Emerging Paradigm of Development: Myths and Realities

D. C. Mishra
Former Managing Director
RITES.

Prologue

India is considered a developing country and has been striving hard to come in the category of Developed countries. Our Former President Dr. A. P. J. Abdul Kalam gave a Millennium Mission 2020 – a Developed India. He postulated that to convert this Mission into Vision, it will be necessary to uplift 260 million people who are below the poverty line by achieving a growth rate of 10% consistently over the next decade. He also laid down a profile of a developed India.

With the globalization of economy, breaking of economic barriers, opening of Indian markets for foreign investors, preponderance of consumer culture and growing inequalities, there is need to reassess the development process with a view to break the popular Myths and to know the Realities.

Sustainable development is a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for future generations to come. Sustainable development is development that “meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Recent global events have shown that markets on their own can not be expected to deliver the imperatives of sustainable development. It is therefore time to devise a new road map that places a premium on sustainable development. This obviously requires a completely new set of drivers and an enabling institutional framework. No single organ of society, be it the government or business, can meet the challenges on its own. These challenges can only be met by all sections of society joining hands to build a new Paradigm of development. A paradigm that creates re-oriented market forces that propel sustainable growth strategies which more than meet the target for India to become a Developed country by 2020, as set forth by Dr. Abdul Kalam.

- Editor
Introduction

Development is ordinarily defined as - a process in which something passes by degrees to a different stage (especially a more advanced or mature stage); but when we refer to development of a country, the definition given by Michael P. Todaro is more relevant, which defines Development “as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of absolute poverty.”

Development, in its essence, must represent the whole gamut of change by which an entire social system, tuned to the diverse basic needs and desires of individuals and social groups within that system, moves away from a condition of life widely perceived as unsatisfactory and towards a situation or condition of life regarded as materially and spiritually ‘better’. There are three core values of development and these core values are life-sustenance, self-esteem and freedom to choose.

Economics plays a major role in the development process, to better levels of living of people. Life sustenance means the opportunities and ability to provide basic necessities. People have certain basic needs without which life would be impossible. This means to raise people’s levels of living, their incomes and consumption levels of food, medical services, education etc., through economic growth processes. Economic growth refers to a rise in national or per capita income and product. If the production of goods and services in a country rises, by whatever means, the Economists refer to economic growth as a necessary condition to improve the quality of life. The World Trade Organization (WTO) also supports that such a growth can be triggered by increased trade between countries leading to increase in the wealth for one and all.

Millennium Development Goals (MDGs)

The Finance minister of India, P. Chidambaram concluded his 2004 budget speech with the following inspiring comment.

*The countries of the world, India included, have set for themselves the Millennium Development Goals. Our date with destiny is not at the end of the millennium, but in the year 2015. Will we achieve those goals? In the eleven years that remain, it is in our hands to shape our destiny. Progress is not always on a linear path, nor is it inevitable. Two thousand years ago, Saint Tirvalluvar said :

“Aran Izhukkathu Allavai Neeki Maran Izhukka Maanam Udayathu Arasu.” (They are good rulers who observe ethics, commit no crime and walk the path of honour and courage.)

If we bring the thought and passion to our governance, and walk the path of honour and courage, we can make the future happen. And this century will be India’s century.*
United Nations had laid down MDGs for its member nations, the eight goals that all 191 UN member states unanimously agreed to in 2002 by signing the United Nations Millennium Declaration. These goals are important targets for cutting poverty by half by the year 2015, with 1990 as the baseline. These goals are bold but achievable, may be, even if dozens of countries are not yet on track to achieve them. Rich countries have repeatedly promised to help poor countries to achieve these goals through increased development assistance and improved global rules of the game. Goals set for universal development were well defined as under:

- Development Goals to be achieved by 2015
  - Goal 1: Eradicate extreme poverty and hunger
  - Goal 2: Achieve universal primary education
  - Goal 3: Promote gender equality and empower women
  - Goal 4: Reduce child mortality
  - Goal 5: Improve maternal health
  - Goal 6: Combat HIV/AIDS, malaria and other diseases
  - Goal 7: Ensure environmental sustainability
  - Goal 8: Develop a Global Partnership for Development

- To end extreme poverty by 2025
- To ensure that all of the world’s poor countries can make reliable progress up the ladder of economic development, well before 2025.

Taken together, the Rio treaties, the Plan of Action on Population and Development, and the Millennium Development Goals adopted as specific time bound objective to improve the condition of poorest of poor in the areas of income, hunger, disease control, education and environmental sustainability can be called our Millennium Promises for sustainable development.

Eight actions for sustainable development:

- Schools impart regular studies through classes on environment, development economics, climate change, public health and other relevant fields.
- Interact with other cultures through travel.
- Start or join organizations committed to sustainable development.
- Encourage the engagement of the community and inspire others to join the cause of global sustainable development.
- Promote sustainable development through social networking sites.
- Get politically engaged, demanding of our politicians to honour Millennium Promises.
Engage organizations which adhere to the cause of global sustainable development.

And promote personal living according to the standards of Millennium Promises.

