

SPECIAL CONVOCATION
and the
FIFTY-SECOND
ANNUAL CONVOCATION

24 DECEMBER 2007

ADDRESS BY

GUEST-IN-CHIEF

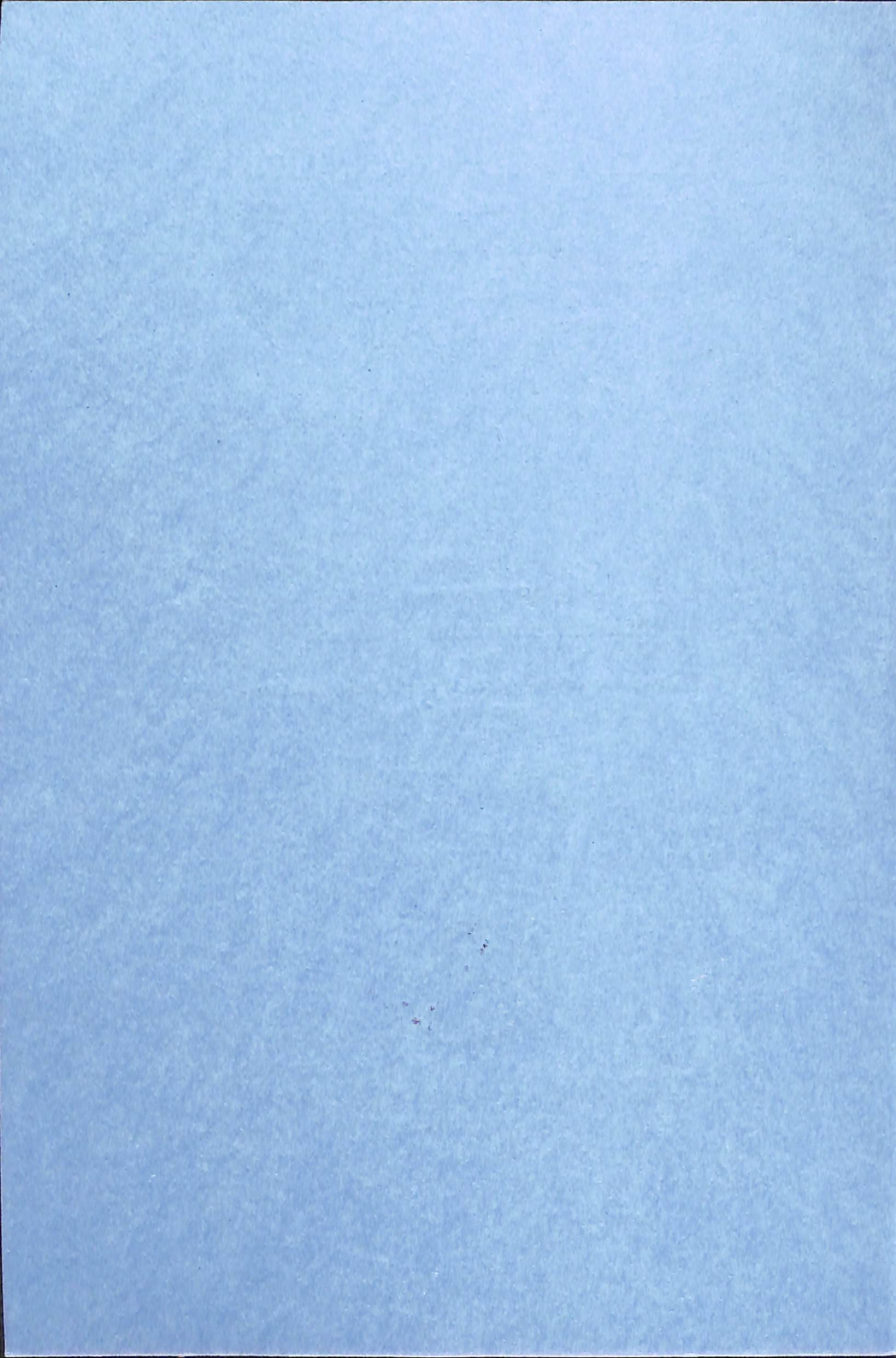
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Economic Growth and Social Development

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His Excellency the Governor of West Bengal and Chancellor of the University, Mr. Vice-Chancellor, Members of the Executive Council, distinguished faculty, graduating students, ladies and gentlemen.

