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## Growth Vs Caring: A 'Stupid' and 'Nonsensical' Debate!

Vivian Fernandez: 5<sup>th</sup> January 2011

Chasing growth is "stupid" says **Professor Amartya Sen**. That he is obsessed with growth is "nonsense" says **Professor Jagdish Bhagwati**. At the time when the government's stewardship of the economy is being called into question over high food prices, growing public debt, corruption scandals and imports financed with flighty foreign money, heavyweight economists are wrangling over its economic orientation.

Nobel laureate Amartya Sen has called the government's pursuit of faster economic growth and the desire to outpace China as "stupid," triggering an online debate among economists led by Columbia University professor Jagdish Bhagwati who says Sen's position is "untenable," while affirming that his is "the appropriate one."

Professor Bhagwati had endorsed the government's twin-track "inclusive" growth strategy on December 2 at the Professor Hiren Mukerjee Memorial Lecture to Parliament when it was itself torn between the Opposition's demand for a committee of lawmakers to probe a telecom scandal and the government's refusal to give in. Growth did not passively trickle down to those lower down in the food chain after the big cats had feasted on the kill. It actively pulled people out of poverty while generating tax rupees for the relief to those still steeped in it. Poverty is now seen by the down-and-out as removable, and this "Revolution of Perceived Possibilities" was for Prof Bhagwati a ringing endorsement of economic reforms.

Prof Bhagwati said growth would get an impetus from a push to "stage 1 reforms" like an across the board cut in import duties, substantial easing of restrictions on retailing and less onerous labour laws. These, he said, would generate resources for stage 2 reforms to improve the well being of the poor - food security, schooling for all and universal healthcare.

But Prof Sen seems to believe that the economy can take care of itself; the government should be worried about more pressing concerns. In a sense this reflects the divide between the growth orientation of the Planning Commission of which the Prime Minister is the chair and the welfare orientation of the National Advisory Council whose chairperson is Sonia Gandhi.

While addressing students and young entrepreneurs in Delhi on December 21, Professor Sen told India to pay greater attention to hunger and poor nutrition among its half a billion people and ask why it was "falling behind" in feeding them at a time when food prices were high. For Professor Sen how India's 8.5 percent growth compared with China's 9.5 percent rate was "not a serious question." Instead he wanted India to learn from China about social improvement. Higher growth was a "positive thing" in the context of social justice, poverty reduction and directing more money towards health and education.

The Financial Times' report of Prof Sen's remarks, reproduced in turn by Chinese publications, had sparked the debate (facilitated by CUTS, a Jaipuri-based free-trade advocacy group). During a meeting with President Obama in Washington last year, Prime Minister Manmohan Singh had said that India could aspire to an annual growth rate of 10 percent over the next many years (higher than that projected for China). In September last year, the Economist had said that India could surge past China by 2013 and narrow the gap with an economy which is four times larger

Joining issue, Prof Bhagwati's colleague Arvind Panagariya said Prof Sen's view rested on three "rather implausible" assumptions that (a) current income levels and revenues could finance social programmes of the desired scale (b) attention to growth would divert attention from social programmes, and (c) a focus on welfare would itself stoke growth.

Only in India do serious intellectuals dream of debating the trade off between growth and welfare, says Financial Times columnist Martin Wolf. It is not growth but higher incomes that are a necessary condition for better state-funded welfare and better jobs. India is still a very poor country. Poverty would be lower at higher income levels and the point of faster growth is to get there as quickly as possible. Without productivity growth real incomes would stagnate, says Sumit Majumdar, professor of technology strategy at Texas University's school of management. India has experienced "extensive growth" driven by the pent up demand of a billion people and has not seen a supply side revolution. India's manufacturing sector productivity story is "grim" and the services sector story so far is about leveraging white collar wage differentials with the West. Prof Majumdar says India should aim for an annual productivity growth rate in excess of 10 percent.

While faster growth has lifted income levels, the spread of cheer has been uneven says **Rajesh Shukla** of the National Council of Applied Economic Research. Comparing NCAER's data over the ten-year period to 2004-05, Shukla says inequality has widened in rural and urban India, a finding that Prof Bhagwati disputes. The Gini coefficient that Shukla relies on is not as fine a measure as (Dutch economist Henri) Theil's index. By this gauge, a study by Pravin Krishna (of Johns Hopkins University) to be unveiled in March finds that inequality, while rising initially after the 1991 reforms, has fallen by 2004 to 1988 levels. "So a straight rise in inequality cannot be asserted," says Prof Bhagwati.

Of course it would be naive to assume that the state's enhanced capacity for welfare will necessarily result in it. TCA Srinivas Raghavan, a journalist with Hindu Business Line, sees an impediment in the lack of administrative reforms. For this lack of accountability he blames a colonial law imported wholesale by independent India that virtually insures civil servants against dismissal. "So the work that a government employee does really depends on his goodwill." Prof Bhagwati agrees that setting up schools and clinics within walking distance requires greater, not less, state involvement. Persuading teachers and doctors to earn their pay requires better governance.

When Professor Sen suggested that the government shed its obsession with growth rates he was telling it to address the governance deficit that denies the poor and the underprivileged the welfare benefits that higher growth makes possible. That does not seem like such a stupid thing.