Ours is the generation that can end extreme poverty, turn the tide against climate change, and head off a massive and thoughtless extinction of other species to ensure sustainable development along with economic growth. Ours is the generation that can grapple with, and solve, the conundrum of combining economic well-being with environmental sustainability through change in attitudes. Ours is the generation that can harness science and a new ethics of global cooperation to bequeath a healthy planet to future generations.

Empowering the People

Policies that promote enterprise and hard work are a fundamental requirement in an economy striving for efficiency and prosperity. This does mean that India needs a smaller fiscal deficit, a national value-added tax, low inflation, more privatization and less regulated economy. However, neither economic growth nor economic policies are ends in themselves. It is people who create wealth, not government. Economic policy is the restructuring of incentives and disincentives in the economy. In a paper read to the Glasgow club way back in 1755, Adam Smith is believed to have said:

“Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things. All governments that thwart the natural course, which force things in to another channel, or which endeavor to arrest the progress of society at a particular point, are unnatural, and to support themselves are obliged to be oppressive and tyrannical.”

History tells us when the people are empowered with basic economic rights; they can turn dust into diamonds. Policy changes can help or hinder this process; but it is people and their commercial organizations that are the real stars of an economic transformation.

Manmohan Singh, the architect of India’s economic reforms and now its Prime Minister wrote on August 15, 2005:

“A nation is empowered by its people. A people are empowered by their capabilities. People’s capabilities are created by investments in their education, wellbeing and skills and [by] providing them with opportunities for gainful productive employment. People are also empowered by the freedom they enjoy… Open societies enable the full flowering of our individual personality. Open economies provide
D. C. Mishra

the space for the fruition of our creativity and enterprise. Open societies and open economies empower those who live and work in them. Being an open democratic society and an open economy empowers India. Provision of effective social security nets for the weak and needy will ensure that all sections of our population will participate in [the] processes of social and economic growth, making for a more inclusive society.”

Thomas L. Friedman wrote in the Foreword for Nandan Nilekani’s book ‘Imagining India’, “Nandan repeatedly and usefully reminds us that India’s economic revolution since 1990 has been a ‘people-driven transformation.’ It has actually been, in its own way, the biggest peaceful revolution in the last sixty years. It has never quite gotten its due because it happened peacefully and in slow motion—and the people did not topple monarch or bring down a wall. But it did involve a society throwing off something huge—throwing off the shackles of a half-century of low aspirations and failed economic ideas imposed from above and replacing them with its own energy and boundless aspirations. And it wasn’t just the famous software entrepreneurs like Nandan who were engaged. They started it. They showed what was possible. But these were soon followed by the farmers who demanded that schools teach their children more English and the mothers who saved for their kids to have that extra tutoring to get in to a local technology college and by the call center kids, who worked the phones at night and hit the business school classrooms by day—sleeping God only knows when in between. It was the revolution of a post-Nehruvian youth bubble that refused to settle any more for its assigned role or station in life. That is what makes this Indian people’s revolution so powerful and that is what makes it, as Nandan tells us, ‘irreversible’.

This amply highlights what can be achieved through ‘Empowering the People’.

Myths About Development

There are various myths about development, which need to be examined to know the realities of Development. Some prominent ones are:

1. ‘Foreign Aid’ is the only way to end Poverty

   Why foreign aid does not raise growth? One well-justified complaint about aid is that it is often tied to the purchase of goods from the donor country, which prevents growth of the recipient country. Yet another possibility is that the donor country gives the aid for political reasons, which again limits the aid’s effectiveness. There is one simple test of these explanations—only aid from national aid agencies (bilateral aid) is tied, while aid from the World Bank and regional development banks (multilateral aid) is not. However in both the cases there was no difference in the effect on growth. So the aid planners keep pouring in aid with the fixed objective of stimulating higher growth, although evidence does not support an effect of aid on growth.
History tells us that the most successful cures of poverty come from within. Foreign aid can help, but like windfall wealth, can also hurt. It can discourage effort and plant a crippling sense of incapacity. To people haunted by misery and hunger, that may add up to selfish indifference. As the African saying has it, “The hand that receives is always under the one that gives.”

“Foreign aid” is a misleading term, in that it presupposes that transfer will aid economic development, despite all too many examples where continued massive transfer of wealth has accomplished nothing, except solidify the existing regime and make the necessary changes less likely. Foreign aid also gives officials of aid agencies leverage to prescribe whatever economic policies happen to be in vogue at the moment—deflation, “shock treatment”, or whatever—without being accountable for the consequences. But attempt to remake other countries show no track record comparable to the dramatic improvements that countries have achieved when they have decided to remake themselves.

The conclusion is reinforced by the history of very poor countries that rose rapidly to higher economic levels, such as Scotland in the eighteenth century, Japan in the nineteenth century and China in the twentieth century. In all these cases, they raised themselves economically through *internal changes*, brought on by recognition that such internal changes were necessary. In case of Scotland, it was the rapid spread of education and the English language. Incase of Japan, it was national obsession, which included sending many Japanese young people to study in the more industrialized Western nations and bringing Westerners with skills to Japan. In China, it was the successive lifting of government restrictions on their economy and the opening of it to international businesses and investors. In none of these cases was there massive government-to-government transfers of wealth. Other examples of dramatic rise out of poverty, such as Singapore and South Korea, were likewise based on internal changes deliberately undertaken.

