

Political Success, Economic Challenges

The Untold Story of India

Barun S. Mitra
Liberty Institute, New Delhi
www.libertyindia.org

Thriving Democracy

- The largest democracy
- Free press
- 40 year of one party dominance
- Given way to extremely competitive politics
- Lowest re-election rate
- Freedom of Choice
- Politics of patronage

Stifled Economy

- Closed Economy for most of first 40 years
- Share of world trade declined from 1.5% in 1947 to 0.7% in 1997
- License and Permit restricting economic activity
- Economics of scarcity
- Politics of patronage
- Rent seeking and Corruption

Liberty Institute

3

Indian Growth Rate

Period	1950-1980	1980-1990	1990-2000
Annual Real GDP Growth	3.7%	5.9%	6.2%
Annual Real GDP per Capita Growth	1.5%	3.8%	4.4%

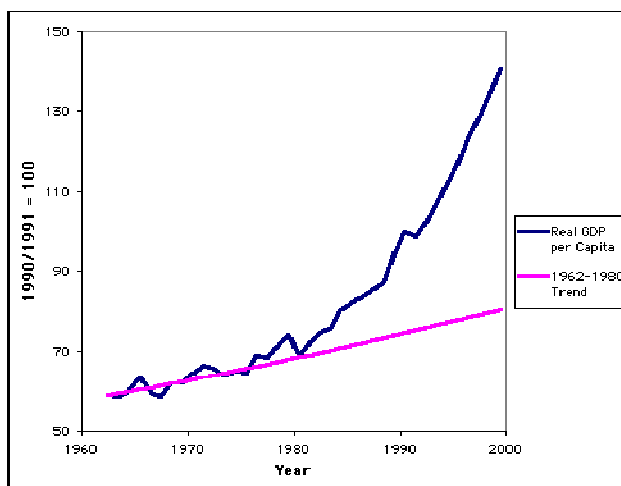
Source: IMF

*8% growth rate over the next 20 years, by 2025,
India would be where the US economy is today*

Liberty Institute

4

Growth of Real GDP per Capita



Source: IMF

Liberty Institute

5

Indian Agriculture

	1950	1960	1970	1980	1990	2000
Food grain production (mt)	52	82.0	108.4	129.6	176.4	201.8
Food grain import	N.A.	10.4	7.5	0.8	0.3	N.A.
Buffer Stock with govt.	N.A.	2.0	N.A.	15.5	20.8	40.0
Population (million)	330	436.0	548.0	683.0	846.0	1000.0

By 2050, India is expected to have a population of 1600 million.
To feed herself, she will need to produce 600 mt of foodgrain annually.

Liberty Institute

6

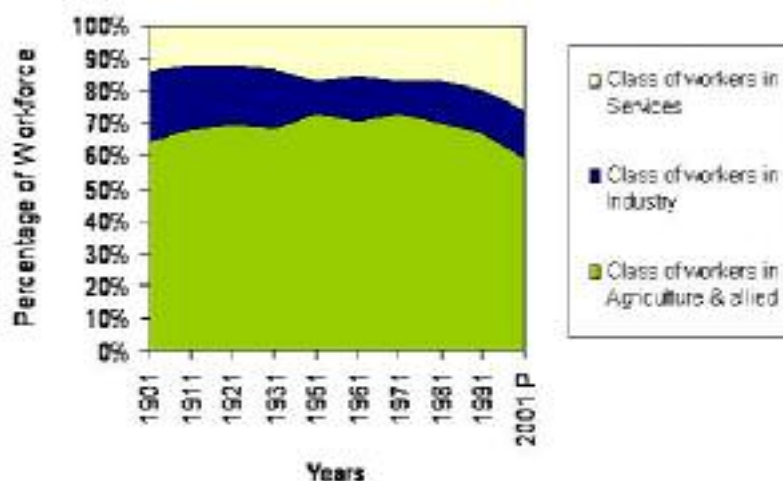
Economic Challenges

- Agriculture's share of GDP has fallen from 75% in 1950 to 25% today
- 60% of the population still dependent on agriculture today
- Low productivity, Low investment,
- Agriculture synonymous with poverty

