

PARADOXES OF ECONOMIC GROWTH AND INEQUALITY.

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Historical developments are always multi-faceted. Economic, political and social processes get inextricably interwoven in the course of development. 'Developmental economics' becomes sterile without an understanding of the accompanying developmental politics, which involves the interaction of the state with the major actors. At the core of this politico-economic process is the role assigned to industrialization. The debate about industrialization is essentially concerned with how economic and political factors should shape in an interlocked manner the transformation of an economy, polity and society. It should not be trivialized simply into statistics about GDP growth rates.

Until the recent financial meltdown, it was a widely shared cliché that the capitalist market economy is good at creating wealth, but not so good at distributing it. This conventional piece of wisdom overlooks the inconvenient fact that how wealth is created largely determines how it is distributed. Ideas such as create wealth by promoting corporations, and then distribute it through state action like high taxes, or through corporate social responsibility avoid the real issue for a simple reason. If the state wants corporations to create wealth, it also needs to provide them with an institutional and incentive support structure not merely to enjoy but to exercise control over the production and distribution process generated by that wealth. The idea that the benefits of growth would somehow 'trickle down' even without resolute public action was floated to circumvent these issues.

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Over the last two decades or so, the two most populous, large countries in the world, China and India, have been growing at rates considerably higher than the world average. In recent years the growth rate of national product of China has been about three times, and that of India approximately two times that of the world average. This has led to a clever defence of globalisation by a former chief economist of IMF (Fisher, 2003). Although China and India feature as only two among some 150 countries for which data are available, he reminded us that together they account for the majority of the poor in the world. This means that, even if the rich and the poor countries of the world are not converging in terms of per capita income, the well above the average world rate of growth rate of these two large countries implies that the current phase of globalisation is reducing global inequality and poverty at an unprecedented rate.

Statistical half-truths can be more misleading at times than untruths. And this might be one of them at least in the Indian case. Since citizens in India can express reasonably freely their views at least at the time of elections, their electoral verdicts on the regime of high growth should be indicative. They have almost invariably been negative. That is why a predictable pattern repeats itself. Just before elections, populist pro-poor measures are announced the government in power, only to be largely forgotten soon after the election.

What exactly is the nature of this paradoxically high growth floating in the statistical air without popular base? India has long been accustomed to extensive poverty coexisting with moderate growth, and continues to have anywhere between one-third and one-fourth of its population living in sub-human, absolute poverty. The number of people condemned to absolute poverty has declined very slowly in India over the last two decades, leaving some 303 million people still in utter misery. In contrast China did better with the number of absolutely poor declining from 53 per cent to 8 per cent, i.e. a reduction of some 45 percentage points, quite an achievement compared to India's at most 17 percentage points. However, while China grew faster, inequality or relative poverty also grew faster in China than in India. Some claim that the increasing gap between the richer and the poorer sections in the Chinese society during the recent period has been one of the worst recorded in recent economic history, perhaps with the exception of some former socialist countries immediately after the collapse of the Soviet Union. The share in national income of the poorest 20 per cent of the population in contemporary China is 5.9 per cent, compared to 8.2 per cent in India. This implies that the lowest 20 per cent income group in China and in India receives about 30 and 40 per cent of the per capita average income of their respective

countries. However, the poorest 20 percent in India are better off in relative terms, but worse off in absolute terms, because China having two times the average per capita income of India in terms of both purchasing power parity, and dollar. The Gini coefficient for China has risen to a value close to 0.50(in 2006), one of the highest in the world. Inequality has grown also in India, but less sharply. Between 1993-94 and 2004-5, the coefficient rose from 0.25 to 0.27 in urban, and 0.31 to 0.35 in rural areas. Every dimension of inequality, among the regions, among the professions and sectors, and in particular between urban rural areas has also grown rapidly in both countries, even faster in China than in India. In short, China has done better than India in reducing absolute poverty and raising growth, but has allowed the gap between the rich and the poor to grow more rapidly during its recent period of high growth.

A central fact stands out. Despite vast differences in the political systems of the two countries, increasing inequality has been the common factor accompanying higher growth. At least in the case of India we can identify three major ways in which growth and increasing inequality are connected. In the first place, in contrast to earlier times when less than 4 per cent growth on an average was associated with 2 percent growth in employment, India is experiencing a growth rate in output of some 7-8 per cent , but the growth in regular employment has hardly exceeded 1 percent. This means most of the growth, some 5-6 percent of the GDP does not come from employment expansion, but from higher output per worker or labour productivity. According to official statistics, between 1991 and 2004 employment fell in the organised public sector, and the organised private sector hardly compensated for it. In the corporate sector, and in some organized industries productivity growth comes mostly from mechanization and longer hours of work. Edward Luce of Financial Times (London) reported that in the Jamshedpur steel plant, the corporate giant Tatas employed 85 thousand workers in 1991 to produce 1 million tons of steel worth 0.8 million U.S. dollars. In 2005, the production rose to 5 million tons, worth about 5 million U.S dollars, while employment fell to 44 thousand, implying an increase in labour productivity by a factor of ten. Similarly, Tata Motors in Pune reduced the number of workers from 35 to 21 thousand but increased the production of vehicles from 129,000 to 311,500 between 1999 and 2004, implying labour productivity increase by a factor of 4. Stephen Roach, chief economist of Morgan Stanley reported similar cases of Bajaj motor cycle factory which employed 24 thousand workers to produce 1 million units in mid-1990s , while aided by Japanese robotics and Indian information technology, in 2004, 10.500

thousand workers turned out 2.4 million units, i.e. an increase in labour productivity by almost a factor of 6. One could go on with many more such examples from the 'efficiency' achieved through mechanization and labour shedding by corporate world, but the macro economic implications of such micro efficiency at the factory level are seldom highlighted.