Perhaps the biggest fallacy in discussions of the Third World countries is the implicit assumption that there is something intellectually baffling or morally wrong about the fact that different nations have different per capita incomes. Given large differences in geography, demography, history and culture, it is hard to imagine how it could be otherwise.

2. **Planning is the best way to develop**

The fallacy is to assume that because some body has studied and lived in a society that some how wound up with prosperity and peace, he knows enough to plan for other societies to have prosperity and peace. Burke and Popper recognized the economic and political complexity of society. That complexity dooms any attempt to achieve the end of poverty through a plan, and no rich society has ended poverty in this way. It is only when rich country politicians gaze at the non-voters in the rest of
the world that they become planners. Outsiders are associated with Planning, while insiders are forced by their fellow insiders to be searchers.

The Planners have theoretical advantage of promising great things: the end of poverty. The only thing planners have against them is that they give us the second tragedy of the world’s poor. Poor people die not only because of the world’s indifference to their poverty, but also because of ineffective efforts by those who do care. To escape the cycle of tragedy, we have to be tough on the ideas of the Planners, even while we salute their goodwill.

In terms of the planning experience of the developing countries, many interesting hypotheses emerged. One of the most important hypotheses is that in most of these countries, irrespective of the kind of planning they pursued, planning failed to live up to the expectations in the sense that there was no clear association between a high degree of planning efforts in these countries and their performance in the term of growth.

Five decades of planning brought out that India’s economy, a mix of public and private enterprise is too large and diverse to be wholly predictable or responsive to directions of the planning authorities. Actual results usually differed in important respects from plan targets. Major shortcomings included insufficient improvement in income distribution and alleviation of poverty, delayed completions and cost overruns on many public-sector projects, and far too small a return on many public-sector investments. Even though the plans have been less effective than expected, they helped guide investment priorities, policy recommendations, and financial mobilization.

3. Higher Population Growth Impedes Development

“Overpopulation” theories do not stand up well to empirical scrutiny. Even within Malthus’ own lifetime, his prediction that growing numbers of people tended to cause their standard of living to be reduced was falsified by empirical evidence of rising population and rising living standards occurring simultaneously.

Even in poverty-stricken country like India, the number of people has been nowhere close to what the land can support. A twentieth century study found: “Half the population of India lives on less than a quarter of the total available land, and one-third is concentrated on less than 6 percent of the land. At the other extreme, vast areas continue to be almost inhabited.”

The idea of population as an asset rather than a burden has especially gained currency with the rise of knowledge-based industries such as IT, telecommunication and biotechnology in the 1970s. In fact the information economy is the culmination of what Industrial Revolution started—it has placed human capital in front and at the center as the main driver of productivity and growth. Capability to consume more is a great trigger to development.
However, unbridled optimism about population growth would be almost as bad as the relentless pessimism about it. The pressures of India’s vast population are indeed humungous—our natural resources are no bottomless pool. A billion people may offer us a deep base of human capital, but it also signals a potentially massive, detrimental burden on our environment, food production and resources, as millions of people join the middle class, ramp up their consumption, and per capita energy intake grows. Solutions for these concerns are not as difficult as it is made out to be.

Nevertheless, the impact of human capital in India has had large payoffs for the economy, especially since the 1991 reforms. Our skilled workers have been the nerve system of the IT, biotechnology, pharmaceuticals and telecommunications industry. Globally too, human creativity and economic competitiveness are now closely linked, and competition among countries is competition between their human capital.

Harvard demographer David Bloom tells that the key problem with early population theories was that “they were obsessed with overall population growth as an indicator, while ignoring the trends that lurked inside those figures.” These trends David notes, were uncovered when he and fellow demographer Jeffrey Williamson were puzzling over the growth in one particular region—East Asia. Economist had found it difficult to explain what exactly had happened in East Asia between 1965 and 1990 to drive the region’s impressive economic growth which had clocked in at an average of almost 6 percent a year during those decades. Terminology-wise, David says, they had already begun to shrug it off, like fatalistic believers, as the East Asian growth “miracle”. But when David and Jeffrey looked inside East Asia’s magic hat, they discovered a remarkable population trend that happened to coincide with its rapid growth. Between 1950 and 2000, the chances that an infant would die in East Asia fell sharply from 181 per 1000 births to just 34, and this caused fertility to fall from six children to two per woman.

The generation created a large number of young, enterprising workers, who themselves had fewer children and therefore few dependents—in fact, East Asia’s working-age population at that time grew nearly four times faster than its dependent population. Lower costs meant that this generation could save more—we now see this in India also, where a larger working population has helped push the country’s saving rate as a proportion of GDP to 34 percent in 2008, and it is set to rise even higher to 40 percent by 2015. Such savings create additional capital for investment across the economy. The extra money is especially valuable during boom generations, when the cumulative energy and creativity of a young, unencumbered population frees people not just to spend and save, but also to invent and innovate.

