,000 live births in 2013 for India was 41.1, lagging by far Sri Lanka (8.2), Maldives (8.4), Bhutan (29.7), even Nepal (32.2) and Bangladesh (33.2). Only Pakistan and Afghanistan among our neighbours did worse. The situation remains more or less unchanged with under-five mortality rates. Nearly two million children die every year of which more than one-fourth (28%) are linked to unsafe drinking water and poor sanitation. Over half (60%) are underweight, and nearly half (45%) have stunted growth. Approximately 60 million, that is, nearly half of India's child population, are crippled by poverty in one way or another (Chakravarti 2016).

With literacy rate at 62.8% of the population aged 15 years and above, India again lags Maldives and Sri Lanka as it does on the gender index. India's female labour force participation rate is a low 27% against the global average of 50%, the third lowest among Asian countries, only above Afghanistan (15.8%) and Pakistan (24.6%). Placed 130th among 180 countries, India may be said to be emerging as one of the fastest growing economies in the world with the largest number of undernourished and illiterate children in the world, with gross caste, religious and gender inequality; and yet dreaming to be a superpower!

It is no news that desperate poverty has coexisted with faster or slower growth in India throughout the post-independence period. It used to be said that India's democratic ways are slower but steadier. While growth performance has varied considerably, there has been far less impact on poverty with or without liberalisation, and the biggest populous show of democracy.

Poverty is usually viewed in absolute or relative terms. People below the "poverty line," defined by some arbitrary minimum nutritional standard, and more recently, an even more arbitrary income standard, are considered absolutely poor. Relative poverty concerns inequality between the rich and poor, no matter whether the poor still remain absolutely poor or not by some definition. Although one can easily play with numbers by changing definitions (example: the World Bank recently claimed only 12% are poor, although the economic mechanism by which this miracle was performed remains mysterious), the overall situation is generally agreed. Between one-third and one-fourth of

Indians live in absolute, subhuman poverty. Broadly speaking, with approximately one-sixth of world population, India has slightly more than one-third of the absolutely poor people in the world, that is, absolute poverty is twice as high in India as it is in the rest of the world. By another estimate provided by the National Commission for Enterprises in the Unorganised Sector (NCEUS), 77% people in India lived with less than ₹20 a day in 2005, which indicates the extent of overlap between absolute and relative poverty. As should be obvious, the poverty line is a fuzzy band rather than a sharp line, and that is why one needs to consider relative poverty.

Definite changes have taken place in the relative poverty or inequality scene during recent years of high growth. It is known from various estimates (Gini coefficient, top 20% to bottom 20% income ratio, urban–rural divide, etc) that inequality in India is increasing steadily along with high growth marked by rapid enrichment at the top. An indication of growing inequality recently brought out in *Credit Suisse Global Wealth* Databook (2014) claimed that the top 1% held 37% of the wealth of the country in 2000 which increased to 53% by 2016. Between 2001 and 2016 the top 1% cornered 61% of all the increase in wealth which was estimated at $2.28 trillion. The top 10% now holds at least 70% of the wealth in India. *Forbes*' dollar billionaire list confirms this impression. India had only two persons in that list of "extremely high net worth individuals" (HNWI) in 1995, 46 persons in 2012, and 55 persons in 2014. *Forbes* jubilantly claimed that, for the first time, the top 100 richest in India are all dollar billionaires (Rukmini 2014).

And yet, these estimates conceal more than they reveal. Global Financial Integrity (GFI)-estimated cumulative illicit money between 2003 and 2012 amounted to $439 billion which is about 2.5 times the wealth of the 55 richest individuals in India.

If faster growth simply coexisted with extreme inequality at the top, it would only be a description explaining little. One must look for the method in the madness. The method is largely deliberate and policy-induced in recent years. It can be identified as a mechanism of mutually reinforcing tendencies, which an engineer might call a strong destabilising positive feedback mechanism. Many years ago, in analysing American race relations, the famous Swedish economist Gunner Myrdal had called it "cumulative causation." Through this mutual feedback, higher growth breeds greater inequality, and greater inequality promotes even higher growth in a rising spiral. From this point of view, the much debated issue of higher growth versus redistribution among some noted economists is misplaced. Because of their mutualism, one provides sustenance to the other, and cannot continue in isolation.

The mechanism has different degrees of visibility. The most visible part is restraint on public expenditure by the government, especially on education, health and housing. This hits the poor most directly because it is their children who need subsidised education, health and housing. The most frequently heard justifications for restraint on social expenditure run along the line that the government does not have enough money, cannot tax more (only 1.5% of India's population pay direct tax) and requires fiscal discipline. And yet, a better explanation lies in a secret code linked to financial globalisation.

