

How To Rewrite The India Growth Story

Five incisive minds gather at the Tehelka roundtable with Shaili Chopra & Shoma Chaudhury to discuss how to radically reboot our struggling economy



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In the run-up to the annual Budget, the media has been awash with worried talking heads. Alarm dominates every conversation.

Undoubtedly, the economy is in a mess. Undoubtedly, it needs resuscitation. And ironically, the contours of both this particular mess and even the restoration are well known.

The anxiety is about the falling GDP, slowdown in industrial development, halt in investments, drop in individual spending, drop in revenue generation and fiscal pressures.

The correctives desired are more reliable laws, clearer decision-making, jumpstarting access to land and cheap resources again, renewed investor confidence, more efficient government spending, rationalisation of taxes, lower interest rates, long-awaited introduction of Goods and Services Tax, market-linked fuel pricing and perhaps more FDI.

But what if the current downturn is not just an occasion for gloom, but a big opportunity?

Since 1991, the economic conversation in India has run on just one shortsighted track. There has been a loud, selfenclosing idea that only mega private-sector growth could pull India out of the stagnant mess it was in. Perhaps, there was truth in that claim then. Certainly, India does need robust investments, new industries and manufacturing units.

But this should be only one — and a small part — of a larger, much more complex approach to India's economy. Yet, selfdefeatingly, for almost 25 years, no other strand has been allowed

even a toehold entry into mainline conversations on the economy. The fact that almost 94 percent of India lives, operates and sustains itself outside the purview of the GDP. The fact that many years of blistering 9 percent growth has led to very minimal employment generation (a recent Planning Commission report, in fact, said it had led to completely jobless growth). That fact that while our macroeconomic policies are wholly focussed on driving people off the land and out of traditional livelihoods, it is impossible for our cities and industrial jobs to absorb all these millions and millions of people. The fact that if indeed all these millions of self-employed, self-sustained people were to stop doing what they do, India would be faced with such a mega crisis, no resuscitation would work. The entire story about India's potential as an economic superpower was based on its demographic dividend, but we have been paying absolutely no attention to that demography. The fact that 9 percent growth — in the way India had constructed it — was bound to hit its head against the walls of economic conservation, sustainability and people's rage.

IN 1991, India needed a courageous, radical rethinking of its economy. It is certainly time for that again. Economist and Nobel laureate Amartya Sen has said it's important for emerging markets like India to "decide where to emerge".

He couldn't have put it more succinctly. Economic growth in a country as vast and complex as India is not, and cannot be, just about industrial growth. There are dozens of other kinds of economic activity waiting simultaneously to take wing, which can boost India's overall prosperity: tourism, crafts, small and medium enterprises, fishing, dairy and agriculture. But for that to happen, India's elite needs to do two things: unclasp its imagination and acquire a survival instinct. It needs to understand its own prosperity is inextricably linked with that of 94 percent of the country.

To give these ideas a hearing, to see if any of them are finally breaking through into mainstream thinking, for this week's cover story, TEHELKA invited a fascinating cross-section of stakeholders to sit across a round table and discuss India's economy.

As CII head for 30 years, and one of Prime Minister Manmohan Singh's key advisers, Tarun Das has been an influential proponent of the economic model of the past 25 years. As Joint MD of Hero MotoCorp, Sunil Munjal has rallied on the growth story but admits the industry made mistakes. And as chairman of Tata Communications, and manufacturing institutions, Subodh Bhargava has been a crusader for capitalism but with clarity in laws. In 2002, Harsh Mander left the IAS to work with the unheard 94 percent. And as a reputed left-leaning economist, Jayati Ghosh has also been its dogged spokesperson.

The key question we put to each of them was whether they felt it was time for some fundamental rethinking. Their answers were both startling and heartening. At one point, Munjal said, "You have invited the wrong people for this discussion because we all think so alike."

That itself was a great sign of hope. There is much that we could not cover in this. But it was never meant to be the entire conversation: only a new conversation starter.

EDITED EXCERPTS FROM THE DISCUSSION

Why is there such pessimism about the economy and its downturn?

Tarun Das There are many reasons actually, but if I have to sum it up, we became too complacent as a country. After the 2009 election, we thought 9 percent growth was our birthright, forgetting that we had lived in a 3 percent era for more than 40 years. The world was in a crisis, but we assumed we would remain untouched. We took our eyes off the ball.

Secondly, the public sector is a huge part of our economy, but we have almost deliberately brought it down. One of the key solutions to jumpstart the economy should be to reactivate this sector, including NHAI, DMIC, railways and water, and create a new momentum on construction, and therefore, employment.



Money matters Maruti Suzuki workers at the Manesar plant strike for better wages **Photo:** Garima Jain

'Let industry first pay appropriate wages, respect forest laws... let us talk about market-led economic growth after that' - **Harsh Mander**

Sunil Munjal I agree with Tarun about the complacency. We handled the 2008 crisis so well that we assumed everything was hunky dory. The assumption was that our demographics and the momentum we had built up would take care of everything. But policymaking from 2008 to 2012 has left a lot to be desired.