David called this a “demographic dividend,” a phrase that quickly caught on. When demographers went back and looked at previous periods of sustained economic growth from Europe to the United States to Asia, they found that they coincided time and again with similar patterns of large number of young people, and fewer dependents.
4. **Countries Rich in Natural Resources Develop Faster**

It might seem that natural resources would be a major factor in a country’s prosperity or poverty but there are too many higher-income countries with meagre natural resources – Switzerland and Japan, for example – and too many low-income countries with rich resources, such as Chile and South Africa. Technology can be important but much technology from advanced industrial nations has been transferred to sub-Saharan Africa and failed to become economically viable without the complementary factors of skill and experience. In India too, we see that there are states rich in natural resources which lie at the bottom of the development ladder.

Narrow inbred cultures have often been impoverished cultures, and impoverished cultures have usually meant economically impoverished people. A state’s dependence on the export of either oil or non-fuel minerals tends to hurt the welfare of the poor. A state’s dependence on agricultural commodities, by contrast, does not. The correlation between mineral wealth and indicators of poverty is strong to changes in the way mineral wealth is measured, the year in which it is measured, and the inclusion of regional dummy variables. While the influence of mineral dependence on life expectancy, infant mortality, and child malnutrition is relatively small, the effect on poverty is larger. It is well said that growth is good for the poor, but commodity dependence reduces the growth, therefore the commodity dependence—including mineral dependence—should be bad for the poor. A booming minerals sector may fail to produce – and may even crowd out – jobs for unskilled or semi-skilled workers. Studies suggest that linkages between a country’s mining sector and the rest of its economy tend to be weak.

More recently in 2002, the United Nations Conference on Trade and Development (UNCTAD) examined poverty rates, and changes in poverty rates, among the 49 least developed states. It classifies these states by export structure, and identifies seven as “non-fuel mineral exporters” and three as “oil exporters.” The average poverty rate for the non-fuel mineral exporters was highest of all the categories of states in the most recent period (1997-99). The non-fuel mineral exporters also showed the greatest increase in poverty since the initial period (1981-83). Based on this evidence, the UNCTAD study stated that there was a “clear link between dependence on exports of primary commodities and the incidence of extreme poverty,” and it produced an “international poverty trap.”

5. **Protectionism is the best way for Development**

The colonial past of India had made Indian politicians wary of opening the Indian borders for foreign trade; India believed in protecting its culture and crafts, where a village was treated as a unit for development and growth. In the past, Indian villages were supposed to be self-sufficient economically. The typical village was functionally integrated between agriculture and handicraft industry, with some communal ownership of land, and well defined social responsibilities for different castes. Agriculturists, craftsmen, astrologers, tanners, carpenters, barbers, priests, smiths,
petty retailers, musicians, record keepers, headmen, and so on worked in the village jointly. Mahatma Gandhi’s dream of building modern India along the lines of self governing village republics was based on this self-sufficiency of villages. Most Indian politicians wore hand-woven cloth but had faith in Nehru and the world of machines and factory civilization.

Marx, curiously enough, also talked about the independent nature of the Indian village, with its blend of agriculture and industry. Marx, among others, had said that the Indian village is self-sufficient because it “contains within itself all the conditions of surplus production” that guarantee an independent economy to each village. But this independence also made it stagnant and resistant to change, he felt. It bred in the peasant an indifference to politics, making him susceptible to despotic rule, and doomed him to conquest by foreigners. Marx thought that western technology would change all that. Marx had condemned this self-sufficient and romantic community, by calling it closed, stagnant and a victim of nature. In a vitriolic passage he said, “These idyllic village communities….had always been the solid foundation of oriental despotism…they restrained the human mind within the smallest possible compass, making it the unresisting tool of superstitions, enslaving it beneath traditional rules, depriving it of all grandeur and historical energies.” Marx predicted that “modern industry, will dissolve the hereditary division of labour upon which rests the Indian castes, those decisive impediments of Indian progress and power.”

Key Features for Development

The key features to accelerate and sustain development are quite revealing. Some such distinguishing features as have emerged in the last 60 years or so are:

1. Development comes through education

Our Father of the Nation Mahatma Gandhi had said “Education for life, Education through life, Education throughout life”. Gandhi’s thoughts on education had their echo in Earth Summit in 1992 in Rio de Janeiro, since thereafter there has been an increasing recognition of the critical role of education in promoting sustainable consumption and production patterns in order to change attitudes and behaviour of people as individuals, including as producers and consumers, and as citizens. It therefore realized the need for re-orienting education towards sustainable development, and direct all streams of education, both formal and non-formal, basic education and all the key issues related to educating for sustainable human development.

As a follow up in its 57th meeting in December 2002, the United Nations General Assembly proclaimed the UN Decade of Education for Sustainable Development, 2005- 2014, (DESD) ‘emphasizing that education is an indispensable element for achieving sustainable development’. Education for sustainable development aims to help people to develop the attitudes, skills and knowledge to make informed
decisions for the benefit of themselves and others, now and in the future, and to act upon these decisions. It breaks down the traditional educational scheme and promotes:

- Interdisciplinary and holistic learning rather than subject-based learning.
- Value-based learning.
- Critical thinking rather than memorizing.
- Multi-method approaches: word, art, drama, debate, etc.
- Participatory decision-making.
- Locally relevant information, rather than national.

Education is a subject which touches every person, every family and every institution in the country. Education is the only way to move forward; no country can dream of economic growth without a high quality human resource base.

