

## A Critique of the Approach Paper to Eleventh Plan

*The Planning Commission should treat the approach paper to the Eleventh Plan as an instrument for conscientisation of the people's representatives to carry out people-friendly programmes rather than as a catalogue of spending projects to be dictated from the top. This critique is a piece of advocacy to prod the commission in that direction.*

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The Planning Commission (PC) has recently put into circulation the draft approach paper to the Eleventh Five-Year Plan (FYP). The approach paper (AP) clearly reveals a contradiction between the objectives, namely, a faster and more inclusive growth of the Indian economy, and the instruments put forward for achieving them, and the differences of perspective of different members of the commission. We argue that these contradictions should be ironed out in the direction of a people-friendly growth, taking account of the need to protect the economy against the stresses of a fully globalised financial system, respecting the federal structure of the economy, and paying due attention to the needs of a severely undernourished and ill-educated population.

Let us look at the macroeconomic projections made by the AP. It deliberately budgets for a current account deficit (CAD), rising from 2 per cent of GDP for a growth rate of 7 per cent per year to 2.4 per cent of GDP for a growth rate of 8 per cent and to 2.8 per cent of GDP for a growth rate of 9 per cent per year. The PC pronounces that the CAD of 2.8 per cent "should not pose any danger, provided it is financed mostly from FDI and long-term external borrowings rather than short-term borrowings or portfolio flows" (AP, p 11). But the fact is that the recently increasing levels of CAD have been financed much more by portfolio investment or short-term borrowing than by FDI.

According to data given by the Reserve Bank of India, during the financial year 2004-05, the net figures of FDI, portfolio investment and short-term borrowing came to \$ 3.24 billion, \$ 8.91 billion and \$ 3.79 billion, respectively. For the period April-December 2005, the corresponding figures were \$ 4.73 billion, \$ 8.16 billion and \$ 1.70 billion, respectively. Capital inflows lead very soon to escalating outflows on account of foreign investment. The outflow on account of payments on foreign investment increased from \$ 2.67 billion for the full year 2004-05 to \$ 4.34 billion for the nine months of April-December 2005.

The AP relies almost entirely on FDI for bringing about technical change in manufacturing. Such a "strategy" of supine reliance on FDI or foreign capital inflows has several drawbacks. First, not all FDI comes in as greenfield investment, but takes the form of acquisition of Indian companies so that FDI leads to minimal technological upgradation. Secondly, this policy does little to correct the criminal negligence with regard to R&D expenditure displayed by most sectors of Indian private sector industry and services, including the two most supposedly dynamic sectors, namely, the information technology and drugs and pharmaceutical sectors.

China had no major R&D expenditure officially until the beginning of the 1980s, and South Korea was also spending less than India until then. Indian public expenditure on R&D was perhaps 0.75 per cent of GDP, around that time, and the Indian private sector had always been very delinquent in this respect, never accounting for more than 10-15 per cent of public

R&D expenditure. By 2002, the Chinese and the South Korean R&D expenditures were around \$ 15-16 billion as against less than \$ 4 billion in the case of India. Most of that R&D expenditure in South Korea was by the private sector and in China also the private sector is beginning to dominate in this respect. The AP emphasises competitiveness of Indian producers but seems to be innocent of the need for increasing R&D for a globally competitive economy. It does talk about the need to spend more on research by universities and research laboratories, but has no mention of the institutional mechanisms needed to forge better linkages between academic science, technological research and actual producers, especially in the industrial sector.

### Risks of Financial Liberalisation

The Indian system of financial regulation has been very peculiar, especially since 2003-04 when the long-term capital gains tax was abolished in the interest primarily of stock market operators. The finance ministry has refused to heed the caution of finance specialists (including those of the RBI) who have warned that allowing hedge funds, and sub-account holders of foreign financial institutions (FIIs) to operate and allowing FIIs to issue tradable participatory notes (PNs) is really to lose control over the movement of funds into and out of the stock market, and subjects the whole system to greatly increased risk. Hedge funds are not regulated in most countries and can get into any hands. Moreover, the finance ministry has refused to heed the advice of its own Board of Direct Taxes that most FIIs should be treated and taxed as the traders they are in reality and not escape taxation as investors. All these measures greatly reduce the badly needed revenues of the government, which a redirection of the plan programmes in a people-friendly direction will require and at the same time exposes the economy to the vagaries of a turbulent global financial network. Unfortunately, the PC projections have swallowed the FII-friendly logic of the finance ministry and has confronted us starkly with a choice between people-friendly objectives and FII- and speculator-friendly policies.