As India becomes more open to international financial flows, despite a persistent current account deficit, an apparently comfortable foreign exchange situation is maintained by paying more attention to the sentiments of the financial markets to avoid capital flight. Unlike in the case of China, which is a persistent export surplus country, India enjoys a relatively large reserve of foreign exchange because of a large amount of foreign money parked in short- and long-term financial assets (portfolio investments) in India. That money would not suddenly begin to fly out of India provided she has a comfortable credit rating. Credit rating for private corporations is done by private agencies; a similar job is performed indirectly by the International Monetary Fund (IMF) and the World Bank by rating developing countries. A favourable recommendation from them is an assuring signal for private financial firms and corporations to bring in and park foreign exchange in a country. This is the real significance of these Bretton Woods institutions for India, not the relatively small amount of loan they might offer compared to private capital inflows in a financialised world.

Role of Government

These institutions propound the economic philosophy that governments should be small with maximum space left for the private sector. As a result, restriction on government spending is insisted upon for obtaining a high credit rating. It explains the mystical importance given to lower fiscal deficit as an indicator of the health of the economy as well as the restraint on welfare expenditure affecting mostly the poor. At the same time politicians, economists and commentators claim in chorus that the government is so inefficient that the delivery of basic services should be handed over to the private sector through deregulation and privatisation as a way of cutting public expenditure. This has become a standard recipe of economic reform.

However, smallness of government is more appearance than reality. It is rather the role of the government that has been changing rapidly in its relationship with the private sector. This can be most easily seen in terms of the question of subsidy itself. Revenue forgone on various heads by the government to help corporations is estimated roughly at ₹2.1 trillion (lakh crore or 10^{12}), while subsidies to the poor are at ₹2.2 billion, the same order of magnitude during the first one and a half decades of this century.

Traditional tax breaks and other revenues forgone are the conventional measures of government's support to industry. It is justified in the name of promoting the "private investment climate" under fiscal discipline of various sorts, like reducing the fiscal deficit, etc. However, this discipline does not apply to large private business. A scheme of providing hidden subsidies to large business through nationalised banks surfaces from time to time as non-performing assets (NPAs), estimated anywhere between ₹5 billion and ₹10,000 billion or ₹5 trillion and ₹10 trillion (a recent estimate puts it at ₹6.3 trillion

for the 36 largest banks) (Majumdar 2016). According to the banks' own calculation, ₹15–₹30 billion, that is, 10%–20%, is wilful default; but even the remaining 80% shows either nationalised banks deliberately underestimated the commercial viability of the projects or business conditions are so uncertain in India that a majority of loans are unlikely to be recovered from large corporations.

Large defaults are tolerated with amazing ease by successive governments; neither the government nor the banks, not even the Reserve Bank, wants to rock the boat by at least making public the list of large defaulters. At the moment they are lying in a sealed cover with the Supreme Court for not tarnishing their reputations. (Recall that the Radia tapes were held back at the direct intervention of the then Prime Minister's Office, and legally justified as violating the "privacy" of the Tatas!) The asymmetry should not go unnoticed. When farmers default because of bad weather and crop failure, they may be driven to suicide, but the investment climate for the small farmer, investment for a bore well gone wrong, does not matter. If loan is waived for farmers under distress, many economic pundits raise their voices in the media about wasted public money; but mainstream media remains remarkably silent about large business default because they know which side of their own paid advertisement bread is buttered (Vijay Mallya's case is an exception proving the rule).

However, even wilful default of bank loans endangering the health of the banking system is insignificant compared to the most dangerous route increasingly being taken by the government. Successive governments have found a way of incentivising the private sector for improving the climate for private investment through the allocation of land and natural resources, like common property resources of grazing land, forests, mountains, mineral resources, coastlines, rivers and waterbodies, and even spectrum allocation in the skies. Under successive recent versions of the land acquisition bill, the government acquires land for "public purpose," defined and redefined in various drafts, at a low compensation price to the owners of the lands. Those with traditional user-right on the land and other common property resources for their livelihoods, like tenants, agriculture workers, nomadic tribes engaged mostly in animal husbandry, boatmen, fisherfolk and forest dwellers, are usually excluded from compensation.

Thus the acquisition of land results in massive destruction of livelihoods. The natural resources are given to the corporations at throwaway prices in the name of industrialisation. In effect, this is a huge transfer of public wealth to private corporations. Indeed some 60% of the extremely wealthy individuals in *Forbes*' recent international "rich list" can be counted approximately as having benefited directly or indirectly from transfer of natural resources. If privatisation created many overnight multibillionaires at the time of the breakdown of former Soviet Union, India's way has been creating multibillionaires through allocation of land and natural resources snatched from the poorest, with around 40% of the displaced being Adivasis and Dalits, according to government reports.

The powerful feedback mechanism of raising growth and inequality simultaneously combines restraint on government welfare spending, wilful default of bank loans by corporate houses and land acquisition for them. This creates not just a vicious circle but a rising and expanding spiral driven by a strategy of promoting the climate for private investment. Aggregate statistics are hard to come by, but straws in the wind show the direction. Fernandes finds Orissa had used some 40,000 ha for industries between 1951 and 1995, but planned to acquire 40,000 ha more in the succeeding decade. Levien (2015) finds the Rajasthan State Industrial and Development Corporation acquired twice the amount of land in the 1990s than in the previous decade. The acquisition shot up again during 2005–08 and a similar pattern in seven major states except Gujarat where land acquisition happened earlier (quoted from various sources by Chandra 2015). There is also some unofficial evidence that NPAs of nationalised banks accelerated, as did the outflow of black money.

