CHAPTER 4:
Growth And Unemployment In India

4.1 Introduction

In the last Chapter we have seen that with the adoption of the policies of reform, the employment situation in India has actually worsened. There has been a slowdown of employment growth compared to the pre-reform situation. At the same time, the workers are now receiving less wages and working under worse conditions with an informalization of the labour force. However, it has also been witnessed that the process of economic reforms in India has resulted in an increase in the rate of growth of GDP. The present Chapter tries to analyse the growth process of the Indian economy, particularly after the reforms. It will be argued that the process of growth in the Indian economy is such that it necessitates a worsening of the employment situation in the economy, as an accompaniment of high growth.
Chapter 4

The Chapter is arranged in the following manner. Section 4.2 provides a brief historical sketch of the Indian growth process and contextualizes the present phase of high growth in a historical setting. Section 4.3 analyses the causes of the high investment GDP ratio in the Indian economy, witnessed in the recent past, which is essential for increasing the growth rate of the economy. Section 4.4 argues that the Indian growth process is resulting in a situation where a high growth rate necessarily perpetuates unemployment for the people. Section 4.5 analyses the sectoral growth in India. Section 4.6 provides the main conclusions.

4.2 Growth In India In A Historical Context

It has been argued by many that the Indian economy in the pre-reform period witnessed an abysmally low level of GDP growth, christened as the Hindu Rate of Growth, which was a direct result of the wrong policies pursued under the Indian planning. As a corollary to this, it is argued that the policies of reform implemented in India since 1991 have taken the economy to a higher growth trajectory.¹ Is this claim valid?

It can be argued that this is not correct. The Indian economy reached a higher growth trajectory not in the 1990s but a full decade before that, in the 1980s.² This is evident from the following table:

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¹ Ahluwalia (2002)
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Table 4.1: Sectoral and Aggregate Economic Growth in India, since Independence.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>2.2</td>
<td>2.9</td>
<td>3.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Secondary</td>
<td>5.3</td>
<td>6.1</td>
<td>6.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Tertiary</td>
<td>4.5</td>
<td>7.1</td>
<td>6.6</td>
<td>7.8</td>
</tr>
<tr>
<td>GDP Total</td>
<td>3.5</td>
<td>5.6</td>
<td>5.4</td>
<td>5.9</td>
</tr>
</tbody>
</table>


It is seen from the above table that the Indian economy which was growing at an average rate of 3.5% between 1950-51 to 1979-80, jumped to a growth of 5.4% between 1980-81 to 1990-91 which was only marginally lower than the growth rate witnessed in the post reform period between 1991-92 to 2004-05. There have been many econometric studies on the growth rate of the Indian economy which have proved that the structural break in economic growth since independence which is the most statistically significant occurs around 1980.³ It should however be noted that the achievement in terms of growth and development for the Indian economy in the planning period, prior to reforms, was also significant compared to the state of the economy prior to independence. The growth strategy pursued

³ Nayyar (2006)
by the Indian planners resulted in an increase in growth rate of per capita GDP from 0.2% between 1900-01 to 1946-47 to 1.56% in the period 1950-51 to 1990-91.\(^4\) It has also been the case that the growth performance of the Indian economy was about the same as in most other countries.\(^5\) This was achieved to a great extent because of the policies pursued in India in the planning period, notwithstanding all its problems and contradictions.\(^6\)

After the relatively modest growth experience between 1950-51 and 1979-80, the question is what caused this surge in the growth rate in the 1980s? There are many explanations which are there in the literature on the growth experience of the Indian economy.\(^7\) We believe that a major reason for the surge in growth rate experienced in India was because of an expansion of aggregate demand through public expenditures on investment and consumption.\(^8\) The fiscal stimulus on the part of the state was largely reflected in a significant increase in the fiscal deficit which averaged 9.5% of GDP (centre and state together), during the middle of the 1980s.\(^9\) Which are the sectors which witnessed rapid growth in the 1980s compared to earlier decades? This is shown in the following table:

\(^5\) Nayyar (2006).
\(^7\) See for example Rodrik and Subramanian (2004) for a summary of the different strands of the argument in the literature.
\(^8\) Nayyar (2006).
\(^9\) Chandrasekhar and Ghosh (2002)
From the above table it is clear that the higher growth rate in GDP witnessed in the 1980s was mainly sustained by a higher growth rate in the agricultural sector and the services sector, mainly finance real estate etc. and government services, in the form of defence and public administration. However, the share of agriculture in GDP in the period 1980-81 to 1989-90 averaged 37%, while that of finance/insurance sector was only 8.9% in the same period and that of public administration and defence was 13.4%. Since, the growth rate of GDP is the weighted average of the sectoral growth rates, where the weights equal the share of the sector in the GDP, it can be said from the above that the growth rate of GDP in the 1980s was largely sustained by the agricultural sector and the public administration/defence sector, which registered high growth during this period while having a higher share in GDP compared to the Finance/Insurance/Real Estate sector, whose share in the GDP was quite less. The increase in growth

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10 Calculated from Economic Survey, 2007-08.
rate in agriculture as well as in the public administration and defence sector were a result of the higher state spending in this sector.

As opposed to this explanation, it is argued that the growth process of the 1980s was not a result of an increase in state expenditure. Rather, it was a result of the government's particularly the ruling Congress Party's, shifting its policy orientation towards prioritizing growth with a pro-business attitudinal shift.\(^{11}\)

While it is true that the Congress party at that point of time wooed big business in the country, but it was not a result of any attitudinal shift on the part of the ruling party. India from the beginning was pursuing capitalism contrary to a perception that socialism was being followed in the economy. The actions of the government always promoted the interests of the bourgeoisie. This had two manifestations. One is that the government invested heavily in sectors where the industrialists could not. Secondly, the government facilitated the primary accumulation of the capitalists through the public exchequer by providing sops to the capitalists and allowing them to evade taxes and other obligations.\(^{12}\) The protection provided to the capitalists from international competition during the policy of import substitution as well as the different sops provided to them made the class gain strength. They started demanding liberalization of the economy in terms of allowing them to do business freely. This ultimately led to the so called pro-business stance of the government. Therefore, the grounds for the strengthening of the capitalists was ensured during the policies of import substitution itself.