In India there are about 220 million children that go to school, but those who move from school to college i.e. gross enrollment ratio is only of the order of 12.4 per cent. This means that out of every 100 children going to schools only 12 move to universities; for developed economies this is over 50 per cent and the global average is 27 per cent. It is therefore inescapable that the gross enrollment ratio is increased to 30-35 percent to create a critical mass of people to drive creativity, which is the foundation of ideas and intellectual property. This can only be achieved by providing more opportunities, more choices in curriculum and more avenues to children coming out of school. Education shall provide means to nurture and develop talent in various fields whether it is technical, sports, music, fine arts, adventure or communication.

Recently, Government of India has taken a welcome step of passing in the Parliament The Right of Children to Free and Compulsory Education Bill 2009. Children between the age of six and fourteen are now legally guaranteed free education. Human Resource Development Minister of India Kapil Sibal said in the Parliament “The bill is integrated with the future of the country. It will create intellectual assets, since creativity of mind leads to creation of intellectual assets”

2. **Democracy – best form of Government for Sustainable Development**

A successful nation has three attributes: politically, it is free and democratic; economically, it is prosperous and equitable; and socially, it is peaceful and cohesive. The Indian nation entered the twenty-first century with considerable strength in all these three areas. Despite our frustrations over governance and interests, politically, India is unquestionably free and democratic. During the past fifty years, Indians have learned to change their government peacefully; thanks to a revived Election Commission, all parties have affirmed that elections during the last decade have been
The best news for the Indian democracy, however, is the revolution at the local level—in the villages and towns. For forty years, we did not have local self-government. But during the nineties, local elections have been held in most villages and municipalities across the country and we have around three million legislators—a world record of sorts—of which one million are women. Local self-government (panchayat raj) may not immediately transform people’s lives, but it has to make a difference in the end. By law, one-third of our local representatives have to be women, and this too will make a difference.

Interestingly, a fallout of Democracy in India is a delayed implementation of population control program as a result today India has one of the youngest populations in the world. Indian economy is therefore more dynamic in terms of its human capital. The exuberance of this pool of restless, ambitious, young workers not hamstrung by tradition, is a shot in the arm in terms of new ideas and opportunities. Democracy is ensuring that their voices are heard, and the state is beginning to respond.

Democracy in this context has been a big payoff for India. Population scientists across the world are universally fond of noting that “demographics is destiny” but in India’s case, it is both demographics and democracy. India’s growth story today is the story of its young population. Our economy is the most dynamic in terms of its human capital—India has one of the youngest populations in the world, with a median age of twenty-three, at a time when rest of the globe is going grey.

3. Entrepreneur Development and Economic reforms accelerate Development

Entrepreneurship is an act of initiative, drive, commitment, diligence, perseverance, organized effort, and achievement outlook, to undertake some specific functions of performing productive activities and the capacity to bear and be associated with the investment. Assessment of market opportunity, responding to competition, gaining command over scarce resources, identifying sources of inputs, and marketing of products, dealing with public, bureaucracy, management of human resources, technological innovation and improvements in production techniques are prime functions of an entrepreneur. In other words, Entrepreneurship is the dynamic process of creating incremental wealth by individuals/groups through the use of resources. Individuals or groups who perform these activities are called entrepreneurs. Entrepreneurial activities create incremental wealth and are a precondition to economic growth. The entrepreneurs, their existence and their accelerated growth are positive parameters
for continuous and sustainable economic growth. Entrepreneurship is universally recognized as a critical resource in the economic development process of a country. Development of entrepreneurship therefore receives serious attention among the policy makers, planners and development economists as a strategy for economic growth.

In our country, usually the term for an entrepreneur is – ‘businessman’ which carries a negative connotation. The perception is that one goes into business if he/she could not be a banker, doctor, engineer, lawyer, professor or a corporate worker. Indian masses in movies too do see businessmen as crude, immoral people. In day-to-day life, a businessman is considered successful if he can achieve conspicuous success in amassing wealth. Despite our age-old negative views, this business class or entrepreneur class in the private sector has performed a crucial role in the growing of the economy and providing employment opportunities. The sector is now the engine of innovation for the country’s economy.

However, notwithstanding advances in scientific, social, political and economic systems, the gap between the rich and the poor is widening. Quite a few social problems continue to plague Indian societies, and concerns about the effectiveness and sustainability of governmental and welfare-based approaches to social problems have increased. This in turn has directed greater attention to the attitude and work of entrepreneurs. The long-term goal of entrepreneurial efforts has to ensure that the poor can contribute and share the benefits of growth through enhancing their purchasing power. It will in turn encourage economies to specialize in, and concentrate on, areas where these will add relative cost advantage over other economies. Eventually, it shall be a strong tool for poverty alleviation.

The Entrepreneur must initiate and explore the potential excellence and open scopes for people of all classes across the country and exploit these potentials for the development of the society and country. The government too needs to ensure that people of small means have access to facilities to undertake economic activities at appropriate scales throughout the country. With this in place, mobilization of more resources and more effective utilization of the available resources will be facilitated. With these factors working together, economic progress and development and poverty alleviation targets can be achieved.

Presently, with capital market imperfection, wealthy individuals become entrepreneurs while poor workers have no choice but to work for a wage. However, the dynamics of occupational choice can influence the process of development, notably through their effect on distribution of income and wealth, which in turn would affect growth and development.

