Keynote Speech

India's 12th Five Year Plan

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I thank the Stanford Centre for International Development (SCID) for once again inviting me to the Annual Conference on Indian Economic Policy Reforms this year. Last year, when I was invited for the first time, though I did not articulate, the following poser lurked in my mind: Who is more courageous – the SCID for inviting me, or, I for accepting the invitation? Now that I am here again this year, I can only say that both of us remain courageous! Thank you once again for giving me this opportunity.

I am intensely aware of the misconceptions concerning our attitude towards the reform process both globally and in India. I request you to consider the strength of reasoning of our arguments and not be led by such misconceptions.

India's 12th Five Year Plan has been approved by the Union Cabinet of Ministers only recently. It is yet to be placed and discussed in the National Development Council (NDC), which is the authority to finalise the adoption of the Plan. The NDC includes the Chief Ministers of all Indian states and, true to India's federal structure, this is the statutory authority to finalise the Plan. Since the date for this NDC meeting has not been finalized yet, the document approved by the Union Cabinet is not available in public domain. Therefore, we largely have to discuss the 12th Plan on the basis of the approach paper issued by the Planning Commission of India in October 2011. Actually, the Plan should have begun rolling out this fiscal year, which began on April 1, 2012.

The fact that the document has not been finalized yet reflects the change in the definition of the planning from being an instrument of interventionist development agenda that places social benefit above private gains. Under the process of neo-liberal reforms, planning has emphasised the dismantling of controls by State; diluting the regulations and facilitating private investments. There can be nothing against facilitating private investments but a planning process presumes dovetailing all such private investments towards achieving the larger socio-economic goals. Any attempt to ignore the latter will only amount to a negation of the concept of planning.

The approach paper focuses on the sustenance and acceleration of a high growth strategy which is, at the same time, inclusive. As far as the high growth trajectory is concerned, the government has itself downscaled the projection of average annual growth during the 12th Plan to 8.2 per cent from the initial 9 per cent envisaged in the approach paper. As far as inclusive growth is concerned, the emphasis is in relation to reduction in poverty and increase in employment as well as providing universal education and health care. However, inclusion in the true sense can only be attained when interventionist efforts are made to ensure that the bottom percentiles receive a greater share of growth.

There is considerable controversy on the ridiculously low definitions of what constitutes poverty in India. In the 2011 Status Report on the UN Millennium Development Goals (MDGs) issued by the Indian government, the target of halving the proportion of people who suffer from hunger has been estimated to be "slow or almost off track". According to the official statistics, a calorific intake of 2200 calories in rural India and 2100 in urban India defines people who are not poor, notwithstanding the Planning Commission's own yardstick of 2400 calories. 69 per cent in rural India and 64.5 per cent in urban areas could not consume this calorie requirement in 2004-05. In 2009-10, these percentages increased to 76 and 68 respectively.

In terms of employment, according to official statistics (NSSO large survey) between 2004-05 and 2009-10, covering people above 15 years of age, all employment, including self-employment, increased at an annual compound rate of 0.82 per cent. This is against 2.7 per cent in the previous such survey for the preceding five years. Disturbingly, employment in manufacturing sector declined while the economy was growing at around a rate of 8 per cent per annum.

With regard to all other poverty related MDGs, the official status report of the Indian government says that we are "slow or off track" in terms of attaining the targets on reducing child mortality, meeting maternal health and halting – leave aside reversing – the incidents of major diseases like malaria, TB etc., India has contributed approximately 24 per cent of the new global cases of TB in 2009 as per the WHO. The MDG target of reducing the proportion of households having no access to improved sanitation is also way away from the target. In fact, the Indian Prime

Minister had recently bemoaned the high levels of malnutrition among Indians, particularly children, as a "national shame".

On the question of universal health care, the 12th Plan proposes to move from a mixture of public sector service provision plus insurance, to "a system of health care delivered by a managed network." Such a universal provision of health care envisages two components – "preventive interventions" which the government would be both funding and universally providing and "clinical services" at different levels defined in an Essential Health Package which the government would finance but not necessarily directly provide.

Thus, the government, under the 12th Plan, proposes to confine itself to providing a small package of services while virtually all clinical services would be opened up for the corporate private sector. The government would, thus, play the role of a provider of health care which is financed by public monies to fatten the corporate sector by handing over profit making clinical services. This is a Plan aimed at progressively winding up the universalisation of public health. The proposals are to increase public expenditure on health from 1.02 per cent to 1.58 per cent of GDP. This is far lower than a minimum of 5 per cent, that is recommended by the WHO. In a list of 200 countries ranked by the World Bank in 2010, concerning performance in public health care spending, India is placed at number 187. The Chair of the Planning Commission's Expert Group on Universal Public Health care himself admitted that the rising health costs were annually pushing 30 to 40 million Indians below the poverty line. No inclusive growth can happen with such an approach towards public health.