\(^{11}\) Kohli(2006) and Rodrik and Subramanian (2004)

\(^{12}\) Pattanaik and Chandrasekhar (1995)
This change in approach on the part of the government turning more pro-business cannot be suggested as a reason for the high growth witnessed in the decade of the '80s. As has been mentioned above, it was largely sustained by growth in agriculture and public administration and defence which was a result of higher spending by the government. Moreover, even if it is assumed, for the sake of argument, that the high growth witnessed in the 1980s was because of unleashing the 'animal spirits' of the private sector, then with further liberalization of the economy in the 1990s the growth rate of GDP would have increased to a much higher level. This did not happen, with the growth rate increasing only marginally, as evident from Table 4.1. Therefore, it can be argued that the growth in India in the 1980s was a result of higher state spending which increased the growth in agriculture and defence and public administration, which sustained the higher GDP growth rate. It had nothing to do with any pro-business stance of the government.

Thus it is seen in this section that the Indian economy reached a higher growth trajectory in the 1980s and not in the 1990s contrary to the claims made by pro-reform economists. However, the growth rate of the Indian economy increased in the post-reform period. Was the pattern of growth and the causes of growth similar? Or were some different phenomena working in the economy in the post-reform scenario which led India to an even higher trajectory? These are the questions which we address in the next section.
4.3 Explaining Growth In Post-Reform India

The growth rate of GDP in the post reform period was higher than that in the pre-reform period as has been already mentioned in Table 4.1. However, the growth process in the post-reform period in India has not been a uniform growth process. Rather it has been marked by periods of high growth as well as periods of economic slow down. This is evident from the following Chart.

Chart 4.1: Growth Rate of GDP In India In the Post Reform Period.

From the Chart it is evident that there were two growth phases in the post reform period. One was between 1992-93 and 1996-97 and the other was between 2003-04 to the present. Now, the question is what have been the components of this growth?
We know that in an economy,

\[ Y = C + I + G + NX, \]

where, \( C = \) Consumption

\( I = \) Investment

\( G = \) Government expenditure

\( NX = \) Net Exports

Therefore, in order to understand the growth process of the Indian economy, we have to analyse the behaviour of these variables over time. Let us first start with investment.

We know that for any economy,

\[ g = \frac{(\Delta Y)}{Y} = \frac{I}{Y} \cdot \frac{(\Delta Y)}{I} \]

where, \( g = \) growth rate of the economy

\( K = \) capital stock

\( Y = \) GDP

\( I = \) Investment

Now, \( I = \Delta K \)

Therefore, the above equation can be written as:

\[ g = \frac{I}{Y} \cdot \frac{(\Delta Y)}{(\Delta K)} \]

If \( \frac{(\Delta Y)}{(\Delta K)} \) is given then \( g \) depends on \( \frac{I}{Y} \).
Therefore, the growth rate of the economy, crucially depends on the Investment-GDP ratio given a particular incremental capital-output ratio. Given, that the Indian economy has experienced a high growth trajectory in the post reform period, it is a good starting point to begin with the behaviour of the Investment-GDP ratio to understand the growth process of the economy. The following chart shows the Investment-GDP ratio for the Indian economy, since 1980-81.

Chart 4.2: Investment-GDP Ratio in India

It is seen from the above chart that the Investment-GDP ratio increased significantly in the post-reform period, particularly from the year 2002-03,
crossing the 30% mark in 2004-05, which is comparable with the Investment rate in the East Asian economies during their period of economic boom. From this it can be said that the higher growth rate of the Indian economy has been a result of the increase in the investment rate. This comes out more clearly if we look at the growth rates of investment over different periods in India, which is given in the following table:

Table 4.3: Growth Rates of Gross Domestic Capital Formation, Various Years, In India

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81 to 1989-90</td>
<td>6.29</td>
</tr>
<tr>
<td>1990-91 to 1999-2000</td>
<td>7.14</td>
</tr>
<tr>
<td>2000-01 to 2005-06</td>
<td>13.75</td>
</tr>
</tbody>
</table>

Source: Calculated from National Accounts Statistics at 1999-2000 prices

From the above table it is clear that the growth rate of investment accelerated in the period between 2000-01 to 2005-06. This acceleration of the growth rate of investment coincides with the acceleration of the growth rate of GDP suggesting that this has been a major factor behind the acceleration of the growth rate in the Indian economy. While the growth rate of investment has increased, has there been any change in the components of investment? This is shown in the following chart:

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13 Chandrashekhar and Ghosh (2007a)
Chart 4.3: Components of gross capital formation as a proportion of GDP, In India

From the Chart it is evident that the share of public investment has consistently declined since the adoption of neo-liberal reforms in India. In the pre-reform period this share was the highest, which contributed to the high growth witnessed in the 1980s as has been discussed above. It is also seen that the share of corporate investment was never higher than the share of the households sector in the pre-reform period, except in one year. In the post-reform period, the share of corporate investment surpassed that of the household sector in two periods, one in the period 1994-95 to 1997-98, and the other starting from 2005-06. Both these periods coincides with the high growth periods witnessed in the post reform period. Therefore, from the above chart it can be concluded that the high growth rate of GDP witnessed in the post-reform period, particularly, periods of
boom, are driven by investment, particularly by corporate sector. This is in contrast with the pre-reform period, in which the high growth rate was sustained by a higher public investment.

The question that naturally arises is what factors are responsible for the higher investment rate in the post reform period? Or, what are the inducements to invest?

4.3.1 Inducement To Invest: The Case Of India

As far as India's growth experience is concerned, the higher growth rate in the post-reform period is not because of a higher government investment, as is evident from the above chart. Therefore, the stimulus to investment in terms of an increasing government expenditure is ruled out in the case of India, in the post-reform period.

India on the other hand is a late starter to development and remains an underdeveloped country. As has been pointed out in a study of the World Bank, the technological progress or innovations which take place in the world are overwhelmingly concentrated in the advanced capitalist countries.\(^\text{14}\) Therefore, very little innovation is actually undertaken in India. However, there is every possibility of replicating the innovations developed in the advanced capitalist countries and implementing them in India, which might also provide inducement to invest in the economy. We will return to this point later.