I deem it a great honour to be invited to deliver the address at the 52nd Convocation of Jadavpur University. I am grateful to the Chancellor and the Vice-Chancellor for extending the invitation to me. The agricultural, industrial and scientific growth of this country depends upon creating a corpus of well-trained professionals in a variety of academic disciplines and this can happen only with good quality higher education. I am sure that Jadavpur University with the fine tradition it has established over the years will be able to play its role in strengthening higher education in our country.

Let me at the outset congratulate all of you who are graduating today. Needless to say, this is a moment of great joy and satisfaction in your life. Your academic efforts have come to fruition. This marks the completion of one stage in your life and another is about to begin. Many of you will be moving out of the sheltered confines of a college and entering the real world with all its ups and downs. The process of transition will pose some problems, but I am sure that with the value system and training that you have acquired at this University, you will be able to face the world with confidence. Youth is driven by Idealism and ambition. Idealism without ambition may not achieve much but ambition without idealism can be dangerous. May you combine the two in the right proportion? You are entering an age of entrepreneurship and enterprise. May you have the wisdom to seize the opportunities and move forward? I wish you all the very best in the years to come.

Evolution of Thinking on Growth

Perhaps it may be appropriate to say a few words on this occasion on the current debate and discussion on the goals of development. One can see four or five stages in the evolution of thought on economic growth. The chronological sequence is not without some overlap. In the first stage, the major concern was simply to accelerate economic growth. Growth was identified with the increase in the availability of material goods and services and was to be achieved through capital formation. Better life was identified with enhanced production of goods and services. The need for accelerating growth in this sense was felt even more strongly in developing economies, which started out with very low living standards. Eradication of poverty was to be achieved through faster economic growth. In the second stage, a distinction was made between growth and development. A greater concern with the distribution of income emerged. Development was seen as going beyond mere economic growth and bringing about changes in the structure of the economy. Equitable distribution of the benefits of economic growth became an independent goal. Balanced regional development also became a concern in large economies. In the third stage, the concept of equity was interpreted to mean the provision to everyone of what came to be described as 'basic needs' which included the basic requirements of life such as food, education, safe drinking water and health services. In essence, this approach stressed the need to provide to all human beings the opportunities for a 'richer and more varied life' as one of our plan documents put it. The next stage in the evolution of economic thinking on growth was the emergence of the concept of 'sustainable development' which acquired importance in the context of the environmental degradation caused in the process of economic growth. Sustainable development focuses attention on balancing today's concerns with tomorrow's requirements. In the current stage of thinking on growth, the concept of basic needs has been widened and the objective of growth is set as "human development" which means an improvement in the quality of life of the people. Enhancement of human development should lead on the one hand to the creation of human capabilities through improved health, knowledge and skills and on the other the opportunities for the people to make use of

these capabilities. In a broader sense, human development implies human rights and participation and freedom of choice. In addition, the accent has shifted from the mere processes and dynamics of growth to include also the institutions which should deliver the benefits of growth to the poor and disadvantaged. Under this approach, economic growth becomes only one aspect of human development.

Performance of the Indian Economy

The performance of the Indian economy since Independence as measured by the normal indicators of economic growth has been impressive. The Indian economy was literally stagnant during the first half of this century. The growth momentum started with the attaining of independence. The annual growth rate in GDP, however, remained below 4 per cent until the end of 70s. It was only in the 80s that the annual growth rate crossed the 5 per cent figure. Between 1981-82 and 1990-91, the growth rate of the economy was 5.68 per cent per annum. 1991-92 was an exceptionally bad year for reasons well known. If we leave out that year, between 1992-93 and 2006-07 the average growth rate was 6.6 per cent. Because of the fairly substantial growth in population, the growth rate of per capita income was much lower.

Obviously the growth in national income and per capita income is reflected in a number of social performance parameters such as rise in the literacy rate, the availability of medical and health facilities, expansion in education etc.

