



CENTRE FOR  
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# CITIZENSHIP, OPPORTUNITY AND REDISTRIBUTION

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## INTRODUCTION

Public policy in any democracy must first respect the citizen. This does not come easy in poor countries because there is such a vast gulf, in every possible dimension, between those who make the rules and those who have to abide by them. The middle classes in such societies is wafer thin and the poor are many, the very poor, even more. Under such circumstances it would appear that the best policy would be one that targets the poor with a range of subsidies and specially designed schemes.

Such policies run up against several obstacles, but most importantly, they do not centralize the concept of citizenship. T.H. Marshall's understanding of citizenship is probably the clearest on this subject. According to him, citizenship confers a status of equality upon all on which structures of inequality can be built.<sup>2</sup>

This implies that all policies in a democracy, that is respectful of citizenship, cannot or, at least, should not, devise interventions that keep this gulf going in the name of helping the poor.

As these anti-poverty measures are meant specifically for those "others" who are poor and very unlike those who devise these schemes, they are nearly always unsuccessful. Their most persistent features, across decades in Independent India, have been that of corruption and inefficiency. In fact, they are failures from start to finish, destined to falter and collapse from almost the moment they left the drawing board. Democracy is equalizing, not in terms of wealth, but as Marshall said, in terms of creating equal *opportunities* so that citizens can be unequal at the end. Therefore, the end game is to create opportunities to be equal, but not to survive as an unequal.

Rather than think along these lines, it is much easier to plan "for the poor only" policies which are largely *redistributive* in nature with a specific category of population in mind. They do not require introspection, or mobilization, or place us face to face with our own prejudices because they are never about *all of us*. The most oft resorted to method that starts this process is when wrangling begin on who is poor, how many are poor, and how can we help them live without rocking the boat. All of this is quite heady, with a touch of noblesse oblige. As such efforts tend to be self-congratulatory they do not introduce even a pause to our established ways of thinking.

## POVERTY MEASURES AND REDISTRIBUTION POLICIES

Poverty is not principally about numbers. To eradicate it, the emphasis should be on how to make the poor like the rest of us- equal citizens, and not targeted people. In order to do just that it is necessary to open up opportunities that free them and not rest by providing ways and means of subsisting. The latter are like relief measures that draw sustenance from the redistributive paradigm. As we will soon see, with examples from India, these programmes do not aspire to remove poverty on a permanent basis, but keep the poor in a somewhat better shape. They would still be dependent on handouts or subsidies, in one form or another, and never citizens in a substantive fashion.

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<sup>2</sup> Marshall, T.H, 2009, "Citizenship and Social Class," in *Inequality and Society*, eds., Jeff Manza and Michael Sauder, New York: W.W. Norton and Company

It is not difficult to recognize the extent of poverty in India; it stares at you unblinkingly from every corner. There are, however, various ways of guising it, dressing it up and making it look less offensive than what it really is. One cannot, after all, frame targeted policies for the majority; hence the need to tone the numbers and the ugliness down, but still plan only for designated and defined people. The magnitude of the problem is actually quite unnerving: India with 17.5% of the world's population has 20.6% of the global share of the poor.

Till 2005, Indian experts used bare minimum caloric requirements to keep body and soul together to arrive at base estimates of poverty. After that the Government adopted a new methodology (inspired by the late economist Suresh Tendulkar) which went beyond caloric requirement. It now included an individual's total consumption, or a basket of essential goods, in order to be able to afford the calories necessary to survive. Then there are other measures that give importance to years of schooling. Naturally, there were, and still are, rows in different quarters, within the establishment and outside it, over how to measure who is eating well, how well, or hardly at all. Or, in the more sophisticated version, the consumption and possession of goods that enables a person to survive.

While the official figure is 21.9%, the World Bank says it is about 23.6%, Tendulkar argued that it was more like 41.8%, while Saxena topped it up further and put the number at 50%.<sup>3</sup> The World Bank prefers the Purchasing Power Parity route and concluded that anybody living on less than \$1.78 a day should be classified as poor. Surprisingly, contestations of this kind grabbed policy wonks and many accredited experts have quarreled over this now for decades.

The government claims, in a very evident self-congratulatory fashion, that poverty numbers in 2011 had fallen from 37.2% in 2004-05 to 21.9% in 2011-12; a reduction of about 137 million people. Many of those outside the immediate establishment differ on this figure. They believe that the picture looks salutary only because the minimum caloric requirement that earlier marked the poverty threshold has been lowered.<sup>4</sup> Critics argue that this has artificially decreased the numbers of the poor without substantially better their lot. A mini revolution achieved with statistics riding shotgun.

The poverty figures vary a great deal depending on which barometer one is looking at: it may be anything between 21.9% to even 72%.<sup>5</sup> The official stance has, however, been recently tainted significantly by a high powered Planning Commission study in 2014. Known as the Rangarajan Report, the percentage of the poor now is about 29.5%, a near 8% jump. But do we really need poverty statistics to tell us that India is poor?<sup>6</sup> Does it really help to know if Arjun Sengupta, head of National Commission for Enterprises in the Unorganized Sector has bested the late Tendulkar's or the Planning Commission's estimates and even that of N.C. Saxena.<sup>7</sup>

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<sup>3</sup> Saxena, N.C, 2009, Recommendations for Methodology for Conducting BPL Census, Ministry of Rural Welfare: New Delhi, Government of India

<sup>4</sup> <http://indiamicrofinance.com/wp-content/uploads/2014/06/povert-in-india-2014-205.pdf>

<sup>5</sup> National Commission for Enterprises in the Unorganized Sector, 2007, Report on Conditions of Work and Promotion of Livelihoods in the Unorganized Sector: New Delhi; Tendulkar, et. al.2009

<sup>6</sup> Rangarajan. C, 2014, Report of the Expert Group to Review the Methodology for Measurement of Poverty, New Delhi: The Planning Commission, Government of India

<sup>7</sup> see also <http://pib.nic.in/newsite/PrintRelease.aspx?relid=68126> and The Hindu (19 September 2009); Saxena, N.C, 2009, Recommendations for Methodology for Conducting BPL Census, Ministry of Rural Welfare: New Delhi, Government of India

Regardless of this statistical controversy, the fact remains that between 10-15 crore families can barely feed themselves. The number of severe and acute malnourished children in India is said to be equal to the population of Sub-Saharan Africa. If there is any scale for measuring poverty it should be this. Poverty, after all, is not just about calories which can be stuffed into one's system by simply ingesting carbohydrates. That option is attractive for it helps dodge the spectra of famine from official records- but malnutrition still exists; just look at the children.