Is the rate of investment really under the control of a government which is so keen to hand over all the commanding heights of the economy to the private sector, and a private sector that has been extensively penetrated by foreign capitalists? (Most of the foreign portfolio investment has gone into the equities of large Indian private and public sector companies, and they may soon acquire a controlling interest in some of those companies.) How has the PC arrived at the estimate of average investment rate as 32 per cent of GDP adequate to achieving 8.5 per cent growth rate? Very few countries in the developing world have actually been able to achieve 8.5 per cent growth rate, among which (keeping aside China), South Korea was the most prominent in the 1980s. But South Korea had accomplished some of the most crucial institutional reforms like land reforms, and had achieved a very high level of human development; the investment rate there was higher than targeted by the PC.

There are other peculiarities of the projections that sit badly with the objective of providing gainful employment to everybody and ending the exclusion of increasing numbers of people from the growth process. There is no projection of the growth of labour-intensive sectors and the employment to be provided by them, but there is a great deal about the need for labour market flexibility (AP, p 24, p 78). However, only about 8-9 per cent of the economy is in the organised sector to which Section V-B of the Industrial Disputes Act, 1947 would apply. How much difference would abolishing this section make in facilitating the growth of employment? In any case, there is no evidence that this piece of legislation has hindered the growth of employment in organised industry. This piece of recommendation is pure primitive capitalist ideology, and it violates the basic human rights guaranteed by the Indian Constitution. In most states, a major part of the new industrial employment has been provided by smaller factories, employing up to 100 persons, to which the impugned section of the Industrial Disputes Act does not apply. And the larger factories have had no problems in making their permanent employees accept longer, more onerous working conditions, shedding labour or employing contract labour for many jobs. Instead of devising policies for encouraging the growth of labour-intensive and technologically upgraded small-scale industry and small and medium farmer operated agriculture, the AP talks grandly

of accelerating industrial growth rate to 12 per cent and agricultural growth rate to 4 per cent, as if reaching that objective alone will be enough to solve the problems of poverty, malnutrition and insecurity for the mass of the Indian people.

The AP totally omits any discussion of the need for a comprehensive public distribution system (PDS) for providing the basic minima of calories and other nutrients to the people who need it. The governments at the centre since the 1990s became so alarmed by the large stock of foodgrains in FCI godowns that they succeeded in reducing them to the point at which India is having to import wheat so as to service the remnants of the PDS. This omission is especially glaring for yet another reason: one of the chief objectives of the Eleventh FYP is to double the rate of growth of agriculture. How is this to be done without providing the markets to the farmer that have shrunk because of the lack of purchasing power of the people and the depredations of the WTO regime in agriculture that India embraced with such unseemly haste.

### Poor Programmes for Agriculture

The ideological stance of the AP becomes again obvious when we scrutinise the programmes that are supposed to

revitalise agriculture. Credit delivery to all farmers, but especially to small and marginal farmers by the formal credit system has been whittled down to a vanishing point by (a) the downgrading of priority sector lending, (b) the discontinuance of the branch licensing system for banks, (c) the pressure on banks to bring down their non-performing assets without taking punitive action against the big defaulters, and (d) encouragement of foreign banks which are allowed to operate without any social responsibility of the kind that Indian public sector banks still have to bear. The collapse of the cooperative banking system, signposted by the PC, is itself partly due to the neoliberal policies pursued by the central government.

Reducing the degrees of unemployment and underemployment and providing gainful employment to the millions of young women and men entering the work force should be regarded as one of the top priorities of planning in India. Promoting the growth of small peasant agriculture and labour-intensive small-scale industries would be some of the best means of achieving the employment objective. But the PC seems to have put its faith only in IT-enabled services and overlooked the evidence of the potential of small-scale industries to generate employment and exports.

