A FRONTIER ECONOMY

by Lawrence A. Veit

Ring Road traces a serpentine path around New Delhi, providing a microcosm of the diversity within the city and in India as a whole. It cuts through elegant quarters and crowded slums, through a seemingly endless variety of neighborhoods that reflect India's sundry regions, religions, castes, and classes.

The daily traffic is an extraordinary mix: government officials, diplomats, and business executives speeding through the dust in their limousines; fleets of aggressive, gaily painted trucks; a seemingly endless parade of bicyclists and pedestrians; and a slow circus procession of farmer's bullock carts, buffaloes, goats, camels, and dogs.

What is remarkable is how the traffic, moving at such different speeds, manages to share the highway so successfully. By defying narrow generalizations and conforming to a seemingly invisible set of rules, the traffic on Ring Road is symbolic of India's economy: One must accept its mysteries before it becomes understandable.

Since 1947, pronouncements on the economic situation in India have moved from hopeful to despondent and back again. At times, economists have argued that "triage"—the abandoning of development efforts in "hopeless" areas in favor of places where there is at least a chance of progress—is the only practical approach. At other times, analysts have waxed so enthusiastic about India's progress—often seeing "self-sufficiency" in food just around the corner—that India and its supporters have been lulled into a false sense of security.

The less dramatic reality, however, is India's consistent capacity to encompass the bad and the good at the same time. Thus, in 1978, India appears to be further from "serious" famine than it has been at any time in more than a decade. Industrial production is rising. And India has confounded the pessimists by reaping unexpected side benefits from the hike in world oil prices: Foreign exchange earnings sent home by Indians newly employed in the Persian Gulf oil states have soared, as have investments by oil-rich Iran to develop Indian resources.

Yet even now there are hundreds of millions of people (perhaps as much as 43 percent of the population) who live below what India itself defines as the poverty level. Investment of all kinds is still far below what is needed to employ the burgeoning work force. And the problems inherent in planning for the growth of modern industry within the context of a traditional agrarian society threaten to undermine the well-being of both.

Indians and non-Indians alike are responsible for broadcasting partly or completely erroneous information about the subcontinent's economy. While acute poverty is obvious everywhere, the causes of that poverty remain elusive. Some observers point to India's backward farming and lack of natural resources. Others cite the low productivity of the labor force (200 million people) or the glaring disparities in income. Still others blame continued underdevelopment on a stagnant, "socialist" regime. These generalizations, however, shed little light on the larger reality. Let us examine them.

Is India short of good agricultural land and mineral resources? India is not as readily able to feed itself as are France and the United States; but it is not as badly off as many Asian, African, and Latin American countries. India is not Mali or Chad. As for population density, the people-to-arable-land ratio of 334 persons per square kilometer is unfavorable compared to the U.S. figure of 117, but it stands up well compared to Brazil's 343, West Germany's 790, and Japan's 2,084.

Most Indian agricultural output consists of basic commodities such as wheat, rice, and cotton. Since the mid-1950s, the "Green Revolution"—essentially the application of hybrid seed, fertilizer, and pesticides, and better use of existing water reserves—has dramatically boosted local crop yields. Wheat harvests have increased three-fold in the Punjab, Haryana, and western Uttar Pradesh; rice production has gained in the Tanjore Valley and the Andhra coast. The Green Revolution is not, of course, a panacea; it cannot yet compensate for the disasters that result when the monsoons play truant. But Indian agriculture, by any yardstick, *is* improving.

India's mineral wealth is also underrated. The most striking fact about its natural resources is the extent to which they are

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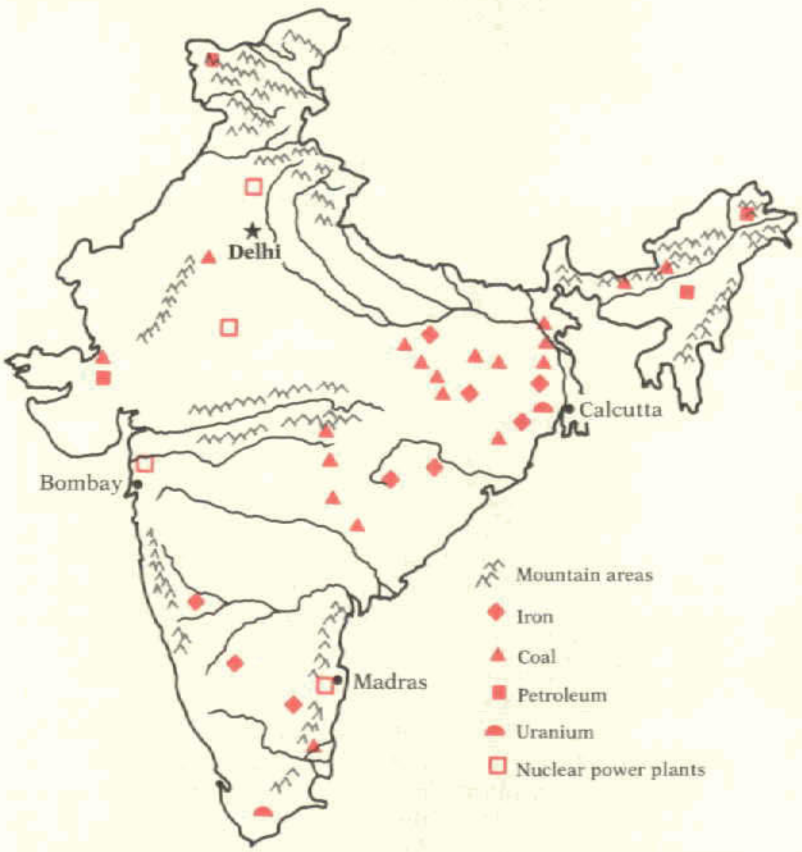
INDIA'S INDUSTRIAL BASE