## **EVALUATING REDISTRIBUTION POLICIES**

As calorie intake is the primary index of poverty, not much attention is paid to nutrition. Rice and wheat are distributed through fair price shops at subsidized rates for those who are officially tagged as being Below the Poverty Line (or, BPL). Only these families have been issued ration cards with which they can make purchases through the Public Distribution System (or, PDS). If a family's total wherewithal goes above the base line that determines poverty, even marginally, it cannot legitimately get a ration card and, therefore, cannot access the PDS.<sup>8</sup>

All of this is ideal ground for breeding corruption. On a routine basis, food invariably goes to the wrong address as those with some clout manage a ration card and game the system. N.C. Saxena estimated that a little over 17% of the richest quintile has a ration card that allows them to illegally buy grains at subsidized rates.<sup>9</sup> According to one estimate, the Public Distribution System is such a leaky bucket that at least 41% of its grain finds its way to the open market.<sup>10</sup> Therefore, while we have not had a famine in living memory, it cannot be said that we have overcome either poverty or malnutrition.

Redistribution that is specifically aimed at a target group will always run the risk of being underfunded, poorly planned, or wasteful, or all of the above. It is not as if this malaise haunts the food sector alone but characterizes nearly every other massive, state led anti-poverty scheme. We started our examination with food as this can quickly and easily translate the problem in rather tangible terms. Let us now look at some of the other areas where this kind of redistributive approach has failed to deliver to those for whom they were specifically intended.

The National Rural Employment Guarantee Act (NREGA) promises 100 days' work a year to anybody in rural India who volunteers to do unskilled, manual work. This was a flagship programme of the previous government led by the Congress and was heralded as giving "the right to work" actual expression. NREGA was later re-named as Mahatma Gandhi National Rural Employment Act, or MNREGA, but did not change in substance. In spite of being cast as a game changer, it has come in for a lot of criticism on account of its non-performance in states where they were supposed to make the most difference.

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<sup>8</sup> Chauhan, Chetan, 2013, "Poverty does not give way to Prosperity once the Threshold is Breached," Hindustan Times, July 28, 2013

<sup>9</sup> Saxena, N.C, 2009, Recommendations for Methodology for Conducting BPL Census, Ministry of Rural Welfare: New Delhi, Government of India

<sup>10</sup> Yesudian, C.A.K, 2007, "Poverty Alleviation Programmes in India: A Social Audit," Indian Journal of Medical Research, no. 26, pp. 344-373

First, the 100 days' employment provision was never really put in practice and was never achieved anywhere. Second, MNREGA's impact was really quite minimal. According to the Commission for Agricultural Costs and Prices (a government body), contrary to the political rhetoric, the impact of MNREGA on raising agricultural wages is really minimal, perhaps less than 0.5%.<sup>11</sup> Besides corruption and misuse, bad planning too takes its toll. Finally, notice, this scheme is all about unskilled labour; nowhere does it say anything about creating infrastructure, add to skills, or move people out of poverty.

There are several other examples of failed redistribution policies as well. For example, the Rashtra Swasthya Bima Yojana, a cashless National Health Insurance Policy, launched in 2008, has several problems with it. As it was once again meant only for the official poor those who narrowly miss acquiring that status are kept out. Besides the RSBY is also a poor program. It only allows for a maximum expenditure of Rs. 30,000, for a family of five, and is of little use when a poor family faces a catastrophic illness, or has an extra dependent. This is probably why very few from among those who qualify even avail of this scheme when it comes to the attending major ailments.<sup>12</sup> Further, the fact that RSBY only works for a family of five clearly implies that if there should there be a sixth member, this initiative will get up and walk out of the door.

It has also been observed that insurance companies begin by making very low bids to be included in RSBY and then fail to provide the actual cashless facility on the ground. Many private health care providers, that had been empaneled in this scheme, are pulling out. They complain of low returns and high administration costs, made worse by delays in being recompensed by the government.<sup>13</sup> This is a familiar story where the poor remain un-served for the policies intended for them, which are also poor in content and quality.

Let us now turn to the audit report of Jawahar Rozgar Yojana (another employment scheme). This scrutiny discovered that funds were utilized in the terminal quarter of the project just so that the books could be dressed up.<sup>14</sup> A Planning Commission study notes that, most often, poor beneficiaries need to pay speed money, they can hardly afford, to access the National Family Benefit Scheme designed especially for them.<sup>15</sup> The Integrated Rural Development Program of the 1970s failed to make entrepreneurs of poor farmers as banks were reluctant to give them loans. So the IRDP was replaced by Swarnajyanti Gram Swarozgar Yojana (a village level employment scheme) in 1999 which, reports suggest, were almost entirely used by the non-poor. Likewise, when the Jawahar Rozgar Yojana, of 1989, performed below par, it was re-launched as Jawahar Gram Samridhhi Yojana a decade later, but that flopped too. In fact, it generated fewer man days of work than the program it replaced with so much fanfare.<sup>16</sup> When the 1988 National Literacy Mission was launched there was great optimism surrounding it. It succeeded at one plane for it

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<sup>11</sup> see: <http://firstbiz.firstpost.com/economy/memo-to-sonia-nrega-wasnt-game-changer-growth-was-40134.html>

<sup>12</sup> Rathi, Prateek, 2012, Evaluation of Rashtriya Swasthya Bima Yojana (RSBY): A Case Study of Amravati District, Bangalore, Indian Institute of Management.