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While discussing the surge in the recent growth in the services sector PC comments: "The sector has the unique opportunity to grow due to its labour cost advantage reflecting one of the lowest salary and wage levels in the world" (p 25). Are we proud or ashamed of the fact that we have about the lowest wage and salary levels in the world, leading to the "race to the bottom" for the working people across the globe? Should we not strive to move toward an economy where the people live with dignity, with a decent/fair wage? That the low wage has never been an advantage for India in the export market, except for making the country the sweatshop of the developed North is amply evident in the trade statistics. In 1980, manufactures based on labour and natural resources constituted about 40 per cent of the total non-oil Indian exports. Thereafter, the importance of these kinds of commodities in the Indian export-basket, instead of decreasing, increased to about 60 per cent in 2000. Ghana, India, Morocco and Turkey, among other developing economies, experienced the largest increase in the share of labour- and resource-intensive

manufactures. But between 1980 and 2000, countries like Taiwan and South Korea managed to pull down the importance of this product group, and of primary commodities in their exports. We should go on encouraging labour-intensive manufactures, but upgrade the skills of the workers, the technologies and equipment they work with, and enable the workers to enjoy better working conditions and higher real wages, until we can move into an export basket with higher value added products.

Without a redirection of the policies that have promoted the fortunes of the rich and the well-heeled how does the PC plan to bring down the rate of unemployment, which has climbed to 9 per cent in rural and 8 per cent in urban areas, precisely at the time that the officially measured rate of growth of GDP has gone up? (The officially measured rate of unemployment conceals the high degree of underemployment in all sectors. The officially measured rate of GDP growth shows a steep increase in the share of that growth contributed by services: it will lead to the increased tertiarisation of one of the

poorest countries in the world. The AP is silent about this pattern of growth or its sustainability in the long run).

This brings us to the point that the authoritarian capitalism that is the ideal favoured by the central government runs directly counter to the vision of a grassroots planning system favoured by the AP. The financial policies pursued by the central government since 1991 rendered virtually all state governments bankrupt and deprived them of the resources needed to meet the needs of education, health and other public goods which lie squarely in the domain of state responsibility. Whatever expenditures were made under those heads came either out of central funds, or worse, through the agency of DFID, USAID, World Bank or the Asian Development Bank, which often imposed conditionalities totally unrelated to the programmes they were funding mostly through loans.

### **Fiscal Controls**

Following the ideology of US-inspired neoliberalism, the central government has passed the so-called Fiscal Responsibility

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and Budgetary Management (FRBM) Act, though we cannot see that it has really limited its budget deficit, except that it has been used as an excuse for limiting spending on most schemes that do not benefit the rich. The AP takes it for granted that in a slavish follow-up of FRBM, the fiscal responsibility law will be passed by the states, as demanded by the Twelfth Finance Commission. This demand is not based on basic principles of public finance but on pure pro-rich authoritarian ideology. How are states like Chhattisgarh or Jharkhand going to respect this so-called fiscal responsibility while giving adequate funds to panchayats and municipalities for carrying out programmes of literacy, universalisation of secondary education or public healthcare? Will such funds be given by the central government on the recommendations of the PC? Does it mean that these persons, however wise they are, will be expected to better implement grassroot democratic programmes than the elected representatives of the people? Will grassroot democracy be only a façade hiding an authoritarian regime increasingly privatising all public goods that matter?

### Voucher Scheme for Education

The cavalierly pro-rich ideology of the PC can be illustrated by its treatment of the proper mode of delivery of elementary and secondary education. The AP has rightly diagnosed poor quality of instruction as a major problem of elementary education in India. However, the suggested solution does not seem to have emerged from a thorough understanding of the ground realities in India. As the paper rightly points out, one of the major causes of poor quality of learning is teachers' lack of accountability and low level of motivation. Thus, ensuring good quality of instruction poses a difficult challenge. After suggesting that "authorising panchayats and citizens' education committees to oversee teacher performance can help increase accountability", the paper notes,

A more powerful method of enforcing accountability is to enable parents to choose the schools where they will send their children. Enabling people to choose between available public or private schools (by giving them suitable entitlements reimbursable to the school) and thus creating competition among schools could be considered (p 46).