The decision to allocate talent or entrepreneurial ability to productive rather than to unproductive activities seems to depend on Governmental policies and institutional reforms. There is a robust direct positive effect of policy reform on growth and an indirect effect through its interaction with entrepreneurship. The impact of
institutional reform is positive when the level of entrepreneurship is low and negative when it is high. On the other hand, the effect of policy reform is negative when entrepreneurial activity is weak and positive when it is strong.

4. **Income Inequality: the initial fallout of Development**

Economist Simon Kuznets studied the relationship between the level of development in a country and income inequality there and came across a clear trend. Within the group of countries with low level of income, the relatively better-off poor countries had higher level of income inequality compared to the rest. On the other hand, the high-income countries showed the opposite trend. It led to the creation of famous Kuznets Curve – an inverted U that showed how income inequality went up in the early stages of development and then came down as average incomes crossed a certain threshold. In short, initial bursts of growth tend to create greater income inequality.

Further, there is no innate tendency for inequality to disappear over the long run. A historically unequal situation perpetuates itself unless changed by Government policy, especially concerning the credit market. Development of Human Capital as well as Entrepreneurship is highly dependent on credit market. Educational loans for development of the Human Capital and project based loans to meet the start up cost of business, with least formalities, is the way that shall create wealth to reduce inequality.

The start up cost includes both the cost of physical capital as well as the human capital. Both these costs tend to go up with wealth creation, particularly the cost of human capital due to rise in wages. To bring down the inequality, the rate of rise of wealth creation has to be higher than the rate of rise in wages. This ratio will have a continuous bearing on the government credit policy.

In case of India the inequality in incomes has gone up in urban areas mainly due to relative share of capital investments in fixed assets having gone up as opposed to growth in labor leading to a decline in rate of labour absorption and rapid growth of services sector. Every society has some level of inequality. It is difficult to judge what a tolerable level of inequality is. So far as it does not create rifts within society, a little rise in inequality is not bad as it acts as an incentive for hard work.

5. **Development is Freedom of Choice**

Development can be seen, as a process of expending the real freedoms that people enjoy. Focus on human freedoms contrasts with the narrower views on development, such as identifying development with the growth of gross national product or with the rise in personal income, or with industrialization, or the technological advance, or with social modernization. Growth of GNP or individual incomes can, of course, be very important as a means to expending freedoms enjoyed by the members of the society. Similarly, industrialization or technological progress or social
modernization can substantially contribute to expanding human freedom. But freedom also depends on other determinants, such as social and economic arrangements (for example, facilities for education and health care) as well as political and civil rights (for example the liberty to participate in public discussion and scrutiny). Development requires removal of major sources of un-freedom: poverty, tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as also the intolerance or over activity of repressive states.

Emphasis on the significance of freedoms as ends of development in no way diminishes the need of freedom as means of development. Both are closely interrelated as one kind of freedom boosts freedoms of other kinds. For example, freedom to pursue education not only advances social and cultural freedom but also enhances economic opportunities. Economic wellbeing gives freedom to an individual to pursue his social goals and even to participate adequately in the exercise of political rights. Freedoms are thus, among the principal means as well as the primary ends of development.

Freedom to choose what one values and become fully “capacitated” in that choice is therefore the primary objective of all human development policies. In short, the basic objective of human development is to consider the multiple dimensions of human well-being and “create an enabling environment for people to enjoy long, healthy, and creative lives.”

6. Poverty Reduction and Development

Various approaches were evolved in the last 60 years to deploy development as a means to reduce poverty. During 1950s and 1960s large investments in physical capital and infrastructure were the primary means of development. During 1970s investments in health and education were considered necessary to promote growth in the income of poor people and during 1980s yet another shift got effected, promoting labour intensive growth through economic openness and allowing greater play of market forces. During 1990s good governance and institutionalized follow up and monitoring of development programs occupied center stage. A three-pronged approach was employed for promoting opportunity, facilitating empowerment, and enhancing security.

- **Promoting opportunity**: This meant jobs, credit, roads, electricity, markets for their produce, and schools, water, sanitation, and health services that underpin health and skills for work. Overall economical growth is crucial for generating opportunity.

- **Facilitating Empowerment**: The choice and implementation of public actions that are responsive to the needs of poor people depend on the interaction of political, social and other institutional processes. Access to market opportunities and to public services is often strongly influenced by state and social institutions. Sound and responsive institutions are
not only important for the benefit of the poor but also fundamental to the overall growth process.

- **Enhancing Security**: Reducing vulnerability—to economic shocks, natural disasters, ill health, disability, and personal violence—is an intrinsic part of enhancing well-being and encourages investment in human capital and in higher-risk, higher-return activities. This requires national action to manage the risk of economy wide shocks and effective mechanism to reduce the risks faced by poor people, including health- and weather-related risks. It also requires building the assets of poor people, diversifying household activities, and providing a range of insurance mechanism to cope with adverse shocks—from public work to stay-in-schools programs and health insurance.

Each of these activities is complementary and is inter-dependent. Simultaneous action to expand opportunities, empowerment, and security can create a new dynamics for change that will make it possible to deal with effectively the human deprivation and create just societies that are also competitive and productive.