<sup>13</sup> <http://indian.express.com/article/india/india-others/government-plans-new-trust-based-model-for-health-scheme/>

<sup>14</sup> [www.planningcommission.nic.in/reports/peoreport/cmpdmpeo/vol1/147.pdf](http://www.planningcommission.nic.in/reports/peoreport/cmpdmpeo/vol1/147.pdf)

<sup>15</sup> [http://planningcommission.nic.in/reports/sereport/ser/maker/mak\\_cht5b.pdf](http://planningcommission.nic.in/reports/sereport/ser/maker/mak_cht5b.pdf)

<sup>16</sup> Yesudian, C.A.K, 2007, "Poverty Alleviation Programmes in India: A Social Audit," Indian Journal of Medical Research, no. 26, pp. 344-373

made 800 million adults officially literate, yet they were not trained to be functionally literate; and the gap between the two is wide.<sup>17</sup>

The major reason why redistributive policies aimed specifically at the poor do not work is because they are not intended to uplift the society as a whole but just a section of it. When the latter is the focus, and the former is blurred, the program loses its intensity and efficacy. Those who are policy implementers have no interest in what they have drafted as they are not going to be their beneficiaries in anyway. The ones who are served, and are supposed to be served, are too poor to make their voices heard and their claims addressed. This encourages corruption and inefficiency for there is so little accountability.

Oscar Wilde had once said that socialism in Britain was not to eradicate poverty but to keep the poor alive. As we have just seen, most redistributive, “for the official poor only” policies, end up doing just that.

What then is the alternative?

### **PLANNING HUMAN RESOURCE DEVELOPMENT FOR ALL**

Most generally, when opportunities are created for the poor to escape poverty and not just be protected in their encysted lives, only then can we make some real progress. In other words, the thrust should be towards social uplift and not poverty uplift. Perhaps one could even remark that the fundamental premise for helping the poor is to forget the poor. That is when opportunity prospects open up which are citizen oriented and not poverty oriented.

To proceed along these lines, two sets of things need to happen, preferably together. It is necessary that we have quality (and not quantity) human resources available to pressure the economy to function at a higher rate, both in terms of efficiency and productivity. What better way is there to improve human resources but through health and education?

Our argument is simple; if these two services are not provided at quality levels, the poor will always be vulnerable and will always remain at low paid, low skilled jobs. This scenario would, however, change if they are assured good health and education, at par with the general population, or of the kind, that the non-poor would also find attractive.

It may well be argued, at this stage, that it is wiser to concentrate on cranking up employment and leave the business of enriching our human resource base for later? Once our employment situation looks better, we would then have the wherewithal to attend to issues like health and education. This stand has many takers. It is also popular in administrative and government circles primarily because the heat is now off and things are postponed for another day. There are, however, serious drawbacks in this line of thinking.

Consider the following. If armed with proper health and educational facilities, the poor will now have greater confidence to refuse dehumanizing work. Better education would pressure the

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<sup>17</sup> Banerjee, Sumanta, Revisiting the National Literacy Mission,” Economic and Political Weekly, Vol.28, no.25, pp. 1274-78.

government, as well as private entrepreneurs, to invest in units that require greater skills for a higher price. Initially, there would be some reluctance, but eventually as this becomes the template of industrial activity, the hesitation will lessen. Yields would gradually grow and this would propel the entire society on a prosperous path. Better health care would make the poor, as well as the not-so-poor, more confident of their future and would be to negotiate as citizens and not as patronage-seeking clients.

Today, the poor dare not refuse the most degrading work, at pitiable wages for two reasons. Obviously, as the bulk of them are unskilled and hence unfit to do anything better. Further, as there is a stagnant pool of low wage labour, this acts as a disincentive against investing in things that require high skills. When so much profit can be acquired at running risk free, low enterprise content units, why try doing anything better? This aspect is magnified because the poor are so deprived of good, accessible health services that a single catastrophic illness could wipe out whole families. Unless health and education are taken seriously from the start, and not later as luxury items, development driven opportunities will be hard to create.

As this strategy depends critically on health and education for all, and not just the poor, the targeted approach must be replaced by the welfare state model instead. Second, and this is a corollary of the first, employment opportunities need to be generated in high skill industry and non-farm occupations. In India today, people are leaving agriculture in their millions and are becoming the recruiting base for those who set up outfits that need little, or no, skills. For this to change, education and health for all, villagers and non-villagers alike, is necessary. Not only would low wage units now face the paucity of ready-made labour, but this would also enable agrarian refugees to claim a more dignified industrial asylum.

In planning health and education for all we must be mindful of a lurking danger. If such merit goods are left to market forces alone, without an adequate public provision base, then we may even fail to keep the poor alive. We shall take up the matter soon enough in greater detail, but a question that often comes up in this regard has to be entertained right away. It must be stated, at the outset, that this is not the same as taking a hostile attitude towards enterprise, but just that there are certain limits within which the private sector should function. It is unfortunate there are some from those countries that have benefited enormously from universal health and education policies are now hostile to the. They have, obviously, forgotten their own history.

Without a doubt, if the public delivery of health and education is poor, the market will not be challenged to provide quality level services either. If public schools and hospitals function badly, the private sector can make enormous profits by doing just a little bit better; which is hardly a challenge. This is exactly the situation in India. There is a plethora of private hospitals where the poor are forced to go because our public hospitals are near dysfunctional. Likewise, with schools. Here again, the poor are increasingly sending their children to private schools they can ill afford, for the state run schools are of such inferior quality. We shall return to this question soon.