The suggestion sounds like an over-enthusiastic undergraduate student of economics, who has just been introduced to the welfare consequences of a system of voucher vis-à-vis direct public production, responding to the instructor's question to impress. But those who have a little experience with the state of school education in India will be struck by the downright absurdity of the suggestion.

The voucher idea seems to have been "informed" by the "fact" that in India private aided and unaided schools account for 58 per cent of the total number of secondary schools (p 48). Introducing a voucher system in this context effectively means all private schools will be aided schools and the amount of aid will be in proportion with enrolment. Even if we accept the argument that a privately run school with government subsidy tagged to enrolment will provide the incentive to the school for expansion of enrolment, don't we have to know (a) how these schools are spatially distributed, (b) what information the parents have for judging the quality of education imparted by different schools, and (c) what are the relative costs of instruction in a private and in a government-run school? We shall take the last two points first. It is precisely the poorest and the socially and spatially disadvantaged groups who are least likely to be able to judge the relative merits of different schools. The elected representatives of the people can try to carry out proper certification with the help of experts, but that itself is an arduous process. Moreover, leaving the initiative to organisers of Saraswati Mandirs would be the worst way of educating the future citizens of a secular India. Secondly, all studies show that private schools are far more expensive for parents than government-run schools and the better-quality private schools cost so much that only the rich can afford them. So from the level of the elementary education itself we are building up a pro-rich meritocracy and defeating the objectives proclaimed in the AP.

Let us now turn to the issue of spatial disadvantage. At the moment, if I am living in a typical Indian village the nearest upper-primary or secondary school is roughly three kilometres away. My voucher would reimburse my tuition fees if I took admission in a "good" private school. Where could I find it? It's in the town, about 40 km from my home. The voucher is like winning a "trip" to Singapore that reimburses only your air fare and you have

to pay for your hotel bills and other expenses (which is roughly equal to your annual income, say). The idea that the voucher system can improve the quality of schooling in India reminds us of the economists' joke in which a group of shipwrecked people in an uninhabited island are trying to open a can and the economist among them suggests "let us assume we have a can-opener".

What the textbooks do not write is that the governments have good reasons to find the system of voucher attractive as it allows them to make the transition from public provisioning to a complete pay-as-you-go system in a somewhat covert manner without much social resistance. First, it is shown (by logical deduction) that the welfare consequences of the voucher system are at least as good as direct public provisioning. The argument is that, in either system, the consumer is not paying or paying a fraction of the cost, but in the voucher system the consumer enjoys the additional benefit of exercising her choice between different providers. People find it convincing. But in general, the voucher amount will not be indexed to cost escalation, so that sooner or later the schools will start charging the parents to compensate for their "losses". And this charge will rise over time, gradually turning the whole system into a virtually private one.

In spite of repeated suggestions by World Bank enthusiasts, very few countries in the developing world have attempted to introduce the system. The case of Colombia is rather instructive. A voucher system was introduced in 1992, which offered vouchers to entering sixth grade students residing in low-income areas and who had previously attended a public school. The voucher programme was designed to help poor students make the transition to secondary school in areas where public schools were filled to capacity. The value of the voucher was initially high enough to pay for tuition at low-cost private schools, but it was not indexed to price escalation, and as a result, in a couple of years' time, students' parents were typically making out-of-pocket payments equal to the voucher value to cover tuition costs. Most elite private schools in Colombia even decided not to accept the vouchers. The voucher system in Colombia covered only 1 per cent of national secondary enrolment, before it was discontinued in 1997.

The quality of education cannot also be

improved unless we change the system of teacher training under which teachers will first get acquainted with the kinds of students they will have to deal with before they are exposed to the theories of Dewey, Paulo Freire or Pestalozzi.