Likewise, in the field of education, the emphasis is on expanding private education and developing the education sector on the basis of a public-private-partnership (PPP). Various new legislations are pending before the Indian Parliament to bring about such changes. The Plan document calls for a change in treating education as a non-profit making institution and to permit large-scale profit generation in this sector. The financial squeeze on the existing public education system is accompanied by permitting privatization. This is only legalizing the commercialization of education. Private higher education today already accounts for four-fifth of enrollment in professional education and one-third overall. Ironically, in this country – USA – less than one-fourth are enrolled in private institutions. The universal right to education, international experience shows, can only be achieved with a network of State-run “neighbourhood schools”. This has laid the foundation of all developed countries. Unfortunately, the 12th Plan seems to abandon this approach.

Thus, in terms of inclusive growth, in all these sectors of poverty reduction, employment expansion, universal public health and universal education, the emphasis seems to be to facilitate private profiteering as against achieving the socio-economic objectives. This does not auger well for India’s future.

As regards the high growth trajectory as well, there are serious problems in the Plan prescriptions. The focus is on providing capital – both foreign and domestic – a larger access for profit maximization. Under capitalism, the State is meant to create such opportunities. But will this serve the objective of achieving higher growth? Unfortunately, this does not appear to be so. For instance, in the last year, tax concessions worth Rs. 5.28 trillion were given, as incentives for growth. These concessions outstrip the high 6.9 per cent fiscal deficit which translates to Rs. 5.22 trillion. Yet, the growth in manufacturing declined from 3.6 per cent in July 2011 to 0.1 per cent in July 2012. This only indicates the fact that it is neither the lack of capital nor the lack of investment opportunities that are constraints for a high growth trajectory. This may, however, make capital available for speculative ventures that may create temporary `bubbles’, which can devastate the economy when they burst. The world is continuing to experience the pain and agony of such a consequent economic slowdown bordering on recession.

The basic problem in India lies in the fact that the aggregate domestic demand in the economy is not growing proportionally to sustain a high growth trajectory. On the contrary, all studies indicate a contraction in recent years. Given the current global recession and economic slow down, world trade has declined so has in India’s volumes and values of exports. Any export-led growth strategy in the current situation is simply unviable.

India’s growth, therefore, is crucially dependent upon expanding its domestic demand rapidly. This cannot happen by merely making available larger and cheaper access to capital for investments. The purchasing power in the hands of the Indian people needs to be exponentially increased to make this happen. For this, the 12th Plan must ensure large-scale increases in public investments to build India’s much needed infrastructure. This would generate jobs and, hence, increase the purchasing power in the hands of the Indian people and the aggregate domestic demand. This will be a more sustainable trajectory of growth that would be relatively more inclusive as well. The financing of such public investments can come from the monies that are now not collected due to tax concessions which, in any case, have not resulted in any additional growth – inclusive or otherwise.

What India requires today is virtually an Indian "new deal" – a massive hike in public investments for which there are no dearth of resources. These resources are today either being looted through mega corruption scams, reflecting a `crony capitalism' of the worst order, or, are given away as tax concessions to the corporates. We can only hope that such a shift in strategy takes place as the 12th Plan is finally adopted. But, unfortunately I am reasonably certain that the final document of India's 12th Plan will not do this.

The current policy trajectory of reforms in the 12th Plan approach naturally leads us to question the `growth' and who are benefiting from it. During the course of last year, the number of US dollar billionaires in India doubled to 52 holding combined assets equivalent of 25 per cent of Indian GDP. Apart from these people, there are another minuscule section who are called high net worth individuals (HNWIs). They are just 0.01 per cent (120,000) of the total population of our country and their combined worth is close to one-third of India's gross national income. According to the 2010 World Wealth Report brought out by financial services firms Capgemini and Merrill Lynch Wealth Management, India now has 126,700 HNWIs, an increase of more than 50 per cent over the 2008 number. These are the people who have not lost in the period of global economic crisis, but in fact gained.

That growth will be accompanied by a `trickle down' process, thus, reducing levels of poverty continues to remain an illusion. It has never happened and will never happen unless there is an interventionist effort by the planning process. It is precisely this that is being jettisoned today. Unfortunately, this will only widen the hiatus between the two Indias that are being created today.