## **EVALUATING PUBLIC DELIVERY OF EDUCATION AND HEALTH**

It was widely hoped that the Kasturba Gandhi Vidyalaya Scheme (named after Mahatma Gandhi's wife), meant for educating poor girl children, would create a fresh stir. Sadly, an evaluation done in 2011 does not support this optimism. All the 18 schools established under this program in Uttar Pradesh (the most populous Indian state) failed to even get the desired number of "poor" girl

students admitted in them.<sup>18</sup> A much larger survey on education in general points to similar features. The Human Development in India report makes the startling revelation that about half the children in middle school can neither read or make sense of a simple paragraph, or do an elementary sum.<sup>19</sup>

The poor have obviously seen through these designed for poor government schools and, therefore, send their children to private school in villages at great personal sacrifice. It is not as if these schools are much superior performers or have better facilities. Sometimes, three grades are crowded and taught together in one room. The children here do a little better than those in government run schools, but not by much. Unlike the posh establishments that we usually associate private schools with, these are modest affairs and much cheaper, but still way higher than what a poor family can afford. Even so, poor parents take the risk for in private establishments, because at least the teachers turn up here.

This preference for private schools can be demonstrated by a simple statistic. In the 1980s about just 2% of school going children went to private schools, but today the number reached about 21%. In urban India the proportion is much more at about 51%.<sup>20</sup> Even the very, very poor, children from among the lowest income quintile, a significant number, as high as 15%, go to private schools.<sup>21</sup> There is a great pressure to get educated, and then there is great unhappiness in what the government provides. This is what makes private schools so attractive even though the poor can hardly afford them and the quality of education is not that much to write home about either.

Not surprisingly, our overall education record is quite dismal, notwithstanding these private schools. Hemingway had once described that one gets broke first slowly and then suddenly. This is how the school drop outs exit as well. From a 15% drop out in Standard 5 it goes up a further 50% by Standard 10, and a further 43% before the final examinations in class 12. As one can expect, women students do even more poorly primarily because as many as 40% of them have never even been enrolled in schools.<sup>22</sup>

If those who are better off should think that the quality of their education is superior, then that assumption too is gravely threatened. Credible surveys have shown that about 27% of those from the highest quintile are unable to read a short paragraph. Consequently, if educational standards should improve, the threshold of good education should be set by public schools, only then would private ones deliver at much higher levels. This is the only way to stop low-grade private schools from popping up at every corner. They would now have to deliver at much higher levels and, therefore, would not be an easy run at all.

When we turn our attention to health we find the same appalling picture. Once again, there is a gigantic boom in the growth of private hospitals and health facilities, both for the rich and the

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<sup>18</sup> see: [post.jagran.com/search/Kasturba-awasiya-balika-vidyalaya-kgbv](http://post.jagran.com/search/Kasturba-awasiya-balika-vidyalaya-kgbv)

<sup>19</sup> Desai Sonalde, Amaresh Dubey, Brij Lal Joshi, Mitali Sen, Abusaleh Shariff, Reeve Vanneman, 2010, Human Development in India, Delhi: Oxford University Press, <http://ihds.umd.edu/report.html> (accessed on 7 March, 2011)

<sup>20</sup> *ibid*

<sup>21</sup> *ibid*: 82

<sup>22</sup> *ibid*: 77

poor. The 2005 National Rural Health Mission (NRHM), another poor directed program, died on the vine; even worse, hardly survived from the time it was initiated.<sup>23</sup> Even if one were to grant that there were good intentions propelling this initiative, it did not amount to much and really changed nothing. To argue, as some do, that it was the NRHM that brought down both Maternal Mortality Rate (MMR) or Infant Mortality Rate (IMR) would be wrong, if not cunning. These rates were coming down at roughly the same rate, between 1990 and 2012, even before NRHM, and this trend occurred across different governments too.

Though doctors in public health sectors are better trained, such as in the Primary Health Centers in the rural areas, villagers still prefer the private practitioners.<sup>24</sup> This paradox can be resolved when we look at the dismal quality of service the public health system provides. In many instances, the doctors are not even present. This drives people to private health practitioners, many of whom don't have a proper medical degree, nor are their clinics well equipped. The degrees that these "doctors" frame and put up on their walls are an alphabet jumble of letters and read rather like an optician's chart.

The poor, therefore, continue to distrust government hospitals, just as they do state-run schools. This background explains why as many as 71% of the sick regularly go to private doctors (ibid: 107) even though they can hardly afford to. This is also why medical bills force so many people to fall into chronic debt every year. Extensive surveys have shown that as many as 39 million are pushed to poverty annually on account of ill health.<sup>25</sup>

It is now not surprising that in India about 85% of health costs are borne by the patient, much of it on account of hospital costs and the price of medicines.<sup>26</sup> This number is unconscionably high. In high income countries, out of pocket expenditure on health is about 36%.<sup>27</sup> After examining the 60<sup>th</sup> round of the National Sample Survey, Indrani Gupta concludes that among those who reported going to hospitals, treatment cost was about Rs. 6332 for rural India and Rs. 9806 in urban India. Drugs consume about 63% of all medical expenses and this spikes poverty rates by 3.6% in rural India and 2.9% in urban India.<sup>28</sup> An earlier Planning Commission Report tells us that only 35% in India have access to essential drugs.