We have made two big mistakes. We forgot the economy needs constant movement. It needs attention for at least the next 30-40 years. We have a unique problem of 250 million people who

don't get two square meals a day. The only answer to that is growth. We need to create jobs. The regulations we have — be it the Industrial Disputes Act, our labour policies, the Contract Act, the Land Acquisition Act — they all discourage large industries from coming up in India, which, in turn, discourages large-scale employment.

Isn't this a bit of a smokescreen? One always hears the argument about industry creating employment. If that's the case, why have all the boom years led to jobless growth?

Munjal You are right, 94 percent of India is self-employed. Of the remaining 6 percent, it is the less than 1 percent unionised labour that has driven our policy for many years. This policy is scaring people away from hiring. When people set up a business, they want more automation so they can get the least number of people to do the same job.

In fact, isn't it the intrinsic logic of big industry to have heavy mechanisation rather than be labour-intensive? So, how can it generate millions of jobs?

Munjal We need high efficiency to compete globally. That's the only way to ensure we generate jobs, which creates savings and therefore consumption. It is a virtuous cycle we are aiming for. It's a mistake to assume big industries create jobs anywhere in the world. It's the mid-size, small and ancillary industries working in tandem with big industry that create jobs.

But there's another interesting phenomenon that gets overlooked. Many industries that resisted the government's social programmes in the early days have now realised that these can help in building up a market. Some of these programmes have been very sensible. The NREGA, for example, has allowed millions of people to have a job and earn money. It is true, dole is not a good idea in the long term, and farms and factories in states like Haryana, Punjab, Bihar and Uttar Pradesh, where labour used to come from, are not able to get labour now. This means the cost of doing business in India has moved up.

Historically, labour wages have always been so exploitative, how can one complain about labour getting a baseline minimum wage now? Why not rethink one's business plans and balance sheets in a way that factors in those fairer wages.

Munjal There's absolutely no doubt about that. There is definitely a good aspect to it. People are able to live at home with their families now and that is a wonderful thing. But the downside is, by giving people dole you are telling them they don't need to acquire skills. We haven't used NREGA for providing skills to people and it hasn't even created the kind of rural infrastructure it should have. That's a shame.

We will come back to this issue of social spends and whether it constitutes 'dole', but first Jayati, what is your reading of the economic downturn and what have been some of the key mistakes made by this government in its approach to economic growth? Should it be trying to jumpstart the same model or rethink some fundamentals?

Jayati Ghosh I don't think it was a strategy that could have carried on indefinitely. It was bound to run its course. And it's getting there. The first mistake was to be focussed solely on GDP growth — irrespective of its quality in terms of its composition, distribution across the population, its impact on environment and its sustainability.

The second mistake was to assume that growth can only come from the private corporate sector, which therefore had to be incentivised at all cost: through fiscal sops, tax holidays, taxes foregone in every Budget, and cheap land, water, labour and spectrum. Today we call it crony capitalism, but actually it was an essential part of the macroeconomic strategy. This strategy required accepting inequalities. We never saw wages and employment as anything other than a cost. We didn't see it as a market.

Third, we have ignored the needs of millions of small producers, not just farmers but also outside agriculture, who form the bulk of employment and production. We have simply focussed on the big guys. This has led to slow or falling productivity, lack of viability and fragile employment conditions for them. We forgot that the fastest way to raise the average productivity is to raise productivity at the bottom.

And then, even as we heavily incentivised the private sector, we said there's no money for delivering the socio-economic rights of the citizens — housing, education, roads in villages, health and electricity. We forgot to plan not just for the economy, but for the people. This was bound to come up against constraints and it has: balance of payment problems, ecological problems, social and political instability related to the increasing inequalities of wealth and income.

Subodh Bhargava I'd like to come in at this point. The foremost issue we are faced with today is that of disappointment. To have an entire business and entrepreneurial community feeling sub-par is not great for a nation. I agree with Tarun that there's been a certain degree of complacency. But from an entrepreneurial point of view, as a private sector player who contributes to wealth creation, Munjal talked of the scare on account of labour laws. He is bang on. The entrepreneur has been forced into hiding; they are hibernating now. The complexity of laws, the complete absence of any rule of law, zero implementation levels — this is what is causing all the trouble.



‘We have ignored the needs of millions of small producers, not just farmers, who form the bulk of India's workforce’ - **Jayati Ghosh**, Photo: Getty Images

It's true industries today have started thinking of a greater degree of automation — even at the cost of penalty — because when there are labour issues, the interventions are so hostile and one-sided, it has caused a huge scare. Look at how those managers were murdered. Overall, confidence is shaken because of the uncertainty of the law. There is just no clarity. Will the

government only indulge in populist measures, or will it do something sensible in the arena of wealth creation?

What exactly do you mean by populist measures? Are you opposed to social spending? Isn't it odd that we keep talking about the demographic dividend, but we don't want to invest in food security, education, health, basic minimum wages? As Munjal and Jayati just said, almost 94 percent of India lives outside the formal economy. Doesn't their economic activity count for anything? Don't they add to the sustainability of the country?