Despite its image as an economic "loser," India is rich in natural resources, and by the early 1980s may be self-sufficient in oil.

underutilized. Coal is abundant, and India accounts for about 10 percent of the world's known reserves of high-grade iron ore. For many years the country has met 35–40 percent of its oil needs from wells in Assam and Gujarat, and new offshore wells near Bombay have recently come into production. Seismographic surveys suggest that future offshore finds in the Bay of Cambay and elsewhere may be large enough to make the country self-sufficient in petroleum by the mid-1980s.

India also boasts adequate supplies of thorium, uranium, and other materials used to fuel nuclear power plants. One generating station, the Tarapur nuclear power plant outside

Bombay, has been in operation since 1969 (it uses enriched uranium from the United States, however); three others are under construction and many more are being planned.

Is the quality of Indian labor poor? India manufactures machinery and hand tools for export to Western countries, produces trucks that are used extensively in Asia and elsewhere, and fabricates aircraft and other sophisticated military equipment. These achievements, one could argue, are the work of an elite; the vast majority of Indians, tied to the rural economy,* are either unwilling or unable to produce. But how, then, does one explain the success in rural Punjab where the Green Revolution has transformed not just agriculture but small industry and commerce in general?

Socialism, of a Sort

The answer involves not only imported agricultural technology but also the capabilities of the Punjab's farmers and merchants. Not all rural areas in India are ready for such fast-paced change. But what has happened in the Punjab has occurred elsewhere in the country often enough to indicate that the vast rural labor force should be seen as an underused resource, not as a perpetual burden.

Has the Indian economy improved or grown since Independence in 1947? India today is among the world's 10 largest industrial nations, just as it was in 1947. At that time, however, Indian industry was heavily concentrated in "infrastructure" such as railroads and power plants, or in light manufacturing such as textiles (which accounted for 50 percent of all manufacturing in 1947). India has since expanded or introduced the production of steel, chemicals, a wide range of consumer and industrial products, and advanced electronic and engineering equipment.

One problem is diversity. For example, the country has a hodgepodge of factories encompassing the different, often incompatible technologies of India's many aid donors. Yet while the Indian economy has not grown fast enough to satisfy many of the people's basic needs, it has expanded much faster since Independence than it did in earlier years. Over the last three decades, real per-capita income has risen by one-third despite a near-doubling of population—an impressive performance com-

*Estimates for 1976 showed that more than 70 percent of the work force was employed in agriculture, 12 percent in industry, 6 percent in commerce, and more than 11 percent in government and services. Oddly, despite the government's efforts to promote industry, since 1947 the *proportion* of Indians working in each sector of the economy has remained virtually unchanged.

A CRUSHING TIDE

"I left India depressed," Otis L. Graham, Jr. noted upon his return from the subcontinent earlier this year. A University of California historian and a former member of the Wilson Center's academic advisory panel, he recorded his impressions in World Issues. *Some excerpts:*

The population problem seems hopeless. Even Indians now acknowledge it. Over the years, as China pulled her birthrate from the mid-30s down to 25 per thousand per year, as Taiwan went to 23 per thousand, as Japan attained a striking 17 per thousand (all three nations now have population growth rates under 2 percent), India has been able to lower her birthrate to only 36 per thousand.

India's cities stagger under a crushing tide of people, and rural migrants continue to pour in. Old Delhi is a cacaphonous hive of destitute humanity, peddling, washing, praying, eating, urinating. The broad sidewalks of the new city are awash with families who have settled in under hospitable trees, in tent camps, near taxi stations. Property owners with yards find their hedges used by families; guards are employed to keep the patient, pressing throngs from staking out squatting privileges on the lawns and in outbuildings.

This urban pack of humanity does not mean the countryside is depopulated. Rural India is jammed, but agriculture, which absorbs 70 percent of the working population, cannot offer employment to the 5 to 10 million who wish to enter the work force every year. Many of these people, most of them young, make their way to the cities.

In the short run, the economic picture is not without encouragement. There are substantial resources in India—coal reserves in the north, a wide range of agricultural products and capacities, rich coastal fisheries, some offshore oil, impressive mineral deposits. Two good recent crop years have ended the importation of food grains. The balance of payments in India is entirely favorable.