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<sup>23</sup> see: International Institute for Population Sciences, 2010; Sharma, A.K. 2014 "The National Rural Health Mission: A Critique," Sociological Bulletin, vol. 63, no. 2; pp. 287-301

<sup>24</sup> Desai Sonalde, Amaresh Dubey, Brij Lal Joshi, Mitali Sen, Abusaleh Shariff, Reeve Vanneman, 2010, Human Development in India, Delhi: Oxford University Press. Also available at the internet link <http://ihds.umd.edu/report.html> (accessed on 7 March, 2011)

<sup>25</sup> Shiva Kumar, A.K. Lincoln Chen, Mita Choudhury, Vijay Mahajan, Shibani Ganju, Amarjeet Sinha, Abhijit Sen, 2011, "Framing Health Care: Challenges and Opportunities, The Lancet (37), issue no. 9766, pp. 668-679; Sinha, Koutelya, 2011, "Indians Pay 78% of Medical Expenses from their own Pocket," Times of India, 13 January, 2011; Srinath Reddy, K, Vikram Patel, Prabhat Jha, Vinod K. Pant, A.K.Shiva Kumar, Lalit Dandona 2011 "Towards Achievement of Universal Health Care in India by 2020" Lancet, (37), issue 9767, pp. 760-68

<sup>26</sup> see: <http://kff.org/global-indicator/out-of-pocket-expenditure-on-health/>

<sup>27</sup> <https://www.ciaonet.org/attachments/14764/uploads> ; accessed on 14 November, 2015

<sup>28</sup> Gupta Indrani, 2009, Out of Pocket Expenditures on Poverty: Estimates from NSS 61st Round," <http://planningcommission.gov.in/reports/genrep/indrani.pdf> (accessed on 7 March 2011)

Contrast this with the fact that in Upper Middle Income countries (and not just the very rich) 82% are able to afford such drugs.<sup>29</sup> It could also be said that a measure of development can be derived from the ratio on health expenditure to GDP. The greater the extent to which health is publicly financed indicates a higher state of development.<sup>30</sup> It is a sad truth, but public health expenditure in India is less than 1% of our GDP while the corresponding average in Upper Middle Income countries is 3.4% and for the European Union, about 8%.<sup>31</sup>

## **JOB OPPORTUNITIES**

Agriculture in India has long ceased to be the principal occupation. This is to be expected as over 85% of all land holdings are below two hectares, and about 67% below one hectare. Area under food crops has also come down between 1950-51 and 2009-10, from 80.7% to 73.5%.<sup>32</sup> Naturally, and this is almost predictable, between 1994 and 2001, real investment in agriculture has declined by as much as 20%.<sup>33</sup> What is even more impressive is that the economy of rural India has moved quite a distance from being agriculture based.

According to the National Sample Survey (66<sup>th</sup> Round) the percentage of non-agricultural households has increased from a pre-existing high of nearly 32% in 1993-94 to over 42% in 2009-10. Relying on the 50<sup>th</sup> and 57<sup>th</sup> round of the National Sample Survey, Omkar Goswami estimates that about 35% of rural households are non-agricultural.<sup>34</sup> Equally noteworthy is the fact that the rural non-farm sector contributes as much as 61% of rural net domestic product.<sup>35</sup> Alongside, we may also note that even public expenditure on agriculture research is barely 0.45% of GDP, while in other developing countries it is 0.7% and between 2%-3% in advanced economies.

It is for this reason we find a high rate of migration from India's villages in search of employment. According to the latest 2011 Census, 18 new million plus cities have come up in the past ten years, but that is just a tiny part of the story. Besides the emergence of these big urban centres, there are 72 new class I towns and about 2774 Census Towns. For the first time the increase in growth of urban population is greater than of the rural population in plain numbers. In terms of percentage, while rural India grew at 13%, in urban India the growth was as high as 31%.

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<sup>29</sup> Gupta, S.P, 2002, Report on the Committee on India Vision 2020, New Delhi: Planning Commission, Government of India

<sup>30</sup> see: <http://www.oecd.org/unitedstates/Briefing-Note-UNITED-STATES-2014.pdf>

<sup>31</sup> Gupta, S.P, 2002, Report on the Committee on India Vision 2020, New Delhi: Planning Commission, Government of India

<sup>32</sup> India Key Data 2007: 2008 Incorporating Budget Analysis, The Red Book, Mumbai: Kal Nimay, Sumangal Press.

<sup>33</sup> Acharya, Shankar Robert Cassen and Kirsty McNay 2004 "The Economy: Past and Future," in Tim Dyson, Robert Cassen and Leela Visaria, eds., Twenty First Century India: Population, Economy, Human Development and the Environment, Oxford University Press: New York

<sup>34</sup> Goswami Omkar, n.d., "Rural is Much More than Only Agriculture," New Delhi: CERG Advisory Private Limited ; Lee, Dias and Jackson 2005.

<sup>35</sup> <http://www.indiastat.com>: 58; see also Chaddha, G.K, 2003, Rural Non-Farm Sector in the Indian Economy: Growth, Challenges and Future Direction (Mimeo), Paper presented in the joint Jawaharlal Nehru University and IFPRI Workshop, The Dragon and the Elephant: A Comparative Study of Economic Reforms in China and India, held on 25-26 March at the India Habitat Centre, New Delhi

Migration figures suggest that this surge is primarily because rural India is expelling people because agriculture is no longer a viable option. For example, in just one year, between 1999 and 2000, the proportion of people migrating for jobs has jumped by as much as 15%.<sup>36</sup> As these workers are almost always unskilled they are only good enough to be absorbed in the informal sector, if at that.

This may test one's credulity. But 74% of wage workers in non-agricultural occupations earn their incomes in the informal sector. Overall, only about 7% of our labour force is in the formal sector. This does not mean that there is no aspiration among the poor for more formalized working conditions and an opportunity to up-skill themselves. The rise in literacy rates in rural India demonstrates this urge. The 2001 Census shows that, in the inter-censal period, the literacy in rural India went up by 14.5% while the rise in urban India was 7.2%.