Bhargava I'm 100 percent in favour of NREGA and other welfare schemes if implemented efficiently and effectively. In fact, all of us in industry, I'm talking about larger industries, welcomed it when it was announced. It meant a more robust rural economy, it meant a market for us. But the implementation has been abysmal.

But today, industry itself is also very worried about harassment. There is no rule of law. Income tax people walk into any office, asking questions, collecting papers. People who are corrupt — nothing happens to them. But honest people can't move ahead because there are such procedural bottlenecks and hurdles. We need simplicity and clarity of laws. Without that, nothing is going to happen.

Another side of the argument can be that the laws are complex because they involve the environment, people and the impact on society. Would you agree there is a lack of consensus building between industry, government and impacted communities?

Bhargava Take a simple example of environment clearances. Land acquisition, mining projects — everything is at a standstill because our policymakers cannot decide which way to move. The point one is making is: give us the law you want. If you want 80 or 90 percent consent from landowners — go ahead, make that the law. But after that, let industry manage its own affairs calculated on the longevity and clarity of that law. Right now, we seem to have no clear objectives on either environment issues or land. Decisions keep getting chopped and changed and reversed. We need to ensure these problems are well articulated before the investments are done.

Munjal I would also like to add another aspect to this discussion — in an attempt to resuscitate the economy, we need to control the size of the government itself. Costs of government needs, the massive scale, all need to go down and get streamlined with renewed focus on essentials to drive economic growth.

Perhaps, there is a lack of clarity because many of these policies and laws are flawed and unjust in their very conception. Take the SEZ Act or the colonial Land Acquisition Act, both were bad-faith Acts on many counts. Corporates and the government start thinking about these issues only when there is resistance and pushback from the ground and then complain that it's impacting investor sentiment.

Bhargava Resistance from people on the ground? Why pay heed to that? If the government has the responsibility, accountability, authority, it can get its policies vetted by the courts. After that, just go ahead.

How can you say that? The old Land Acquisition Act was a patently colonial and unfair Act. We did not see any captains of industry stand up and say this is an unjust way of acquiring land. In fact, they have been resisting every social justice clause even in the new Bill.

Bhargava I'm sorry. Don't say that. CII President B Muthuraman, and the entire CII, has been actively engaged and acknowledging that we need appropriate land acquisition methodology and policy, including share to the landowner in future prosperity. Industries are not objecting to it. We just want clarity.

We absolutely agree on the importance of clarity and implementation. But you mentioned labour reform, the murder of managers. Would you concede that industry itself has not displayed any high ground in its approach to labour? Look at the working conditions of labour everywhere — in construction, the big boom industry — does it look like they are being included in the benefits of GDP growth? Why does industry display no enlightenment in these matters?

Bhargava I have come to a conclusion: industry will always have vested interests. I would say: don't listen to industry. You are the policymakers; you have been elected to the government. Think objectively for the country, for the people, for the poor and give me a policy. Don't listen to me or pressure groups. In fact, honest entrepreneurs are submerged under pressure groups. You just give me a well-thoughtout policy and stay with it for 10 years and see if the private sector can deliver or not. As for the rest, as far as short-term solutions go, hang those who are corrupt. Others will get the space to come and operate.

Harsh Mander I don't agree with a lot of this. I feel we need to go back to basics and articulate the real nature of the problem. It's true, growth rates have fallen; it's true, there's paralysis and a problem with governance. But those are givens. The time has come to question the very idea that growth is an end in itself, no matter what the cost. The euphoria when there was 9 percent growth should itself have been problematised. When I was in the Civil Services, the practice may have varied, but there was no doubt in anyone's head that government existed primarily to uphold the rights and needs of disadvantaged people. Now the idea of a good government is one that enables the fastest growth, regardless of its impacts. That's a problem.

I went to Raigarh recently, in Chhattisgarh, where I'd been a District Collector 20 years ago. It's a forested tribal area. What I saw there — from one point of view — could be celebrated. The Jindals have huge power and mining projects there. "Growth" is certainly happening there, but the forests have been devastated and the tribals have lost their land. Is this a sign of the state's success or failure? I think we need to at least problematise it.

The second issue is all the talk about "demographic dividend". This is where the real problem with the Indian economy begins. India's growth story is hinged on the fact that we have a large number of people in the productive age group. But every second child is malnourished. This means half your workforce does not even have bodies and brains that are well-formed enough to fulfill their potential. It mystifies me why economists and planners cannot see that a genuinely implemented Right to Food law, universal healthcare for all, and good quality education would actually be great economics as well because that same workforce would then be healthy, educated, well-nourished, have higher morale and so produce better.

The third big issue is the neglect of agriculture. I have a friend who left a banking job so he and his wife could go back to their village and farm. They say it has become completely unviable to farm today — and they are educated people. They say people have begun to talk about farming in the same way that women talk about being a housewife. They have started to say, “I’m only a farmer.”

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