Liberty Institute

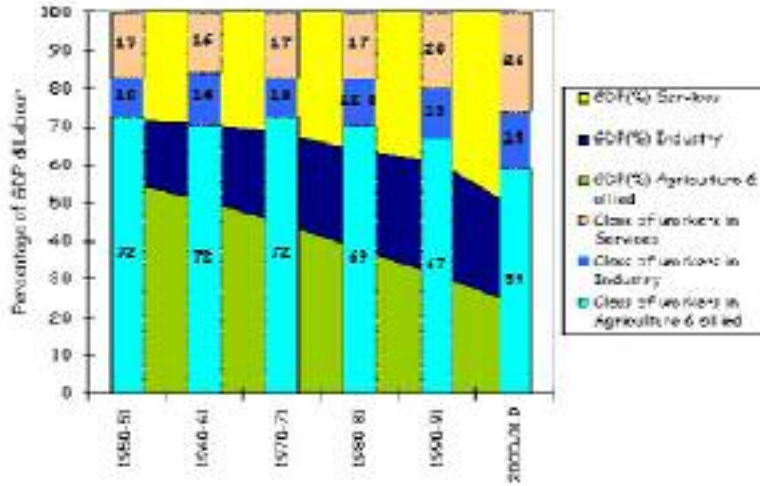
7

Unchanging face of Indian Labour



8

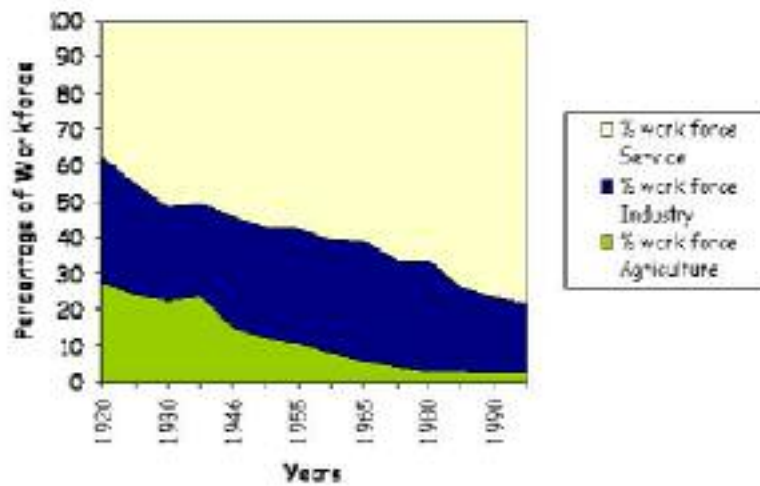
Changing Economy, Unchanged Labour



Liberty Institute

9

Changing Face of US Labour



Liberty Institute

10

Labour productivity

measured as agriculture value added per worker 1995 \$ for period 1998-2000

Low Income

- 138 in Ethiopia,
- 225 in Kenya,
- 397 in India,
- 321 in China

High Income

- 33765 in Australia,
- 34938 in United Kingdom,
- 36597 in Canada,
- 54090 in Denmark

Liberty Institute

11

Indian Workforce

- 600 million voters
- 410 million in workforce
- 90% in unorganised sector
- 60% in agriculture and related industry
- 10% in organised public and private sectors
- 7% unemployment, hides gross underemployment and very low productivity
- 32% of unorganised workforce has primary level education
- 5% of workforce in age group 20-24 years has some vocational skill

Liberty Institute

12

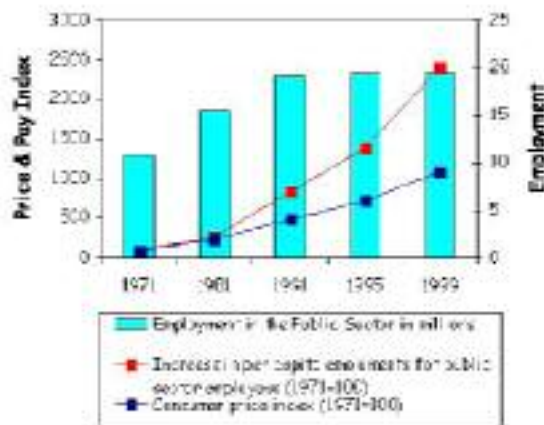
Labour Trouble

- Jobless growth
- 8.7 million entering the workforce every year between 1991 - 2001
- 79 million has been engaged in the unorganised sector
- 1.4 million have found employment in the organised sector
- 360,000 have entered the public sector
- 1.1 million have been gainfully employed by the private sector
- Every % growth in GDP, the economy generates only a third as many jobs today, as it did in earlier decades