The AP projects a massive programme of rural infrastructure, but curiously enough that does not include the building of hundreds, if not thousands of schools with toilet and drinking water facilities, which practically all major states need. It does not also put forward any programme for building rural PHCs or hospitals. There are several schemes afoot for providing health insurance to the poor. How can they access these schemes if they do not have access to public health facilities which will treat them at a reasonable cost?

The PC often talks about incentive effects of particular policies. But it has failed to examine some of the most damaging effects of the current policies and social relations. It is a welcome step that the AP wants tenant rights in land to be recognised. First, the recognition of tenant rights itself requires the curbing of the coercive power of landlords in landlord-dominated states, and they include all the major states of north and west India. That in turn requires the identification and redistribution of ceiling-surplus land. The problems of recognition of peasant rights in land and the implementation of pro-peasant land reforms are intimately connected and the state is unlikely to attain one end without struggling for the latter. Secondly, it is not recognised that the greater the degree of inequality in a particular society, the higher will be the degree of corruption, the larger will be the leakages and the higher the cost of implementation. A policy stance that promotes inequality in an already grossly inegalitarian society, as the current central government does cannot tackle corruption and leakages simply by issuing bureaucratic fiats. The PC, by keeping silent about the political and social changes needed to implement its vision is unlikely to get far in attaining its proclaimed goal of more inclusive growth.

The problem of the incentives created by inequality raises its head in many other areas such as education and health care. We have already discussed some of the problematic suggestions of the PC in the area of school education. Let us look at higher education. The neoliberals want higher education to be a commodity and a privilege to be enjoyed by boys and girls from families which can afford to pay the

piper. All the existing studies show that despite all profession to the contrary and despite half-hearted implementation of positive discrimination for the dalits and the adivasis, the proportion of holders of graduate and postgraduate degrees among the upper caste Hindus in most states is far higher than among the dalits, adivasis and OBCs. The move towards giving preferential treatment to OBCs in admissions to institutions of higher education and private sector employment is only a recognition of the reality of the persistence of education and caste- and class-based inequality. But this is not enough. The government will still have to bear the major responsibility of higher education but will have to create scholarships for poor students and students from disadvantaged communities, even while it may charge fees for richer students from privileged communities. Such a system will have to build a proper system for monitoring of teachers so that they do not moonlight while enjoying the advantage of a publicly funded salary. The disincentive effects of a private-public mix in education and healthcare in which the operators of private colleges or hospitals enjoy higher incomes than teachers and doctors in government-funded colleges, universities and hospitals have to be squarely faced and corrected. There is not an inkling of awareness of this class of problems in the AP.

At the present stage of Indian development, we will have to pay more attention to the development of human resources than to the programmes benefiting the few. If the PC wants support from fashionable literature, so-called "endogenous growth models" are there to show how the development of human resources, in tandem with the growth of appropriate physical capital, can significantly accelerate growth. But we would simply call for the advancement of human capabilities for all Indians as the motivating framework. In order to accomplish that, the PC needs to put emphasis on (a) a distinctive distributive plan; and (b) a comprehensive social security for the vulnerable sections of the population.

Recently, the National Commission for Enterprises in the Unorganised Sector has submitted to the government of India its first report on social security. The issues of social protection and prevention of destitution for all Indians raised in that report, which covers 91 per cent of the working population, need to be debated and immediately implementable measures for proceeding towards those goals need to be incorporated in the eleventh FYP.

Furthermore, the common minimum programme and the employment programmes outlined there need to be extended to all the districts and municipalities in India. The country will be urbanising

at a faster rate than ever before and the population surging into urban areas has to be given employment, housing and access to public healthcare and education. These latter facilities cannot be treated as just by-products of grandiose schemes for the privileged: the experience of all countries during the last 20 years has shown that “trickle down effects” do not work and deliberate public policies in the areas sketched earlier would be necessary. What is the PC for, if it cannot protect the public

interest, if need be, even in opposition to a finance ministry tilting in the other direction?

The PC should treat the AP as an instrument for conscientisation of the people’s representatives to carry out people-friendly programmes rather than as a catalogue of spending projects to be dictated from the top. Our critique is a piece of advocacy to prod the PC in that direction. **EPW**

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