The manifold increase in labour productivity, without a corresponding increase in wages and salaries generates enormous profit, and enhances international price competitiveness in a globalizing world. Nevertheless, this is not the entire story, perhaps not even the most important part of the story. The whole organized sector accounts for less than one-tenth of India's labour force and the corporate sector about one third, i.e. hardly 4 percent. Simply by the arithmetic of weighted average, a 5-6 per cent annual growth in labour productivity in the entire economy is possible only if the unorganized sector accounting for the remaining 90 per cent of the labour force also contributes to the growth in labour productivity. Direct information is not available on this count, but several micro studies and surveys indicate that the growth of labour productivity in the unorganized including most of agriculture, comes from lengthening the hours of work, as this sector has no labour laws worth the name, or social security to protect workers, while the category self-employed workers, totaling 260 million have to ruthlessly exploit themselves and their families for survival. This is the fastest has expanding category during the high growth regime. Sub-contracting from the corporate to the unorganized sector coupled with casualisation of labour on a large scale has become another convenient device to ensure longer hours of work without higher cost.

Slow growth in regular employment is particularly dangerous in a poor democracy like India's because it slows down social mobility and increases discontent. However, the inequality has a more vicious aspect than growing unemployment. The federal and the state governments in India have converged on an idea diametrically opposite to that of a welfare state. Instead of using the state to moderate the adverse impact of the market on the poor by providing them with the minimum essentials of life, high growth is being promoted the government destroying many more livelihoods than creating employment. The natural resources of India, land, water, sea shore and forest are being acquired forcibly by the government in the name of 'public interest' to be handed over to mostly private corporations for mining, industrialization and creation of special economic zones. Thus international competitiveness is being promoted not merely at the factory floor, but far outside the factory by creating hundreds of thousands of internal refugees, forcibly dispossessed of their

homes, land and livelihood. They are mostly the aboriginals and among the poorest who had lived on these lands for centuries. Like in China, in India too there are thousands of local resistances big and small, and this political and environmental dimension of high growth is increasingly visible in both countries.

However inequality in India is exacerbated for another reason. The increasing openness of the Indian economy to international finance has had the consequence of paralysing many pro-poor public policies. Despite the fact that India imports more than it exports (unlike China), its currently comfortable foreign reserves position, crossing 230 billion U.S dollars in 2008, is mostly the result of accumulated portfolio investments and short term capital inflows from various international financial institutions. It is a delicate balance, as the fiscal and the monetary policies of the government need to comply with the interests of the financial markets to avoid capital flights. Therefore we have a Financial Responsibility and Budget Management Act (2003) restricting deficit spending, and the idea has gained support that the government should raise resources through privatisation and so-called public private partnership. Measures that rattle the 'sentiment' of the financial markets such as raising fiscal deficit, imposing a transaction tax on securities are out of favour. The hidden agenda seldom publicly debated, but vigorously pursued by governments of all colour has been to keep the large private players in the financial markets in a happy. However, since the private banks and financial institutions usually take their lead from the IMF and the World Bank, this bestows on these multilateral agencies considerable power over the direction of government policies, while the burden of such policies is borne largely by the poor of this country. Inequality and distress grows as the 'discipline' imposed by the financial markets, and the Bretton Woods institutions require the to state roll back and privatizes expenditure in areas of social services like basic health, education, and public distribution of food.

The remarkable feature of the growth dynamics in operation is that, it is being fuelled continuously by growing inequality. More than 3 in 4 Indians do not have a daily income of 2 U.S dollars. They can hardly afford to be part of a growing market that caters to some top 25 per cent of the population. However, the logic dictated by purchasing power. Its logic is to produce those goods for which there is enough demand backed by money, so that high prices can be charged and handsome profits can be made. With higher inequality, the income of some top 15 to 20 percent is rapidly growing, and the richer group of Indians demand a set of goods, which lie outside the reach of most of the society. As the income of

the privileged sections grow rapidly, the market for the luxury goods they demand grows even faster through the operation of the 'income elasticity of demand', roughly measuring the per cent growth in the demand for a particular good due to one per cent growth in income at constant prices. As numerous budget studies have shown, these goods being typically in the nature of 'luxuries' rather than 'necessities', have income elasticities greater than unity. Thus their demand grows considerably faster than even the income of the richer sections. Moreover most of these goods cannot be produced by small producers in the unorganized sector or the village artisans. They also usually require far more energy, water and processed mineral resources per unit value. Thus the majority are ruled out from the market both as producers and as consumers while an environmental crisis deepens. Thus, at the heart of the growth process is a mutually reinforcing mechanism of positive feedback between increasing inequality and increasing rate of growth, each feeding on the other to trace out a high growth trajectory which by its very nature must become more and more exclusive straining India's democratic system.

Nevertheless, in a global setting this leads to the ultimate paradox. Decades of high growth has enhanced the international economic and political status of India, and a rising surge of nationalism and confidence is visible in the middle class. India now has better international bargaining power if it wishes to use it, and this can contribute to greater international equality in many ways. And yet, this is being achieved at the cost of rising inequality at home, and greater marginalization of its poorest citizens. Perhaps this is the ultimate paradox of a growth process in a developing country that is critically dependent on market driven globalization.