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The Indian Economy Sixty Years After Independence

Edited by
Raghubendra Jha
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Preface

2007 marked 60 years of Indian independence, a period in which a country that is home to a sixth of the world's population, has gone through immense transformations. The persistent image of India as a nation unable to feed its population has been replaced with that of a country that is being called an innovation powerhouse, a knowledge economy at the forefront of key scientific research, indeed a country where the interface between research and innovation is being re-defined.

However, this sanguine outlook is only of recent origin. To be sure the Nobel Laureate poet Rabindranath Tagore moved by India's colonial experience wrote of India a few years before independence (in 1941) that ''... perhaps in no other modern state was there such hopeless dearth of the most elementary needs of existence.' The implications of this dire economic condition were compounded, in the eyes of many observers, by the granting by the Indian constitution, almost immediately after independence, of universal adult franchise within a democratic parliamentary set-up. This was at a time when some of the major Western powers had not granted full voting rights to all their population. It was widely felt in the 1950s and 1960s (and perhaps even later) that such an unqualitative experiment was a recipe for disaster.

Yet India has proved these commentators wrong. From some of these same quarters one hears comments like the 21st century is India's century. Although there is much that is remarkable in India's emergence on the world stage as a major economic power several challenges remain, some like poverty have been persistent while the growth process itself has thrown up new challenges, like addressing increasing regional inequality, or designing purposeful economic policy in an era of coalition governments.

The present volume does not pretend to be a comprehensive analysis of the Indian economy sixty years after independence. Indeed it would be overly ambitious to attempt such a task. Rather, this book is an attempt to examine key areas of the Indian economic experience closely with the subsidiary aim of being able to anticipate future developments.

The papers in this volume were presented at a conference to mark 60 years of Indian independence in August 2007 by Australia South Asia Research Centre, Australian National University. I am grateful to all the scholars who presented papers at the conference and then undertook the non-trivial task of transforming conference presentations into major scholarly articles. At Palgrave Macmillan, Tabea Butzol and Alex Dubber were most gracious and helpful during the preparation of the manuscript for publication. ASARC administrator, Stephanie Hancock, organised every detail of this conference and prepared the manuscript for final publication. I really cannot thank Stephanie enough for her many contributions to the conference and this volume.

Mark Twain once famously said that 'India is, the cradle of human race, the birthplace of human speech, the mother of history, the grandmother of legend, and the great grand mother of tradition. Our most valuable and most instructive materials in the
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history of man are treasured up in India only.' This country of traditions now has a population of 1.1 billion with a median age of 24.9 years! Hence there is much that is exciting and vibrant that is unfolding. This book tries to capture some of the economic dimensions of India’s transformation.

Raghbendra Jha
Canberra, February 2008

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1
An Introduction to the Volume

Raghbendra Jha

The rapid growth of the Indian economy and the impressive structural transformation that has accompanied it are phenomena of monumental importance to our times. Indian economic reforms which had tentative and hesitant beginnings in the mid 1990s accelerated in the early 1990s and have never looked back. The fruits of such reforms are now evident in the distinctly higher trend rate of growth of the economy, the wide base and stability of such growth and the immensely large corpus of opportunities manifested, among other things by an increasing readiness to both cooperate and compete with the external world, now open to India's young population.

The completion of 60 years of Indian independence in August 2007 provided an important benchmark for taking stock of India's economic performance and assessing the possibilities for the future. For a nation of 1.1 billion with a median age of 24.9 years assessing prospects for the future is at least as important as taking stock of where this population stands.

Against this background the Australia South Asia Research Centre (ASARC) at the Australian National University organized a two day international conference of leading scholars — economists, political scientists and public policy experts — on the Indian economy sixty years after independence. The unifying theme behind the conference was twofold; an evaluation of the extant situation and an assessment of prospects.

The present volume contains a selection of 16 papers that were presented at the conference and represent a broad view of the potential for and the problems facing the Indian economy. It is divided into five parts (i) Mega Trends in India — Economics and Politics, (ii) Emerging Issues in Fiscal Policy in India, (iii) India’s External Sector, (iv) Trends and Prospects for India’s Social Sector, and (v) Sectoral Issues.