\(^{14}\text{World Bank (2008)}}
There is however, another way in which growth of investment and output might take place in India. India is a predominantly poor country with large scale unemployment, with the people having minimal purchasing power in their hands. Suppose now, more purchasing power is actually provided to the hands of the poor people, through a policy of income redistribution, since the poor have a higher consumption propensity than the rich, the value of the investment multiplier in such a case should increase, thereby increasing the growth rate of the economy. No such policy of income redistribution have taken place in India in the post-reform period. So what has happened to consumption in India? Let us now look at the data on consumption of the Indian economy. The following chart shows the Consumption-GDP ratio for India since 1980-81.

**Chart 4.4: Consumption-GDP Ratio in India**

![Chart showing Consumption-GDP Ratio in India](chart_image.png)

Source: National Account Statistics, various issues
It is evident from the above graph that the Consumption-GDP ratio in India has consistently decreased. However, it still comprises more than 60% of the total output in the economy. While the Consumption-GDP ratio has decreased, there has been an increase in the per capita consumption of the people in India. This is claimed as a direct result of the policies of reform and the fact that there has been an increase in per capita income and consumption is being celebrated as a welfare improvement.\textsuperscript{15} Does this give a correct picture of the state of the Indian economy?

If there has been an increase in income inequality in the economy, then an increase in the per capita income or consumption does not signify a welfare improvement. Rather, what it might actually signify is a worsening of the welfare of a majority of the people. Let us look as to what has happened to inequality in India. This is shown in the following chart

\textbf{Chart 4.5: Indices of Real Per Capita Consumption by Fractile groups}

Source: Reproduced from Sen and Himanshu (2004)

\textsuperscript{15} Economic Survey, 2007-08
From the above graph it is clear that the consumption inequality has increased both between the urban and rural areas as well as within urban and rural areas. In the pre-reform period there was a comparatively small difference between the consumption levels of different fractile groups. However, with the reform process, the top 20% of the population in both rural and urban areas drastically increased their consumption growth rates between 1992 to 2001-02 with the lower fractile groups in the urban areas registering a marginal increase during the same period. The bottom 40% in the rural areas have registered a fall in their consumption level, particularly between 1999-2000 to 2001-02. Therefore there has been a relative worsening of the consumption levels of the poor in both the urban and rural areas. This becomes all the more evident from the following table:
Table 4.4: Comparable Rates of Growth of Fractile Specific Real MPCE$^{16}$

<table>
<thead>
<tr>
<th></th>
<th>Rural</th>
<th></th>
<th>Urban</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bottom</td>
<td>Next 40%</td>
<td>Top 20%</td>
<td>Bottom</td>
</tr>
<tr>
<td>1977-78</td>
<td>1.43</td>
<td>1.16</td>
<td>0.01</td>
<td>1.53</td>
</tr>
<tr>
<td>to</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987-88</td>
<td>1.01</td>
<td>0.54</td>
<td>0.39</td>
<td>1.04</td>
</tr>
<tr>
<td>1986-87</td>
<td>1.54</td>
<td>0.67</td>
<td>0.65</td>
<td>1.29</td>
</tr>
<tr>
<td>to</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993-94</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995-96</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987-88</td>
<td>0.78</td>
<td>0.73</td>
<td>1.41</td>
<td>1.02</td>
</tr>
<tr>
<td>to</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999-2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989-90</td>
<td>0.21</td>
<td>0.24</td>
<td>1.76</td>
<td>1.03</td>
</tr>
<tr>
<td>to</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Sen and Himanshu (2004)

From the above table it is seen that the top 20% fractile group in both the urban and the rural areas have witnessed substantial increase in the growth rate of consumption between 1977-78 to 1987-88 and 1989-90 to 2000-01. There has been...

$^{16}$ MPCE Monthly Per Capita Consumption Expenditure
only a marginal improvement in the consumption growth rates of the next 40% fractile group in the urban areas in the same period. As far as the rural areas are concerned there has been a decline in the growth rate of consumption for all fractile groups apart from the top 20% between 1977-78 to 1987-88 and 1989-90 to 2000-01. It is thus seen from above that the poor people in India are losing out on consumption expenditure to the rich sections of the population. This means that the consumption demand in India, is primarily driven by the consumption of the rich, rather than the poor since they are losing out in consumption. As a result of this the proportion of population who are unable to access a minimum level of nutritional standards has also risen dramatically in the post reform period. 17 At the same time however, the consumption of the elites have increased quite drastically.

This is manifested in the form of accentuated consumption inequality in India, in the post reform period, which is seen in the following table:

Table 4.5: All India Gini Coefficients over various rounds of NSS

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>30.4</td>
<td>33.9</td>
</tr>
<tr>
<td>1987-88</td>
<td>29.9</td>
<td>35.0</td>
</tr>
<tr>
<td>1993-94</td>
<td>28.6</td>
<td>34.4</td>
</tr>
<tr>
<td>2004-05</td>
<td>30.5</td>
<td>37.6</td>
</tr>
</tbody>
</table>

Source: Himanshu (2007a)

As is evident from the above table, the inequality, as measured by the Gini Coefficient increased in the urban areas compared to the pre-reform period. As far as the rural areas are concerned, it is seen that there had been a decrease in inequality, as measured by the Gini Coefficient, from 30.4 in 1983, to 28.6 in 1993-94. However, in the period 1993-94 to 2004-05, the inequality again increased from 28.6 to 30.5. This is again the period in which the growth rate of employment has decreased, as has been shown in the last chapter. Therefore, it is seen that the deceleration of the employment growth rate has been accompanied by an acceleration of growth rate of GDP as well as an worsening of the consumption inequality in the country. Now, since consumption is a rising function of income, income inequality can be inferred from the consumption inequality. Therefore, a worsening consumption inequality basically denotes a worsening income inequality.

This increase in income inequality can be further corroborated from the fact that there has been an increase in the proportion of surplus or profit in India with the share of wages in output registering a decline. This is shown in the following chart:
From the above it is evident that the shares of employees' compensation as well as of mixed income, which comprises the income of the self-employed workers have declined in national income, while that of the operating surplus has increased from around 12% to 16% of the national income, which is a significant increase given the short period of time in which this increase has taken place.