While the achievements of the post-independence Indian economy are indeed striking in comparison with the record of our performance during the first fifty years of the twentieth century, it has nevertheless fallen short of our expectations. Our performance has also been well short of what has been achieved by other developing countries, particularly, in East Asia triggering the concern that we performed well below our potential. It is only in this decade that India is beginning to be recognised as one among the fastest growing economies.

As measured by the social indicators, the performance of the country is less impressive. India ranks low in the Human Development Index. As per the latest Human Development Report of UNDP, India's rank in 2005 was 128 among a total of 177 countries. It is, however, to be noted that India, with the Human Development Index value at 0.619, is included among the Medium Human Development countries. The three components of the Human Development Index are Life Expectancy, Education and per capita GDP. Of these three, India's life expectancy index at 0.64 is near the world average of 0.72. But with respect to education and per capita GDP, our indices at 0.62 and 0.59 are much lower than the world average of 0.75 and 0.76 respectively. Admittedly, the computation of these indices is debatable. The HDI also does not take into account many other aspects of social development as well as institutional dimensions like the freedoms enjoyed by people in making political and economic choices. The index may thus understate to some extent India's achievements. However, the deprivation in India in terms of health and education facilities has been documented by several other studies as well. According to a recent study, children in the age group of 6-13 not attending school were estimated at 17.80 per cent. Sixty seven per cent of deliveries were not done in institutions. 22 per cent of the population did not have access to safe drinking water and 14.4 per cent of children were not fully immunized. Nearly 40 per cent of the population was not living in electrified houses. The number of people living below the poverty line is close to 260 million. While in one sense there has been significant progress in the provision of medical and educational facilities as reflected in the improvement in life expectancy and in literacy rates, we still have a long way to go before we can claim a satisfactory level of performance in these areas. This narration leads us to several questions.

Interaction between Growth and Human Development

How far is social progress possible without adequate economic growth? What are the synergies between social development and economic growth? Can expenditures on social sectors by themselves ensure better social progress? What are the

organisational and motivational factors necessary to secure better returns from expenditure? What should be the role of the state and the private sector in relation to social development activities?

At a fundamental level there is no conflict between economic growth and social or human development. Economic growth implies improvement in the material well being of people which necessarily includes better health, education and sanitation. However, there are two possible routes to achieve the end of social development. One is to let the economy grow and expect the consequential benefits to accrue to all segments automatically. This approach is often described as 'trickle down'. However, for this to happen, the economy needs to grow strongly. Any moderate rate of growth, as we have had in this country particularly in the first three decades after independence, is unlikely to have a significant impact on the bottom deciles of population. The alternative strategy of development is to focus directly on social infrastructure facilities such as health, education, sanitation and drinking water. No country including India has adopted an exclusive approach. Poverty alleviation programmes of various types were introduced from time to time, besides focusing on providing basic facilities like primary education and health. However, as we have noted, the changes in these areas have not been to the desired extent. In this context, one must also refer to an issue that is being raised whether the new economic policy has in any way contributed to the decline in the provision of these facilities. There is nothing in the new economic policy which dilutes or diminishes the role of the state in the social infrastructure sectors. In fact, the argument has been the other way round. By asking the Government to vacate the areas in which markets can function effectively and can be monitored, the Government acquires increased financial and administrative resources to pay attention to social infrastructure sectors. As has been somewhat paradoxically remarked, 'more market does not mean less Government but only different Government'.

While it is true that nutrition, health and education can and should be treated as ends in themselves, there is no assurance that

improved health and education will automatically result in higher economic growth. They only create conditions under which growth in the sense of rise in national income can be accelerated. However, enhanced human development expenditures cannot be sustained over a long period unless supported by accelerated economic growth. There are examples of regions and countries where substantial improvements in human development indicators have not necessarily resulted in higher economic growth. When there is a dichotomy between human development indicators and economic development, it can be a source of social tensions. For example, as education spreads, the economy must have the ability to productively absorb the growing number of educated. Economic growth and social development must move in tandem so as to reap the synergic effects of the two moving together.