Government of India has taken a concerted approach to reduce poverty. By the end of the current financial year government will spend Rs. 94,650 crore through the ministries of power, rural development, human resource development, women and child welfare, water resources and housing towards direct intervention for poverty alleviation. This biggest ever monetary investment is aimed at directly affecting the welfare and earnings of 60 million households living below the poverty line through various economic and social developmental activities.

7. **Globalization and Development**

No nation or civilization has been permanently in the forefront of human advancement. Since all countries were once as poor as the third world countries are today, what needs to be explained is not the poverty but creation of wealth—and the things that increase or decrease the ability to create wealth.

Do globalization and convergence signal the end of national striving? Does the very idea of international economic competitiveness no longer makes sense? The economist Paul Krugman would say so: the “views [of those who call for national economics] are based on failure to understand even the simplest economic facts and concepts.”

Peremptory and dismissive, and yet the proponents of state intervention still command the methodology for development. Here we are talking of two goals, power and wealth; and two ideals, distributive justice and impersonal efficiency. All of these hang together. Each has its own appeal, constituency, and justification.

Places cut off from advances in the various leading civilizations of the world, whether for geographic or other reasons, tended to lag behind and remain at levels of
poverty that the more dynamic economies were leaving behind. Seventeenth century Japan adopted a national policy towards deliberate isolation from the outside world, which lasted until American warships entered Japanese waters in the middle of nineteenth century and forced them to open their ports to the world. This painful episode provided a revelation to the Japanese of their backwardness and weakness, creating an agenda of national economic development that dominated the country for generations to come.

Globalization that is taking place today is increasing the divide between the rich and the poor. It has to be steered so that it serves not only commercial interests but also the social needs of development. Global business thrives on, and therefore encourages and imposes high levels of homogeneity in consumer preferences. On the other hand, for the development to be appropriate and sustainable, it must be guided by local considerations which lie in cultural diversity and traditions. Therefore at the policy level, recognition and significance of diversity, the need to preserve it, is an important precondition for sustainable development.

With increasing purchasing power, wasteful consumption linked to market driven consumerism is stressing the resource base of developing countries further. It is important to counter this through education and public awareness. Desirable limits and standards for consumption need to be established and applied through appropriate education, incentives and legislation. Several traditional practices that are sustainable and environment friendly continue to be a regular part of the lives of people in developing countries. These need to be encouraged rather than replaced by more ‘modern’ but unsustainable practices and technologies.

Decisions on development regarding technology and infrastructure are the major determinant of consumption patterns. It is therefore important to evaluate and make development decisions which structurally lead to a more sustainable society. Technologies exist which promote the development along with balanced consumption of resources. Efforts to identify, evaluate and introduce these technologies have to be made.

In an increasingly globalizing economy, developing countries, for want of the appropriate skills, are often at a disadvantage in negotiating and operating multilateral trade agreements. Regional cooperation for capacity building is therefore necessary to ensure their effective participation in all stages of multilateral trade.

Way Ahead

In the twenty-first century, our global society will flourish according to our ability to find common ground across the world on a set of shared objectives and on the practical means to achieve them. The pressure of scarce energy resources, growing environmental stress, a rising global population, legal and illegal mass migration, shifting economic power, and vast inequalities of income are too great to be left to the naked market forces and untrammelled geopolitical competition among nations. A
clash of civilizations could well result from the rising tensions, and it could be an utterly devastating clash. To find the way out to deal it peacefully, we will have to learn, on a global scale, the same core lessons that successful societies had gradually and grudgingly learned within their own national borders.

Market forces alone can not solve these problems. First, market forces alone will not guarantee that the world’s scientists and engineers direct their efforts to the development of the sustainable technologies. Many important technologies will have a huge social benefit for sustainable development but will not produce private-market profitability, so private business won’t invest in Research and Development (R&D) to discover and develop them. Second, even when sustainable technologies have been discovered and developed, market forces alone may not guarantee their widespread adoption. There is need for special incentives, in addition to market forces, to spur the adoption of sustainable technologies. Third, market forces alone do not guarantee an appropriate pattern of population change within a single country or at the global level. Population policies of sorts are needed to supplement free-market forces. Fourth, market forces do not guarantee that all parts of the world can meet their basic needs, much less get on a path of convergent growth. Markets may leave one billion or more people in the world behind, and the number could rise tragically in the future unless corrective course action is implemented simultaneously.

Conclusion

Twenty five years ago Rajiv Gandhi had said that an insignificant amount of investment made by the government for poverty alleviation reaches the targeted group of people. Recently the Deputy Chairman of Planning Commission Montek Singh Ahluwalia said that the revelation of Rajiv Gandhi twenty five years back was absolutely factual and, in spite of the well planned development schemes and economic reforms, the ground situation has not changed even a bit and therefore there is a need to review the delivery system. The efforts to address the situation have already started. While RTI and “Social Audits” in welfare schemes are sure to help plug some leakages, continuous monitoring and the delivery reforms only can transform the system to benefit the common man.

India’s Finance Minister Pranab Mukherjee in his recent address during an awards ceremony coined a term “inclusive growth”. He said “inclusive growth is a strategy where there will not only be growth but it will be achieved through certain instrumentalities so that benefits reach the largest section of the society and that the maximum number of people are able to derive benefits from these development projects”.