From the above discussion it is clear that the Indian economy has experienced an increase in consumption as well as income inequality in the post reform period. Now, given that there has been a shift in income distribution in favour of the rich, there should have been a decline in the consumption GDP ratio, since the consumption propensity of the rich is less than the poor. As has been shown
earlier, this has taken place in the Indian economy. Let us now see what has happened to the growth rate of consumption over different periods in India, which is given in the following table.

Table 4.6: Growth Rates of Consumption Expenditure Over Different Periods

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81 to 1989-90</td>
<td>3.96</td>
</tr>
<tr>
<td>1990-91 to 1999-2000</td>
<td>4.65</td>
</tr>
<tr>
<td>2000-01 to 2005-06</td>
<td>5.25</td>
</tr>
</tbody>
</table>

Source: Calculated from National Accounts Statistics at 1999-2000 prices

From the above table it is seen that the growth rate of Consumption expenditure has increased in the post-reform period. This is however concurrent with a situation in which the growth rate of consumption of the poor has decreased and there has been an increase in the income inequality in the country. In spite of this, the higher rate of growth of overall consumption expenditure suggests that the increase in consumption in the post-reform period has been driven by a surge in the consumption expenditure of the rich which has more than compensated for the decrease in consumption of the poor. This phenomenon should also be reflected in the composition of the production of consumption goods, since the consumption basket of the rich has a larger share of durable luxury goods and services than the poor. Let us see what has happened to the composition of consumption goods in the following chart:
From the above, it is evident that the share of semi-durable and non-durable goods which comprises a major share of the consumption basket of the poor people has decreased consistently in the recent period, with an increase in the share of durable consumer goods and services which are a pre-dominant part of the consumption basket of the rich. Thus, the tilt in the income distribution has caused a change in the composition of the consumption goods sector in the country. In terms of commodities then, the increase in the growth rate of consumption expenditure has to be essentially reflected in the growth rate of the durable goods and services sector.

As has been already shown there has been a tilt in the income distribution in India in favour of the rich, which instead of lowering the rate of growth of
consumption, since the rich have a lower propensity to consume, has in fact increased the growth rate of consumption. The question is why has this phenomenon taken place in India? How is the increased consumption on the part of the rich related to the issue of inducement to invest?^{18}

It has already been seen that the tilt in income distribution in favour of the rich and against the poor has resulted in a change in the composition of commodities in the consumption goods sector of the economy, with the proportion of durable goods and services increasing while that of semi and non-durable goods has declined. This is perfectly possible since the demand of the rich in terms of semi and non-durable goods, which mainly consists of food, beverages cloth etc., is satiated, so that even with an increase in the income of the rich, the demand for these commodities does not rise proportionally. But it still remains to be explained as to why the demand of the rich for other commodities or services has increased at an increased rate which has led to an overall increase in the rate of growth of consumption.

If there is no technical progress in the economy, then the production of goods is basically repetitive in the sense that no new products are getting introduced into the economy, with the increase only in terms of old goods. In this case it can be presumed that the propensity to consume out of profits remain low. Therefore, in this case with the income distribution tilting in favour of the rich, whose consumption propensity, in this case is less than that of the workers, there will

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^{18} The following discussion is largely based on Patnaik (2007c) and Patnaik (2008b)

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actually be a reduction in consumption demand.

However, in the real world there exists technical progress with new commodities being introduced continuously in the market. Given this, the demand for 'new commodities' even for the rich is forever unsatisfied. Moreover, with the introduction of newer commodities in the market, the consumption propensity of the rich increases. Thus, with continuous innovations and introduction of new commodities in the market, the consumption demand of the rich can be buoyant if new commodities are introduced in the market continuously.

Now, the introduction of new commodities in the market requires continuous innovations, which take place in the advanced capitalist countries, as has been discussed earlier. So how is it the case that these innovations are introduced in India? This is done by the fact that the rich in India, like in any other developing country always want to imitate the lifestyles that prevail in the advanced capitalist countries by consuming newer commodities that are produced there. In the dirigiste regime the access of the rich to these commodities was restricted by import control as well as some control over the production structure in the country. However with the pursuit of the policies of reform such controls are reduced whereby the rich can either import these commodities or change the production structure of the country allowing the production of these commodities in the country itself. The introduction of the innovations that are prevalent in the advanced capitalist countries has kept up the aggregate demand in the economy, in terms of a higher consumption of the rich. Introduction of these
innovations in India has also provided the inducement to invest.

In other words, one of the major sources of inducement to invest in India has been introduction of innovations, which has been made possible because of increased access of the rich to these commodities as a result of liberalization and a tilting of the income distribution in their favour.

Besides this, two additional factors have increased the demand of the rich sections of the population. In the post reform period, there has been a massive increase in the credit offered by banks particularly in the retail sector, "the retail loan assets of individual banks grew by between 40 and 70 per cent, with the credit flow into the retail sector amounting to more than 50 per cent of the increase in credit."\(^{19}\) There has been a structural shift in credit deployment in Indian banking, where credit delivery has been directed mainly towards services and retail moving away from agriculture and industry.\(^{20}\) With financial liberalization taking place in the Indian economy, the banks are faced with competition from their foreign counterparts. As a result every bank has to look for profit making opportunities to survive in the market. In this competition, the lending towards social sectors dries out since it is not profitable to give loans to poor farmers. Instead there is a concomitant rise in retail credit, giving a higher rate of return. This increase in credit is provided to people who receive higher emoluments, since they are more credit worthy. This section of the population use this credit for financing their consumption expenditure. Thus, with the

\(^{19}\) Chandrasckhar (2006)
\(^{20}\) Roy (2006)
increase in credit by the banking sector, the problem of finance to meet the
demand for the goods which embed new technology is solved. Thus, the credit
deployment in India further accentuates the already existing income and
consumption inequality prevailing in the country. This is because, while the
priority sector lending is hampered, the rich or the upper classes of the society
demand a higher share of the total credit of the banking sector to finance their
consumption demand. Thus, in India we have a situation where farmers are
committing suicide unable to repay their loans, with the banking sector denying
them fresh loans, while the urban elites buy expensive luxury items through
credit.