Although land and other natural resources are being transferred at an accelerating rate to promote the climate for private investment, in reality it actually perverts instead of stimulating the investment incentive. It opens a far more effective way for corporations to acquire more wealth in a shorter period than profit from production would have made possible. Speculative land hoarding for future capital gains, its diversion to real estate, or simply leaving minerals

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According to the 2012–13 Comptroller and Auditor General Report of the Government of India, on the land acquired for special economic zones (SEZs) initiated in 2005, at least 38% remains unutilised; manufacturing industries accounted for only 9%, while 8% of the employment target has been met. "Land banks" created in some states of India hold acquired land from which large industrial houses and companies choose land in suitable locales with considerable time lags. On the one hand, land acquisition defeats even its own purpose of promoting corporate investment. On the other hand, the massive destruction of livelihoods caused by land acquired from the natural agricultural sector creates far fewer jobs than it destroys. However, even with fewer corporate jobs created, the much higher labour productivity of the corporate sector more than compensates for the output lost through destruction of livelihoods in the natural sector. Based on rough estimates from national accounts statistics (2012), average labour productivity (output per worker) in the corporate sector is at least 12 times higher than in the natural agricultural sector. Thus, if 24 people lose their livelihoods on account of land acquisition, and only three people are employed in the corporate sector, output worth $3 \times 12 = 36$ is created, while output lost in the natural sector is, $24 \times 1 = 24$, that is, output increases by (36 – 24 =) 12, while employment decreases by (24 – 3 =) 21. The result is much talked about jobless growth.

What Drives Jobless Growth

Two tendencies drive jobless growth. There has been relentless pressure, often translated into an obsession about international competitiveness, which translates into increasing labour productivity under globalisation. The pressure is to reduce labour cost per unit of output, force labour discipline as well as greater quality control. This is achieved through greater mechanisation and automation with shrinking job opportunities. An extreme case is not manufacturing, but some infrastructure like large dams for power generation mostly for industry. The mega Dhauliganga dam in Uttarakhand displaced more than one lakh people to provide direct employment to only 198 persons (Agarwal 2013). A recent report (2016) in the *Hindu* claims that the proposed Vizhinjam port in Kerala allotted to the Adani business group would create 2,000 local jobs, and displace 50,000 fisher-people, in addition to further loss of employment on account of tourism and related industries. Most of those displaced from land through acquisition are forced into various types of low earning livelihoods in the informal sector which often operates in the twilight zone between legality and illegality. Housing, water and electricity connections, vendor rights, etc, are ill defined or uncertain in this sector which accounts for 92% of the total labour force. In worst cases, those who cannot even make it to the informal sector join the hardcore poor, a sacrifice of people offered to the altar of high growth.

Development by dispossession with jobless growth is the inevitable outcome, because large modern industry cannot absorb all the displaced people due to deficient demand and limited size of the domestic as well as foreign market. Speculative holding of allotted land, by perverting the investment incentive, only exacerbates the problem. Economists and politicians who celebrate corporate-led industrialisation as "creative destruction" by capitalism tend to forget the fact that labour absorption by industry is so slow that it gradually undermines the legitimacy of democracy. Unlike today's western democracies which industrialised over 50 to 100 years, the time scale of employment creation is simply incompatible with political legitimisation through elections with universal voting rights at regular five-year intervals.

As the saying goes, "if Mohammed does not go to the mountain, the mountain would come to him!" If high output growth driven by corporations cannot acquire democratic legitimacy, the notion of legitimacy has to be altered to suit corporations. A "democratic" route for this has been found. Corporations donate a fraction of their wealth, acquired through transfer of natural resources, to political parties. This is not just return of favour that surfaces regularly as personal corruption of politicians; more importantly, it intends ensuring continuation of similar policies, which make it systemic or policy corruption. In the competitive game of parliamentary democracy, no political party, irrespective of its pronouncement and colour wants to be left behind. So, when in power they follow similar policies, when in opposition, they try to gain public legitimacy by becoming virulent critics of the very same policies. It becomes a race to the bottom in pleasing corporations when in power, and a race to the top in criticising them when out of power!

Political parties rapidly lose credibility, but the show of this apparently competitive democracy can continue. Disconnected from the people, political parties fuse into a homogeneous mass, differentiated only by high-sounding slogans. A long tunnel full of such noises is indeed being dug to hollow out the content of popular participation, leaving intact the shell of a democracy. At the end of this tunnel is the lure of a globalised India of a small minority of world-class rich citizens living within the high walls of an oligarchic democracy shopping with abandon in an unfettered global free market economy. The majority of poor Indian citizens must be kept out of the wall as barbarians. They would have no eyes to see evil, no ears to hear evil, no voices to speak evil against the regime. They would be made invisible.

At least that is the hope!

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