What economic growth means to the common man: more earning, more employment, more education, more healthcare, improved environment and more amenities. In a nutshell it means more opportunities. With a large proportion of Indian population depending on agrarian economy, it is necessary that the beginning of
reforms should commence on priority from agrarian sector. The problem is neither money nor technology. It is about effectiveness of the government in order to encourage farmers to grow alternative crops and overhaul of regressive system of food subsidies to consumer.

At the moment, India’s average yield per hectare is roughly half that of neighboring China. India must raise its agricultural productivity with a goal to catch up with China. It means carrying out a series of overdue reforms. This is admittedly easier said than done. There is a lack of clarity about reforms needed; would they include the government permitting the consolidation of rural land holdings by creating a market for voluntary land sales so that the average plot size becomes large enough for mechanization. Families owning just a hectare or two (which account for 90 percent of India’s farm holdings) can’t afford tractors or drip irrigation technology. It will make sense for farmers to be encouraged to create cooperative farms when there is a guaranteed market for their produce. But most Indian states make it compulsory for farmers to sell their produce to government-appointed middlemen who drive the buying prices of the produce down and the selling prices up and make money which should have otherwise gone in the hands of the producer. India’s farmers should be provided support to sell the produce in a market more beneficial to them, be it a domestic or foreign buyer. Liberalizing India’s retail sector, which would bring investments in cold storage facilities and new agribusinesses, would also stimulate a more rapid change.

Government may have to abolish agricultural price controls to boost rural prosperity. The state must play a more direct role. The most obvious deficiency is in India’s dismal rural infrastructure, both physical and social, necessitating building all-weather roads linking villages to towns. The state is required to play a visionary role by keeping watch on interest of producers both at the time of surplus production and scarcity. State has to have steps in store to keep undesirable elements away from exploiting such contrasting situations.

Government needs to reform India’s primary and secondary education system to ensure the teachers do their jobs effectively and sincerely. The same applies to village health centers for services by medical practitioners and upkeep of equipment. Fewer than half of Indian births are assisted by trained midwives or doctors, compared to 97 percent in China. Serious efforts are needed at appropriate levels to reverse the situation.

As a country gets richer people spend proportionately more on vegetables and proteins and less on basic cereals. Invariably, the state subsidies go to wheat and rice farmers. Diversifying the public incentive system to encourage more horticulture, vegetable, fish, and chicken farming, which have greater export potential, would provide boost to all sections of impoverished villagers. Wheat and rice are also heavily water-intensive, and India can ill afford to waste the fickle offerings of its rain gods. Crop diversification would also employ more people. Vegetable farming employs fifteen times more people per hectare. Utilities such as electricity and water should be
charged to the user as per their consumption, so that there will be an incentive to supply it. Farmers need to be made aware of the economics of rain harvesting. More than 70 percent of India’s rainfall runs off into the sea. In the cities, charging even the poor and needy for water could ensure better supply. Giving it free results in either wastage or they get nothing.

The other half of India’s poverty challenge is to create non-farm employment for many more people. India’s workforce is expanding by roughly ten million people every year and only five million new jobs get created every year. This imbalance needs to be corrected. Employment can be created by reforming agriculture. But not nearly enough. To stray in to economic jargon for a moment, India’s unreformed farming sector, the biggest sector of Indian economy has a zero or even a negative employment elasticity of growth. Improvement in agriculture productivity is resulting in employment to less labour not more. The growth of rural economy will help in many ways, particularly by cutting down migration to cities, as basic facilities and up gradation of infrastructure will convert villages into mini-cities.

The service sector could take up some of the slack, particularly if the country can do more to boost its tourist industry, which is surprisingly very small considering the unparalleled wealth of things for tourists to see and experience in India. At just 2.5 million foreign visitors in 2005, India had fewer tourists than Dubai or Singapore. This apart, there is of course no substitute to creating a large and more labour-intensive manufacturing sector in India. It will have to be non-polluting because India does posses the technology and capital to develop in a cleaner fashion than the countries that developed earlier. Nor does it have to be socially disruptive. Production, particularly in food processing and textiles, can take place in small towns of provincial India, with roads paved and refrigeration provided.

Creating better infrastructure, particularly roads, the railway system, and electric supply, is indispensable for the development of manufacturing. To sum it all, it is necessary to improve the delivery system, create infrastructure, create more opportunities and provide freedom of choice, be it education, employment, market or healthcare, for the people at large.

The problem of inequality in the society is linked to growth. It can only be resolved by unlocking the high quality skills to poorer people in society. The credit markets need to generate confidence to cater for this requirement by providing easy credits to develop high quality skills to the people with insufficient or even no collateral, as achieved successfully by some of the South-East Asian countries. It is however often observed that there is no innate tendency for inequality to disappear by itself in a growing economy. A historically unequal situation might perpetuate itself unless changed by government policy such as asset redistribution.

References


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“Let New India arise – out of the peasants’ cottage, grasping the plough, out of the huts of fisherman, the cobbler and the sweeper. Let Her spring from the shop, from beside the oven of a fritter seller. Let Her emanate from the factory, from marts and from markets. Let Her emerge from groves and forests, from hills and mountains.”

- Swami Vivekananda