The formal sector cannot stand outside this process. It too has been smudged by the huge army of informal labour whose recruitment figures grow by the day. Arjun Sengupta led National Commission for Enterprises in the Unorganised Sector, came out with the startling fact that the percentage of informal labour had gone up dramatically from 37.8% in 1999-2000 to 46.6% in 2004-5.<sup>37</sup> That this has happened in the heart of the organized sector and during the period when liberalization of the economy was in full swing make these numbers all the more alarming.<sup>38</sup>

Using another scale of measurement Sood, Nath and Ghosh demonstrate that the share of contract workers in organized employment has more than doubled between 2003-4 to 2009-10.<sup>39</sup> The Indian Labour and Employment Report also points out the low average daily earning of a casual worker.<sup>40</sup> Maiti and Mitra show how informal labour in manufacturing today is closer to 84.54%.<sup>41</sup>

Interestingly, and along the same lines, non-agricultural units employing less than 10 people has increased by 110.8% between 1980 and 2005.<sup>42</sup> Finally, as minimum labour norms and standards are really rock-bottom, they help "ensnare the industrial economy in the syndrome of low wage

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<sup>36</sup>Manpower Profile of India ,2005; New Delhi, Institute of Applied Manpower Research, Concept Publication, table 6.12; see also Kundu, Amitabh and Lopamudra Ray Saraswati 2012 "Migration and Exclusionary Urbanization in India," Economic and Political Weekly, vol. XLVII; pp. 212-227

<sup>37</sup> Srijia, A and Shrinivas V. Shirke,2014, An Analysis of the Informal Labour Market in India, New Delhi: Confederation of Indian Industry; National Commission for Enterprises in the Unorganized Sector, 2007, Report on Conditions of Work and Promotion of Livelihoods in the Unorganized Sector: New Delhi

<sup>38</sup> Report on Conditions of Work and Promotion...: 4

<sup>39</sup> Fallon, Peter R. and Robert E.B. Lucas 1991 "the Impact of changes in Job Security Regulations in India and Zimbabwe," The World Bank Economic Review 1991, vol. 5, no. 3, pp. 395-413; Hazra, Arnab Kumar 2001, Industrial Disputes Act: A Critical Appraisal, New Delhi: Rajiv Gandhi Institute for Contemporary Studies, no. 29); Sood, Atul. Paritosh Nath and Sangeeta Ghosh, "Deregulating Capital, Regulating Labour: The Dynamics in the Manufacturing Sector in India," Economic and Political Weekly, vol. XLIX, nos. 26&27, pp. 58-68

<sup>40</sup> Institute for Human Development, 2014

<sup>41</sup> Maiti, Dibyendu and Arup Mitra 2010 Skills, Informality and Development, Institute of Economic Growth Working Paper No. 306, Delhi: Institute of Economic Growth

<sup>42</sup> Five Year Plan 2002-2007, New Delhi: The Planning Commission, Government of India; Statistical Outline of India 2006-2007, Mumbai: Tata Services Limited, Department of Economics

productivity”.<sup>43</sup> It is not surprising then that Indian corporates and the state have both chosen an easier route.

Now this is a significant observation. According Dibyendu Maiti and Sugata Marjit, where there is weak governance, informal labour and extra-legal transaction, the greater will be the wage difference between formal and informal labour as well as low R&D in the formal sector.<sup>44</sup> Under these circumstances, there is, therefore, a clear disincentive towards establishing high technology industries which need constant R&D. This is why our industrial sector has not yet matured to the extent that our once poorer neighbour, South Korea, has. Too add to all this, when there is a multitude of small companies, it is much harder to implement standards regarding safety and working conditions.<sup>45</sup>

Barring a few, businesses in India do not want a first rate labour force, for if they were to get one, they would not know what to do with it. What we have instead is a plethora of Micro Small and Medium Enterprises (MSMEs), the bulk of them unregistered.<sup>46</sup> These units invest zero in R&D, but make a killing by flogging a low wage work force. If MSMEs did well, when the going was good, it was because their main edge in the international market was cheap labour.<sup>47</sup> In fact, it is this unskilled labour force that contributes, as we mentioned earlier, about 43% of our export earnings.

Finally, consider this factoid: The vocationally trained labour force is a stagnant 5%, in India, but a staggering 95% in South Korea. Today, Laos, Cambodia, Bangladesh, and many African countries, can easily out-cheap our cheap labour which, like water, always seeks the lowest level. There is little effort in India to take rural migrants out of their primitive, or original, condition, in terms of their skill sets.

From all of this it is clear that the informal sector is happy to draw on low-wage and low-skill labour, with practically no investment in R&D. Even the highly skilled and much acclaimed IT sector spends a fifth of what other countries do on R&D.<sup>48</sup> Sengupta and Basu also point out that Indian firms, in the main, find little need to hire qualified people on their rolls and not interested in R&D investments.<sup>49</sup> Even the Prime Minister of India, otherwise favourably disposed to

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<sup>43</sup> Sharma Alakh, 2007, “Flexibility, Employment and Labour Market Reforms in India: New Delhi, Institute for Human Development

<sup>44</sup> Maiti Dibyendu and Sugata Marjit, IEG, May 2009: “Informal Wage and Formal Sector Productivity: Theory and Evidences.

<sup>45</sup> Basu Kaushik, 2014, Fiscal Policy as an Instrument of Investment and Growth, Policy, Research Working Paper 6850, The World Bank, Development Economics Vice Presidency, Office of the Chief Economist

<sup>46</sup> Annual Report 2013-2014, Ministry of Micro, Small and Medium Enterprises: New Delhi, Government of India

<sup>47</sup> Upto, 2008-9

<sup>48</sup> Gupta, S.P, 2002, Report on the Committee on India Vision 2020, New Delhi: Planning Commission, Government of India

<sup>49</sup> Sengupta Devia and Sreeradha Basu, 2012 “Why Cos Ignore Masters in Engineering Institutes,” Economic Times, 14 December, 2012

business, had to admonish corporate leaders early September this year to take risks, be real entrepreneurs and not behave like consultants who live on salaries.