It is not the case that only the capitalists are earning more and spending it on
consumption goods. But with the introduction of neo-liberal policies in the
country, there has been an increase in the income of the middle classes of the
population as well. They are earning a higher income on the basis of certain
opportunities which have opened up for them in the form of jobs in the IT
industry, insurance, finance, real estate, stock markets, etc. which pay higher
emoluments. These people on the basis of higher emoluments indulge in debt
financed consumption, particularly of the newer commodities, which pushes up
the investment in India.

4.3.2 Exports And Inducement To Invest In India

As has been already discussed another important source of inducement to invest
is in terms of opening up the external market, or increasing exports of the
country. Let us therefore analyse what has happened to exports in India.

Chart 4.8:

Export-GDP Ratio in India

Source: Economic Survey, 2007-08

It is seen from the above that there has been an increase in the Export-GDP ratio in India after the introduction of reforms, before which the ratio was practically stagnant. The increase in the Export-GDP ratio in the post-reform period suggests that the rate of growth of exports during this period was higher than the rate of growth of the GDP. This is shown in the next table.
Table 4.7: Growth Rates of Exports Over Different Periods In India

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81 to 1989-90</td>
<td>4.05</td>
</tr>
<tr>
<td>1990-91 to 1999-2000</td>
<td>11.28</td>
</tr>
<tr>
<td>2000-01 to 2005-06</td>
<td>13.24</td>
</tr>
</tbody>
</table>

Source: Calculated from National Accounts Statistics at 1999-2000 prices

Thus, it is seen that there has been a drastic increase in the growth rate of exports for India in the post-reform period. In order to achieve this high growth rate of exports there has to be an increase in the investment rate. This is because every economy faces stiff competition in the world market from the goods of every other competing economy. In order to ensure that the exports of the country keep on increasing, there has to be a change in the production structure of the economy towards producing commodities which are technologically superior to the competing commodities. In order to ensure that this is the case there has to be more investment to augment the technological structure of the export industries. Thus, a high growth rate of exports of a developing country like India must be accompanied with a high investment-GDP ratio, which in turn increases the overall growth rate of the economy.

To be sure, an increase in exports itself does not generate a high level of output growth, since a commensurate increase in the growth rate of imports can nullify the increase in the exports in the country. In India, the Net Exports as a proportion to GDP has remained negative for a majority of the post-reform
period. However, even when this is the case, an increase in the growth rate of investment is necessary to ensure an increase in the growth rate of exports.

Thus it is seen that there has been an increase in investment GDP ratio in India which has been induced by an increase in the consumption of the elites necessitating a production structure which produces goods in accordance with the innovations taking place in the advanced capitalist countries. Moreover, the investment induced by an increase in the exports also generates a production structure which can produce goods cheaply of a technologically competitive quality.

4.4 Growth Process In India And The Problem Of Employment In The Post-Reform Period

At the time of independence, the Indian economy had a highly skewed income and asset distribution in favour of the rich. Even during the planning period, although Indian planners advocated it, there was no directed policy to reduce the asset and income inequality, like land reform in the country. As has been mentioned earlier, the existence of income and asset inequality narrowed the demand base for the mass industrial commodities. This in turn resulted in a slow growth of these commodities as well as a slow growth of agriculture due to institutional as well as technical factors. Both resulted in a lower growth rate

21 Net Exports is discussed in more details in the next section.
and therefore less employment. However, it must be noted that during this period, state expenditure played a major role in terms of sustaining the demand in the economy. Moreover, there also existed a degree of control by the state over the income and asset inequality and a restriction on the production structure in the system. These measures kept in check the splurge in consumption of the elites. However, the latent demand of the elites for goods produced in the advanced capitalist countries, put continuous pressure on the production structure of the economy to change towards producing these commodities. The advent of reforms in the Indian economy can be thought of a result of this pressure exerted by the elites on the production structure of the economy.\textsuperscript{22} Let us now see how the process of reforms have affected the capacity of the state either to sustain demand through higher public expenditure or to control the production structure in the economy.

4.4.1 Financial Liberalization And The Problem Of Employment

The policies of reforms in India, particularly financial liberalization, entail a cut back in the government expenditure, the passing of the Fiscal Responsibility and Budget Management Act in 2003, is a manifestation of making this policy prescription the law of the land. Now, we have seen that the state expenditure played an important role in maintaining demand in the economy prior to reforms. But with reforms, there has been a decline in the fiscal deficit of the state (Central Government) as a percentage to GDP. This is shown in the following chart:

\textsuperscript{22} Patnaik, P. (1998)
From the above graph it is seen that fiscal deficit as a proportion of GDP increased during the 1980s after which there has been a trend decline in the ratio. This is directly a result of the policies of reform pursued by the central government because of the following reason.

Financial liberalization in developing countries like India effectively entails an opening up of the economy to the free movement of international finance capital. This opening up of the economy to international finance capital leads to reduction in the fiscal deficit, which is based on the notion of 'sound finance', advocated by international finance capital. This is because, for international finance capital, inflation is harmful. In order to reduce the inflationary...
pressures in the economy opened up to finance capital, demand deflationary policies are implemented, the manifestation of which is a decline in the fiscal deficit ratio. Secondly, capitalists generally denounce state expenditure to maintain demand in the economy, as has been stated by Kalecki. This is because the intrusion of the state in the economic arena questions the social legitimacy of capitalists as the class responsible for doing investment which results in growth and employment in the economy.\textsuperscript{23} On the other hand, if the government wants to break free of these impositions of finance capital and undertake greater public expenditure, then there is the possibility of capital flight from the country, which ultimately leads to a crisis situation in the economy. In other words, with the policies of financial sector liberalization, the capacity of the state to sustain demand through higher public expenditure is greatly reduced. Moreover, once the economy is caught in the vortex of international finance, it is difficult for it to pursue policies which are against the interests of finance capital.