Liberty Institute

13

Privileges of Organised Worker



Monthly wage differential between organised and unorganised labour at the same skill level could be in the range of 3:1 or 5:1

Liberty Institute

14

Spirit of Enterprise

- 38% of GDP come from small and unorganised enterprises
- 49% of economy is informal or underground (World Bank)
- 90 million workforce in unorganised non-agriculture based industry and services
- Nearly 50 million enterprises
- Only 5% maintain accounts

Liberty Institute

15

Informal Sector in the World

Countries (years)	Informal sector as % of total GDP	Informal sector as % of non agricultural GDP	Size of shadow economy as % of total GDP 1989-90
Mexico (1998)	12.7	13.4	49.0
Tunisia (1995)	20.3	22.9	45.0
Morocco(1986)	24.9	30.7	39.0
Tanzania (1991)	21.5	43.1	31.0
South Africa (1995)	6.9	7.2	9.0
Philippines (1995)	25.4	32.5	50.0
Thailand (1994)			71.0
South Korea (1995)	15.9	16.9	38.0
India (1990-91)	32.4	48.1	22.4
Asia *	27.7	37.3	45.3

Source: Jacques Charmes, 1999

Liberty Institute

16

Range of Informal Services

- Small foundry and machine shop, to assembling motorised vehicles for rural transport
- Assembling computers, to IT based services
- Street vending, to maintenance and repair of appliances
- Trading, transportation and communication
- Education
- Finance and savings

Liberty Institute

17

High Transaction Cost

- High regulatory and transaction cost of doing business in India
- WB estimates that it takes 89 days to start a legal business venture in India, compared to 3 days in Singapore
- Corruption keeps the economy moving, but at a cost
- Shallowness of reforms due to lack of political vision and credibility
- Slow pace of reforms undermines political credibility
- High political turnover, 33% re-election rates, search for ways to make reforms politically viable
- Political price for allowing the stranglehold of vested interests

Liberty Institute

18

Traditional India

- Galbraith described India as “the functional anarchy”
- Informal sector epitomises the “invisible hand” of Adam Smith
- Social sectors:
 - 50% slum children attend informal schools in most major cities, following the ideal of *gurukul*
 - 70% of Indians regularly access traditional Indian system of medicines, *Ayurveda*, *Unani*, *Siddha*, *Yoga*, etc

Liberty Institute

19

Political Viability of Economic Reforms

- 6% of the labour force in government jobs
- Less than 1% of workforce in IT related jobs, contributing 3% of GDP, and 75% of output for exports
- 60% of workforce self-employed or in the informal sector, contributing around 40% of GDP
- Political pressure from the bottom for better governance and assure delivery of services
- Political competition leading to search of policies that work

Liberty Institute

20

Politics of Reforms

- Poor has nothing to lose but their poverty
- Poor expects little from the government, except to get it off its back,
- Poor are the natural allies of real economic reforms,
- Poor takes their vote more seriously, and are the mainstay of Indian democracy
- Poor are not ideological, but seek practical ways to solve their problems

Liberty Institute

21

Freedom to Choose

- **Democracy**
 - Freedom to think
 - Freedom to express
 - Freedom to exchange ideas
 - Freedom of association
- **Market**
 - Freedom to own property
 - Freedom to invest and develop property
 - Freedom to trade
 - Freedom to accept mutually agreed contract

Liberty Institute

22

Democracy = Market

- Democracy is not about majority rule, but space for minority views so that it can become majority opinion tomorrow.
- Market is not about money or monopoly power, but about space for individuals to express their talents, so that buyers and sellers voluntarily consent to exchange.

Liberty Institute

23

Market is Democratic

- Democracy maximizes choice in the political domain
- Market offers the widest range of choices in the economic domain
- Indian democracy has survived because of the faith of the poor in the electoral system
- Demand for reforms from bottom, ensures continuity of reforms
- Pressure to broaden reforms to cover a much wider spectrum of issues

Liberty Institute

24