In part 1 Robin Jeffrey in his chapter entitled 'Coalitions and Consequences: Leadership and Leadership in India, 1948-2008' explores a missing aspect of the large literature that has grown up around coalition governments in India. The missing aspect is the 'educational process' by which Indian politicians have learned the benefits and requirements of coalition governments and then how to make them work. The chapter then discusses whether coalition governments are good or bad for economic development and social change. Raghbendra Jha in his chapter entitled ‘The Indian Economy: Current Performance and Short-run Prospects’ documents the broad contours of economic growth in independent India. It focuses particularly on the increase in resources available (in the forms of higher saving and investment and lower fiscal deficit) for higher economic growth and the recent surge in the external engagement of the Indian economy.

Anomalies in the growth process are pointed out as are some emerging constraints to accelerated growth. The chapter concludes by examining the short-run prospects for economic growth in India.

In part 2 Stephen Howes, Deepak Mishra and V.J. Ravishankar examine the experience of the World Bank's lending to Indian states in their chapter entitled 'A Decade of World
Bank Sub-National Lending to India: A Retrospective. This has been an important recent development in the past decade as previous World Bank loans were all routed through the central government. This transition has lead to some important successes and failures. This chapter analyses the crucial factors behind such successes and failures and draws important policy conclusions for the future. In his chapter 'Pension Reforms in India: An Analysis' Manilal Joshi analyses the importance of the pension and social security reforms in India, an issue of importance since a larger number of Indians are expected to live longer lives. He provides a comprehensive view of the existing social security system, analyses its shortcomings and advances suggestions for policy reforms.

In part 3 Prerna Chandra Athakorlana in his chapter entitled 'Export Performance in the Reform Era: Has India Regained the Lost Ground?' argues that the inward orientation of economic policy during the pre-reform period led to a substantial reduction in India's potential share of world trade. He then examines the key issue of whether the outward orientation since the 1991 reforms have led to a recovery of lost ground. In his chapter 'Manufacturing Protection in India since Independence' Garry Pursell, Nalin Kishor and Krunal Gupta carefully document India's protection in regard to the manufacturing sector and identify, in particular, the political economy factors that have led to recent reductions in protection and consider the outlook for extending these reforms in the future. In their chapter 'Free Trade Regime: Economic Determinants of Newspaper Consumption in India: A Time Series Analysis' Raghuramana R. and U.N. Bharti examine the prospects for newspaper consumption in the country. Their chapter 'Economic Determinants of Newspaper Consumption in India: A Time Series Analysis' Raghuramana R. and U.N. Bharti examines the prospects for newspaper consumption in the country. In their chapter 'Economic Determinants of Newspaper Consumption in India: A Time Series Analysis' Raghuramana R. and U.N. Bharti examine the prospects for newspaper consumption in the country.

In part 4 Anil Deolalikar in his chapter 'Human Development in India: Past Trends and Future Challenges' evaluates India's performance on five dimensions of human development - infant mortality, child nutrition, maternal health, educational attainment and sex ratios - especially during the decade of the 1990s. He also examines the challenges that remain going forward. In their chapter 'Microfinance, Self-Help Groups and Empowerment in Maharashtra: Raghuv Gahler and Mani Nandhi assess the benefits of microfinance through self-help groups, based on a specially designed survey in selected villages in Pune district in Maharashtra, India. While the benefits in terms of higher income, consumption, and savings matter for the poor, the focus here is broader, as an attempt is made to also assess some key dimensions of women's empowerment - defined broadly as expansion of freedom of choice and action to shape their own lives. In his chapter 'Urban Vulnerability Reduction: Regime and Beyond' R. Thirumugazh examines the causes of urban vulnerability to urbanization in India. In the case study of Ahmedabad city which was severely affected in the 2001 Gujarat earthquake. This chapter argues that the non-compliance of regulations which causes urban vulnerability cannot be corrected merely by additional regulations or increased enforcement. An enabling environment of compliance of regulations can be achieved only through good enforcement mechanism, integration of development with vulnerability reduction, good governance practices, awareness creation, partnerships and capacity building.

In part 5 Garry Pursell and Peter Warren in their chapter 'Agricultural Trade Policies and Poverty: Where is India Heading?' argue that as a policy solution to the problem of rural poverty, agricultural protection does not work. They place the issues of rural poverty and agricultural protectionism in Asia into a longer term context and make several policy conclusions with regard to the role of agricultural policy in rural poverty reduction. Raghuramana R. and K.V. Bhanu Murthy and Anubhav Sharma in their