With the curtailment in the fiscal deficit, the sectors which are worst affected are the development expenditures pursued by the government. This is because, while there has been a decline in fiscal deficit, interest payments as a proportion to GDP has increased in the post-reform period, rising from less than 1.79% in 1980-81 to more than 4.06% in 2004-05.\textsuperscript{24} With the increase in the interest payment as a proportion to GDP, in order to reduce the fiscal deficit, the government has to reduce its other expenditures, whereby development

\textsuperscript{23} For a detailed critique of the concept of 'Sound Finance', see Patnaik, P. (2006) and Bhaduri (2006)
\textsuperscript{24} Calculated from Handbook Of Statistics On the Indian Economy, Various issues
Chapter 4

expenditures as a proportion to GDP is reduced. This is shown in the following chart:

Chart 4.10

Source: Handbook of Statistics On the Indian Economy, Various Issues

From the above chart it is seen that the development expenditure as a proportion to GDP increased in the middle half of the '80s where after it witnessed a continuous decline with the advent of the reforms.

As a result of these policies of curtailment of the state expenditure, particularly the development expenditure, the poor are most adversely affected. Moreover with the decline in state expenditure, the role that the state played in terms of generating employment and demand in the economy has been definitely reduced.
The reduction in the public sector jobs, as discussed in the last chapter, is an example of this. At the same time, the reduction in state expenditure, particularly development expenditure reduces the purchasing power in the hands of the poor. An increase in purchasing power in the hands of the poor, not only increases consumption demand but also increases the demand for commodities which are mass consumption goods, the production of which is employment intensive. However, in the period of reforms, with a reduction in the state expenditure resulting in a concomitant cut in the purchasing power of the poor, the demand for mass consumption goods which are also employment intensive has declined, as mentioned in the last chapter. Thus with the process of financial liberalization, employment opportunities have declined directly as a result of the cut back in state expenditure. On the other hand, the decline in purchasing power in the hands of the poor has also resulted in a reduction in demand of the commodities consumed by the poor which are essentially employment intensive. This has also resulted in a reduction in the employment generating capacity of the economy.

4.4.2 Consumption Of The Rich And Employment In India

At the same time, as has been already argued income inequality in India has increased in the post reform period with the income distribution tilting towards the rich. The demand of the rich for the commodities produced in the metropolis was now being met through a shift in the production structure in the economy towards the production of these commodities. As has been argued earlier, with the income distribution tilting towards the rich, the composition of the
consumption demand tilted towards commodities which incorporate technologies produced in the advanced capitalist countries. Now, the innovations in the advanced capitalist countries are essentially labour saving in nature. In other words the production of these commodities in India while keeping up the investment rate in the economy has resulted in the increase in the growth rate of labour productivity. Therefore while the consumption demand has grown for the rich, there has not been a commensurate increase in the growth rate of employment. Since this consumption of the elites has failed to generate adequate employment opportunities for the poor, as the labour productivity growth rate has increased, the real wage rate of the poor has stagnated. This in turn has resulted in more surplus which the elites can use to finance their consumption of the newer commodities produced in the metropolis. In every successive period therefore, with the situation getting replicated, there will be more and more surplus accruing to the surplus earners, who then indulge in consuming newer commodities generating less employment.

It can be argued however that if the rate of generation of new commodities stops in the metropolis or the gap between the consumption of the rich and the metropolitan lifestyles closes sufficiently, then this process will stop, with the economy experiencing a demand constraint with slowing down of the rate of growth. If this happens then the situation worsens even more, since with a slowing down of the overall economic growth, the unemployment problem further worsens.
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It can however be argued that the proportion of such durable consumer goods in total consumption expenditure in India is quite small. It has only increased from 2.6% in 1999-2000 to 3.3% in 2005-06.\textsuperscript{25} Therefore, is not this emphasis on new commodities and consumption durables in terms of averting the realization crisis in the economy, far fetched?

A realization crisis can be avoided if the surplus is spent on other things. The burgeoning service sector can be understood as a mechanism of realizing this surplus. The share of services in the private consumption expenditure has increased from 31.7% in 1999-2000 to 40.6% in 2005-06.\textsuperscript{26} However, even this burgeoning service sector cannot take care of the problem of unemployment. This is evident from the fact that even when the services sector contributes more than 53.53% of GDP (in 2004-05)\textsuperscript{27} it employs around 25% of the total work force.\textsuperscript{28} This is because the demand of the elites even for the services sector is skewed towards services which are essentially labour saving. The proliferation of banking, insurance, finance, real estate, Information Technology services is not generating enough employment. However, the fastest growing components of the services sector are these, which are not able to generate noticeably more employment.\textsuperscript{29}

Therefore, it is seen that the increase in the share of surplus for the rich or an

\textsuperscript{25} Quoted from National Accounts Statistics, 2007, Statement 17
\textsuperscript{26} Quoted from National Accounts Statistics, 2007, Statement 17
\textsuperscript{27} Calculated from Economic Survey, 2007-08
\textsuperscript{28} Chapter 3 of this thesis, Table 3.14
\textsuperscript{29} Rakshit (2007)
increase in income inequality in India has not resulted in any realization crisis, because, this increase in the income of the rich has been spent on purchasing new goods or in purchasing services. Both these demands however have not been able to improve the employment situation in the country, since they have led to an inordinate increase in the growth rate of labour productivity.

4.4.3 The Role Of The External Sector:

The External sector also plays an important part in the overall growth process of the Indian economy. We have seen in the last section that there has been an increase in the export-GDP ratio in India in the post reform period. Let us now see what has happened to the ratio of Net Exports to GDP. This is shown in the following chart:

Chart 4.11:

Net Exports GDP Ratio in India

Source: Economic Survey, 2007-08
Note: All prices are at constant 1999-2000 prices
It is seen from above that the contribution of the Net Exports to GDP has been negative through most of the period of reform in India, which has turned positive in the recent past, although the proportion remains less than 3% of GDP. However, the exports to GDP ratio consistently increased throughout the post reform period as is evident from Chart 4.7. This implies that the import growth in India outpaced the export growth for a large part of the period. This is shown in the following chart:

**Chart 4.12**

**Growth Rate of Exports and Imports**

![Growth Rate Chart]

Source: National Accounts Statistics
Note: All values are 1999-2000 prices

From the above chart it is evident that the growth rate of imports was always greater than that of the exports, except the period 2000-01 to 2005-06. However, it is also witnessed that the growth rate of both exports as well as imports
increased significantly during the reform period. Moreover, during the first ten years of reform in India, the growth rate of imports was higher than that of exports. Why has this happened and what implication does it have for the employment generation in the economy?