India's reigning labour laws also contribute to the failure of developing a high technology economy. There is a decided slant here towards favouring the small scale industries and a decided bias against the formal industrial sector. Indirectly, and in practice, the Indian state actually favours the growth of informal labour and not a formal, high skilled, labour force.

## **INDUSTRIAL POLICY BIAS AND OPPORTUNITIES FOR SKILL DEVELOPMENT**

The bias of the Indian state towards the small scale sector hence, in real terms, encouraging informal labour, can also be easily gauged by the prevailing labour laws. If we pay close attention to the Industrial Dispute Act, we find a number of clauses that inhibits the formation of large scale enterprises where the opportunities for regular work and at higher wages are much greater. For example, this Act says that if a unit has more than 99 workers and had employed them for over 240 days, it has to abide by a number of restrictions. The most significant among them is that such enterprises must get the government's permission when firing, re-structuring or closing down a factory or workshop. None of these apply to those enterprises that are below this threshold.

This prompts business people to make sure that their employee strength does not exceed 99; and do this by subterfuge, or by just not expanding at all. In addition, workers are flipped over well before they have served for 240 days so that a reconciliation committee need not be set up in the event of retrenchment. To make matters worse, it is only when a unit has more than 20 workers who have worked for 240 days it is obliged to pay bonus. This prompts many employers not just to make sure that they hire less than a hundred workers, but not to cross the 20 mark either. Every reason, therefore, for business people to stay small, stay low wage intensive and then hire and fire workers at will. In both instances, the spur to spend on R&D and create opportunities for employing skilled labour is simply missing. Add to this the observation of Basu and Dixit, already mentioned, that the smaller an unit is, the harder it is to regulate it.<sup>50</sup>

Now, let us take up the issue of whether Indian entrepreneurs really want skilled labour? To begin with, as Subodh Verma points out, only 2% of youth in our country have vocational training. But what about those who have acquired skills through some kind of formal training? Even among this category we find that as many as 65% of rural labourers who had received training in mechanical engineering or computer skills are working in construction sites or in agricultural fields. Moreover, 60% of those who had done textile related vocational courses are not in the labour force.<sup>51</sup> Mujumdar draws our attention to the low priority given to skill development in India. The numbers that received some form of training were in the majority unemployed. As far as vocational training institutes are concerned, once again there is a woeful mismatch. If one were to aggregate all the training centres (about 8,800 Indian Training Institutes and 450 polytechnics) then they can, at best, absorb about 3% of the 14 million students that annually pass out from school. In Korea the figure is 31% and in China it is as high as 55%.<sup>52</sup> Under these conditions, what

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<sup>50</sup> Basu Kaushik, 2014, Fiscal Policy as an Instrument of Investment and Growth, Policy, Research Working Paper 6850, The World Bank, Development Economics Vice Presidency, Office of the Chief Economist

<sup>51</sup> Verma Subodh, 2012, "Only 2% of India's Youth have Vocational Training," Times of India, May, 13, 2013

<sup>52</sup> <http://www.indiaeducationreview.com/need-vocationalisation-education-india>, Mujumdar Swati ,n.d., Indian Education Review "Need for Vocationalisation of Education in India," in India

chances are there of creating respectable job opportunities for the millions of workers seeking proper employment?

It is not as if just the small scale entrepreneur gains out of this. Strangely enough, those workers in the few 100 plus enterprises are also beneficiaries of the Industrial Disputes Act. As they are protected by law they are not really interested in seeing to it that those in less privileged circumstances raise themselves sufficiently enough from their humble origins. If workers' unions in these industries were to agitate for the formalization of work across the board they would have to give up some of the securities. The one that they want to cling on to is the privilege of never being fired at all, no matter what.

Obviously, this would frighten entrepreneurs for they would lose the autonomy to size and right size their business. To arrive at a more acceptable situation that would open up opportunities in the formal sector for all, a degree of compromise is necessary. The now organized and unionized workers should give up some of their iron clad security to a more enterprise friendly one. This can be done without giving up on their basic dignity and yielding to rapacious business people. This can happen in a number of ways. One option is to legislate a law that would force management to pay compensation wages when anyone in their employ is fired.

This might have the desired effect. Dismissing a worker will now no longer be cost free, as it is today in the informal sector. Under this dispensation, the employer will have to pay compensation, regardless of size or number of days at work. As long as the amount is significant, but not prohibitive, such a measure will benefit both employers and employees. Such a measure accomplishes two goals simultaneously. Workers are now permanent unless something goes wrong, and the management must think carefully before dismissing anyone, as that now carries a cost. Therefore, whether the enterprise has 100 workers or more, employed for 240 days or more, all workers are entitled to a compensation package when fired. If such a provision comes into effect, there will be little justification for entrepreneurs to keep their units small and avoid signing a formal contract with their workers. Consequently, regardless of size, all workers are entitled to provident fund, bonus and compensation wages and, on the other hand, it frees the entrepreneur to think big.<sup>53</sup>

It is necessary to open this line of thought if we are to move away from low wage industries to high wage, high skill ones. Even if such a suggestion were to be accepted it is not as if this, like a magic wand, would bring about an instant transformation in the quality of India's labour force, or encourage R&D.