Needless to say, equity and growth can be mutually supporting. There is enough cross-country evidence to show that economic growth leads to reduction in poverty. By the same token, equity through creating equality of opportunities can accelerate growth by enabling the deprived to reach their full potential. However, in the short-run, there could be possibilities of trade-off which then should be managed in a manner that the long run potential is not undermined. The design of policies has, therefore, to perform a delicate balancing act. The pro-poor policies necessary as they are to widen the opportunities and capabilities of the poor, must not harm growth in the long run. Pro-poor policies should include not only income transfers which by their very nature have to be limited but also flow of investment to sectors and areas where poor work and live. Rural development thus assumes major importance. Equally significant are increased access to education, health and other social services.

Conclusion

Social development and economic growth are not necessarily the same. That is why countries do not rank identically on the income scale and human development scale. Sometimes the differences in the rankings are quite striking. The rank correlation co-efficient between the real GDP per capita Index and the Human Development

Index for all 177 countries for 2006 is high at 0.95. This is to be expected since GDP Index is one of the three factors included in the Human Development Index. Also the other two components – life expectancy and education – are closely correlated with GDP. However, taking only Medium Human Development countries, it is seen that the rank correlation co-efficient with GDP Index is lower at 0.67. There are several countries in this group which rank high on the real GDP Index but lower on the Human Development Index and vice versa. However, in the case of India, the difference is small. India ranks 117 on per capita GDP Index and 128 on Human Development Index.

Nowadays, the Human Development Index on the model of the global Human Development Index is being computed for different states in India to understand inter-state differences in income and social development. We have figures available only for 2001. The rank co-relation co-efficient between the Income Index and the Human Development Index across states in India is positive at 0.76. This coefficient is somewhat similar to the correlation among medium human development countries. This goes to show that there are many states in which there are wide disparities between the two indices. Andhra Pradesh and Haryana rank much higher in the Income Index than in Human Development Index. Andhra Pradesh ranks 11 in the Income Index but is as low as 20 in Human Development Index. Similarly, Haryana ranks as high as 3 in the Income Index but is very low at 17 in Human Development Index. West Bengal ranks 11th in the Income Index and 13th in HDI. On the contrary, Kerala which ranks in 7th in Income Index ranks second in Human Development Index. There are several states in the north-east which rank very low in the Income Index but rank reasonably high in Human Development Index. Nagaland is a good example. It ranks as low as 15 in the Income Index but is high at 5 in Human Development Index. This can be accounted for by the differences in the proportion of public expenditures on health and education and the efficiency with which they are spent. States like UP and Bihar rank low both in Income Index and Human Development Indices. UP ranks 27 and Bihar 28 in both the indices.

What is the model of economic growth that is appropriate for India? Development has many dimensions. We now know that economic growth is only one aspect. Nevertheless, accelerated economic growth is a necessary condition for achieving many other dimensions of development. Development must ensure equality of opportunities for all. However, equality of opportunities does not necessarily guarantee equalities in incomes. With some people good at converting opportunities into income and others not being so, different individuals will end up with different levels of income. That is why it is necessary to assure every one a minimum level of living along with equality of opportunities. Every person must have his or her basic needs met. These basic needs include access to services such as food, education, health care and shelter. Without sacrificing these goals, the economy must remain efficient. It is only an efficient economy that can generate the surplus necessary to meet the socio-economic goals. We need, therefore, to stress simultaneously economic development in the conventional sense of accelerating growth rate and social development in the sense of securing for everyone the basic needs. The two have a mutually interacting beneficial impact and the two must be pursued together. These are the two legs on which the country must walk. Any strategy of development, which ignores any one of the two legs, will only make the country limp along. To achieve higher levels of human development in our country, we need a three pronged approach comprising of higher economic growth, a higher proportion of expenditure, particularly public expenditure on social sectors, and efficient utilisation of the funds allocated. Growth and equity should not be posed as opposing considerations. They must be weaved together to produce a coherent pattern of growth. Therein lies the challenge of development.

Printed by : SRI S. K. BASU at Jadavpur University Press, Kolkata 700032