The policies of reform in India entailed trade liberalization to a significant extent. Import tariffs were drastically reduced with a majority of the commodities paying less than 25% import tariffs. This is shown in the following table.

Table 4.8: Number of Commodities at Different Duty Rates (India)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>300 and above</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200-299</td>
<td>183</td>
<td>0</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>100-199</td>
<td>3913</td>
<td>249</td>
<td>12</td>
<td>49</td>
</tr>
<tr>
<td>50-99</td>
<td>756</td>
<td>3670</td>
<td>4</td>
<td>47</td>
</tr>
<tr>
<td>25-49</td>
<td>24</td>
<td>633</td>
<td>4546</td>
<td>787</td>
</tr>
<tr>
<td>0-24</td>
<td>126</td>
<td>476</td>
<td>569</td>
<td>4261</td>
</tr>
<tr>
<td>Total</td>
<td>5040</td>
<td>5040</td>
<td>5139</td>
<td>5144</td>
</tr>
</tbody>
</table>

Source: Mathur and Sachdeva (2005)

The reduction in tariff rates entails a regime which has little control on imports.
Such rampant import liberalization entails a situation in which, the local industries are made to compete with the foreign products. This results in two things. First and foremost, there is the obvious result that de-industrialization takes place in the country which results in massive job losses. At the same time, there will always be certain sectors of the industry which can compete with the foreign products and can survive. Now in order to compete with these foreign firms, the local firms must undertake production at least at the level of technology that the foreign firm is introducing. This technology by definition is labour saving. Hence, the local firms will have to cut back on their employment in order to compete with the foreign firms. One of the reasons for the current obsession with labour market flexibility is precisely to ensure that such large-scale lay off is indeed possible.

Now, coming to the situation in the export market, to begin with, it is paradoxical that every developing country is being asked to export more, in order to grow faster. This is paradoxical because one country's export is another country's import. Given the rate of growth of the international market, there is no way that every country's exports can increase faster than this rate. However in this bid to raise their share in the international market, every country is trying to lower the input costs. This can be done by adopting technologies which are labour saving in nature and hence will not generate more employment. At the same time, the degree of such cost reduction in any case has to increase even more in the eventuality of the Indian rupee appreciating vis-a-vis the dollar. Between December 2006 and December 2007, the rupee appreciated by 13.2% vis-a-vis the
dollar, while it appreciated by 9.8% between April 3rd 2007 and January 16th, 2008. This entails, that Indian products are priced high in dollar terms in the international market. Given this, Indian exports are threatened with a decline resulting in a fall in effective demand and hence in employment. However, it may so happen that Indian exporters manage to hold on to their export shares by cutting costs which more than compensates the negative effect of an exchange rate appreciation. This typically takes the form of labour displacement or a worsening of the working conditions of the labour. Both are happening in India.

Unless trade liberalization can somehow boost aggregate demand to a point that offsets contraction arising from the above mentioned sources, the net effect of trade liberalization is adverse for employment. This is what is manifested in India. What has been the impact of the above mentioned growth process on different sectors in India? We take up this issue in the next section.

4.5 Sectoral Growth In India

The sectoral shares in GDP are given in the following table:

Table 4.9: Sectoral Shares in GDP in India

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>56.90</td>
<td>46.74</td>
<td>46.07</td>
<td>38.86</td>
<td>31.27</td>
<td>28.24</td>
<td>24.62</td>
<td>21.13</td>
</tr>
<tr>
<td>Industry</td>
<td>14.28</td>
<td>19.46</td>
<td>20.65</td>
<td>24.50</td>
<td>27.64</td>
<td>28.12</td>
<td>26.60</td>
<td>27.15</td>
</tr>
<tr>
<td>Services</td>
<td>29.80</td>
<td>34.30</td>
<td>33.66</td>
<td>36.64</td>
<td>41.10</td>
<td>43.64</td>
<td>48.78</td>
<td>51.72</td>
</tr>
</tbody>
</table>

Source: Rakshit (2007)

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30 Economic Survey, 2007-08
From the above table it is clear that the share of agriculture in GDP has declined significantly over the years. However, agriculture still employs more than 50% of the people, as has been discussed in the last chapter. On the other hand, it is also seen that the share of services sector in GDP has increased significantly, now comprising of more than 50% of the total GDP, while industry's share is 27% of the GDP in India. This suggests that the growth of services in India has outpaced the growth rate of all other sectors, particularly in the post-reform period. This is shown in the following chart:

**Chart 4.13:**

From the above chart it is evident that the growth rate of agriculture has declined drastically in the post-reform period, especially in the period, 1995-96 to 2004-05, when India was growing very rapidly. At the same time, the services sector has witnessed rapid growth, while the industrial sector has witnessed marginal slowdown. What explains such massive slowdown in agriculture and
rapid growth in services?

As far as the agricultural sector is concerned, one of the main reasons for the slow down in agriculture is a direct result of state policy, where the pursuit of demand deflationary policies entailed inter alia a drastic cut down of public investment in the agricultural sector. This is evident from the fact that rural development expenditures has decreased from an average of 3.8% of NNP in 1985-90 to 1.9% of NNP in 2000-01 which subsequently rose to 2.3% of NNP in 2004-05, which is still below what was the proportion in 1985-90.31 In agriculture, public investment crowds in private investment. Therefore, with a reduction in public investment in agriculture, the proportion of investment in this sector has decreased32. This coupled with the fact that there has been a cut in the purchasing power of the people, as discussed earlier, has resulted in a situation where agricultural growth has diminished. Now, we have already seen that a majority of the people in India are engaged in agriculture. Therefore, with slow down of the agricultural growth rate, conditions of large masses of people must become worse off.