For all of this to fall together as a piece, Kaushik Basu believes that India needs to invest in infrastructure much more determinedly and consistently than it does now.<sup>54</sup> Axel C. Hettiman also demonstrates the lag India has to make up in this department if it is to be a competing power in Asia is really quite huge. China, for example, spends Rs.5132 on infrastructure per capita, while

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<sup>53</sup> Re-thinking the Industrial Disputes Act: Labour Law Relations for a New India 2014, New Delhi: Centre for Public Affairs and Critical Theory, Shiv Nadar University

<sup>54</sup> Basu Kaushik, 2014, Fiscal Policy as an Instrument of Investment and Growth, Policy, Research Working Paper 6850, The World Bank, Development Economics Vice Presidency, Office of the Chief Economist

India spends only Rs. 752. Germany produces 1.7 kilowatts of electricity per person, India 0.15.<sup>55</sup> If one were to use China as a measure, it upped its power capacity by 85% between 2000 and 2010.<sup>56</sup>

Only when investments of this order happen that opportunities for employment in the formal sector also rise. To remain cottage-industry like, producing artisan like wares, thinking like the old fashioned villager, will only encourage handouts of various kinds. The government must snap out this thrall and take bold steps into the future. This can be best done by conceiving projects that encourage employment and high skills and not be satisfied with just keeping the poor alive.

## **DEMOGRAPHIC DIVIDEND**

What does India want to be when it grows up? More than 50% of its population is under 50 and about 60% is between 15 and 60 years of age. With so many young people India's future can only be awesome. So what is holding us back?

If this population profile is to translate into an asset and become a demographic dividend, then the young have to be skilled and qualified. In other words, the economy must keep it coming at all levels. Between 1965 and 1990, Latin America resembled East Asia in terms of its age structure, but only the latter surged ahead because it had proper policies in place. With an educated and trained population, the numbers of skilled labour force rapidly grew in East Asia and raised the productivity of those in the working age.

In India, sadly, the working class is still quite backward. The Institute of Applied Manpower Research tells us that the percentage of workers who have middle and high school qualifications is actually declining. Even in India's glamour Information Technology (IT) sector, only a third of its professionals have a formal engineering degree. Instead of a demographic dividend we could well be looking at a demographic drag.

To state the obvious: when there are a large number of jobless, or under-employed, youth, crime rates tend to go up. In other words, if there are more young than old it does not naturally lead to development. As Qeios and Turra state, there is a small window of opportunity which must be capitalized upon at the right tie.<sup>57</sup> The young population can become a demographic dividend only when social policies shine a light on it. Without such measures, a crowded young set is just a tawdry street away from a life of vagrancy and worse.

One, therefore, tends to worry about the recent Census data on employment. The numbers show that there has been a slow fall in the percentage of main workers (those employed for more than six months) and a steady rise in the case of marginal workers (those who are clearly under-employed and or have work for less than six months). This is not good news. To make matters worse, employment in the organized sector resembles a still life painting. Its numbers have more

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<sup>55</sup> Hettiman Alex, 2011, "Cities are India's Future," in Times of India, 31 May, 2015.

<sup>56</sup> see: <http://siteresources.worldbank.org/INTEAPINFRASTRUCT/Resources/855084-1137106254308/ResourceReq>

<sup>57</sup> Queiroz, Bernardo L and Cassio M. Turra, 2010, "Window of Opportunity: Socioeconomic Consequences of demographic Changes in Brazil." (see <http://www.ntaccounts.org/doc/repository/QT2010.pdf>)

or less refused to budge from the miniscule 30 million or so it achieved two decades ago. In addition, there has been a fall in the number of daily workers in registered factories. This picture too has to change with fairly quick brush strokes for the young to look good.

The principal reason why a large percentage of Indians are below 60 is because Infant Mortality Rates (IMR) have fallen on account of better drugs, primarily, antibiotics. Even though IMR in India is 55 per thousand, and much too high by civilized standards, it has dropped significantly over the last fifty years. On the other hand, a falling IMR has other consequences. Societies with low IMR do not keep churning out babies.

Over a period of time couples realize that they now have more children than they want, or need. This depresses fertility, resulting in fewer births. The time then to take advantage of an overwhelmingly young population is very short, just about a generation or so. It is that fleeting period between falling IMR and a high fertility rate when the iron is really hot. If at this time the youth are exposed to better health, quality education and innovative industrial practices, then the demographic dividend is like cash in the bank. This window does not stay open for too long. Consistently low IMR will soon prompt rational parents to limit their family size.

An initial fall in morbidity, such as with a drop in Infant Mortality Rates, causes a “boom generation” of the young. Now what happens with this group of young people is a matter of policy and not of nature. For a long time, it was believed that high population slowed down economic growth. It has now been concluded that rising numbers do not necessarily lead to lower per capita incomes. Even the United Nations, which is a notorious slow learner, has woken up to this reality. It has now curbed grants for purely population control interventions.

The emphasis among demographers today is to look at the age structure and not just at numbers, especially when linking population with development. This draws our attention to the difference between demographic crowding on account of a birth boom, and a true demographic dividend. It is only in the latter case that a society can stick out its chest for its young are usefully contributing to it.

## **CONCLUSION**

At the end of the day, it is really citizenship that counts. If we keep certain categories of people in dependence, then democracy and citizenship both suffer. It is clear that redistribution, plain and simple, that directly benefits the poor has little chance of success. They neither help the economy to develop nor rescue the poverty stricken out of their conditions. We have tried to demonstrate this with many examples in the pages above.

To think citizenship is the best way out and for that we must think opportunities. Human resources matter as much as the other factors of production. And, as we all know, if there are no skills then the fillip towards establishing high technology industries is low. All of this demonstrates a truth that we have mentioned in different forms time and again. The pre-condition to development is to expand opportunities and the pre-condition for that is to improve standards of delivery of health and education, both private and public. Only then would we have the requisite human resource base that can both demand and power a sophisticated economic machinery.

But what we don't always pay attention to is that this cycle can only be broken by state policies that determinedly goes against popular opinion. In India we have often complained that we have no money and that we are many. Does that mean, we are doomed forever? Or, that by the time real change happens several generations will have come and gone.

An important feature of democracy is that it makes all us citizens very impatient!