As far as industry is concerned, it is seen that in the organized manufacturing sector, the growth has been largely based on the growth of capital goods followed by durable consumer goods sector.33 The more striking part is the fact that in the organized manufacturing sector, the Net Value Added per worker has increased

32 Economic Survey, 2007-08. Table 7.11
33 Economic Survey, 2007-08. Table 8.2
substantially, but the share of wages in the value added has declined resulting in an increase in the share of profits in value added. This is shown in the following chart:

Chart 4.14:

Net Value Added per worker and Wages and Profits as share of Net Value Added

Source: Annual Survey of Industries, Various Issues

Note: Net Value Added per worker is measured in Rs Crores per worker which is measured in the right Y-axis

From the above graph it is clear that the value added per worker in the manufacturing sector increased steadily in the post-reform period denoting that the labour productivity has increased. However, in spite of the increase in labour productivity, the share of the workers in value added could not increase denoting a decrease in the bargaining power of workers, which is because of the magnitude of unemployment existing in the economy.
As far as the service sector is concerned, it should be noted that it does not consist of a homogeneous sector. It comprises both low value-end services like retail, housemaids etc. and also high value-end services like IT, Finance etc. In our country, as has been already noted, service sector is not able to provide sufficient gainful employment for the people.

Therefore, from the above discussion it can be said that the sectoral growth patterns have been such that while the agricultural sector has clearly witnessed retardation, the condition of the workers in manufacturing sector has relatively worsened, with services sector unable to increase meaningful employment for the people.

4.6 Conclusion

From the above discussion it is clear that the opening up of the Indian economy has resulted in a situation where the employment problem cannot be solved, just by relying on the growth rate of the economy. This is because, with the liberalization of the economy, the growth rate of labour productivity increases in the economy. This happens primarily because of a shift in the composition of the output towards commodities which are produced by essentially labour saving techniques. This shift in the composition of output is driven by the demand of the elites for consumption of goods produced in the advanced capitalist countries which incorporate labour saving techniques. At the same time, the opening up of
trade entails a situation where the Indian producers are forced to compete with foreign technologies which either result in de-industrialization or in an increase in labour productivity, as a survival strategy, which again results in a worsening of the employment situation. The experience of the organized manufacturing sector in India, exemplifies this increase in productivity which however has not resulted in any notable gains for the workers, as discussed above.

This is further accompanied by a squeeze in the demand of the poor who consume mass consumption goods whose production is employment intensive. But the growing unemployment resulting from this increase in productivity lowers the wage rates of the workers, which has been enumerated in the last chapter, because of which the consumption of the workers has not increased.

It can however be argued that the increase in labour productivity in India defies conventional wisdom since all around us we observe perpetuation of backwardness with the workers doing the most menial jobs. This paradox is however a result of the growth process in India. In a country like India there is no unemployment benefit. Therefore, the unemployed people are forced to eke out a living by getting employed in the informal sector as petty workers, for example as “shoe shine boys” a la Joan Robinson. Now these workers are essentially unemployed in disguised as has been discussed by Joan Robinson. Their number in the overall employment in India is increasing precisely because the dynamic sectors of the economy are not generating enough employment with these people forced to eke out a living in low productive jobs. If we leave out this section of the
population as being unemployed, then the ex-ante labour productivity growth in India will be very high as a result of the growth process in the economy.

What about the role of the Government? Prior to the implementation of the policies of reform, the government had a major role in the economic development in India. Particularly, the growth process in the 1980s was sustained by a higher government spending, directed inter alia towards the rural sector. However, in the period of reform, with the government adhering to the principles of 'sound finance', as discussed earlier, the role of the Government in terms of sustaining higher demand and employment through a higher fiscal deficit and development expenditure was reduced, as has been mentioned earlier.

At the same time, it was pronounced by the Indian policy makers under the aegis of the IMF-World Bank that the Indian economy must be made more market oriented which will result in higher growth and development. This made the Indian economy respond to market signals and the outcome of the growth process also became market determined. Hence the inequality generated by the market forces tilted the growth process of the Indian economy towards catering to the demands of the rich even when this process led to impoverishment of the poor, certainly in relative terms and arguably even in absolute terms.

Moreover, in the post reform era, the government’s decisions also were shaped by the considerations of the interests of sustaining the prevalent growth process in the economy. Given that the biggest beneficiaries of this growth process were the
rich and the upper middle class, they shaped the government's decision in their favour under the illusion of an absolutist development model.\textsuperscript{34} The rich of our country however demand more airports, SEZs, shopping malls, luxury hotels etc. Now, if the production of these entails a grab on the land and livelihood of the poor, which has taken place in many places, then while the demands of the rich can be met, resulting in higher growth rates, the employment problem cannot be solved.\textsuperscript{35} Therefore, if the policies of the Government continues to cater to the interests of this section of the population, instead of pushing up investment in the rural sectors or improving the public distribution system, then the processes limiting the possibility of adequate employment generation in the economy, which has been discussed in the previous sections, gets replicated continuously. All these increase the rate of growth of the economy but result in worsening employment conditions for the poor.

Is this growth process sustainable? The Indian growth process is increasingly getting tied to global capitalism, both through the consumption demand of the elites as well as through the external sector. Any volatility in the global market therefore can jeopardize the Indian growth process. As the threat of a US recession looms large, there is every possibility that the growth process in India might also get affected. Moreover, with the continued neglect of the agriculture sector, even as higher growth rate gets generated, inflation is engulfing the

\textsuperscript{34} See Patnaik, P (2007d)
\textsuperscript{35} For a lucid account of the impact of shopping malls on the livelihoods of the people, particularly the retail traders in the locality see Kalhan (2007). For an account of the impact of SEZs on the livelihoods of people Gopalakrishnan (2007) For another case study of infrastructure projects see, Ghosh, J. (2008a)
Indian economy with an acute rise in the food prices, aided by a world wide shortage of food. This threat of food price inflation along with a recession in the US can upset the Indian growth story.

There is however a more fundamental problem with the Indian growth process. As has been already enumerated, this growth process is a product of the inequalities already present in the system. Moreover, the growth story rather than reducing the inequality further strengthens it which again feeds the growth process. The manifestation of this is that a small section of the Indian population has emerged that has “never had it so good”. The shopping malls, mobile phones and other luxuries of life have become affordable to this section of the population, which however constitutes a minority. On the other hand, a vast majority of the people are unable to access even the basic necessities of life, both in the urban as well as in the rural areas. This growing disparity between the rich minority and the poor majority is resulting in social tensions all over the country. If the problem of the poor is to be addressed, the current growth process has to give way to a growth strategy, the centrepiece of which is employment generation and a reduction in the income inequality in the country.