Yet the current picture is grim in other ways, and the long-range prospects are even worse. Economic growth in 1976 was only about 2 percent—but so was population growth, so that the Indian economy was virtually stagnant. The agricultural economy is terribly vulnerable to the monsoons. In a country whose annual grain crop is 120 million tons, grain reserves of 20 million tons are a razor-thin edge against starvation. The *Economic Times* acknowledged in January that 43 percent of the population is living below subsistence level, and that 25 percent of the work force is unemployed.

These figures sketch the outlines of a human tragedy and a politically and socially explosive condition. Or so it would seem to the outsider. The newspapers are never free of reports of labor unrest, especially in Bombay and in one or two eastern states. But the general feeling seems to be one of waiting with a certain resigned curiosity to see if the new Janata government can engineer a fresh spurt toward progress. That appears increasingly unlikely.

pared with the preceding half-century, when per-capita income remained virtually stagnant.

Recurring food crises are India's most publicized economic failure. But periodic shortages (in Bihar in the mid-1960s, for example, and in Maharashtra in the early 1970s) are less a reflection of India's inability to grow enough to eat (this is rarely the case) than of chronic difficulties in distribution—of moving grain across a big country from areas of surplus to areas with deficits.

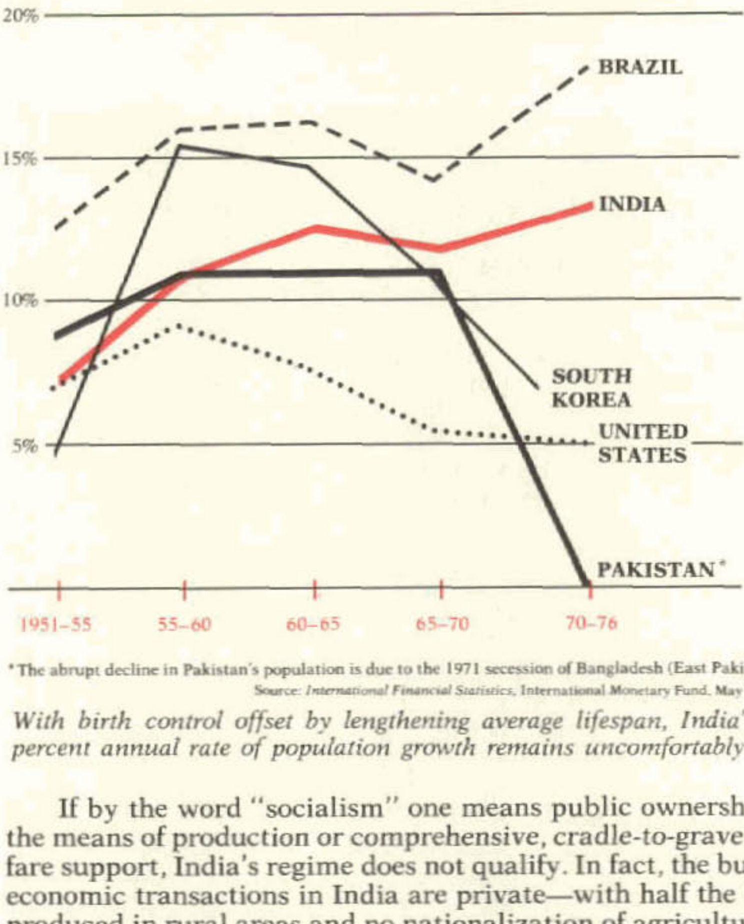
Are income inequalities extreme? There is no denying the sharp disparities between rich and poor in India, as elsewhere in the Third World. The richest tenth of the population receives about one-third of all disposable income, the poorest tenth only 3 percent. In rural areas, 0.6 percent of the families own 11.1 percent of the land; 10 percent own no land at all.

Because income differences in India reflect old class, caste, and regional distinctions, they have often proved intractable. Recent studies have shown that, while average income has risen, the distribution of income—the percentage shares held by various income groups—has not changed. However, since average per-capita income is less than $150 per year, any variation is magnified. The difference between subsistence and something more can look enormous, and indeed, can sometimes be critical. But while disparities in wealth and income are great, the disparities in consumption of such items as food grain are not nearly as large.

Is the Indian economy socialist and rigidly planned? With India's academic and political thinking steeped in the Fabian doctrine long associated with the London School of Economics, and with Hinduism's emphasis on social order and hierarchy, it would have been surprising if Jawaharlal Nehru had *not* emphasized economic planning and socialism. The priorities and macroeconomic models established by the national Planning Commission (established with great fanfare in 1950) have had more than a symbolic hand in setting a pattern for India's economic development. In practice, however, despite its theoretical dependence on centralized decision-making and highly detailed five-year plans, the Indian system has rendered much of the Planning Commission's work irrelevant.

Indeed, since Nehru's death in 1964, the Planning Commission has been weakened by Prime Ministers who gave greater policymaking powers to other agencies, such as the Ministries of Finance and Agriculture. State and local governments also play a key role; in fact, by well-established custom, local governments ignore Delhi's policies when they conflict with their own.

POPULATION GROWTH RATES, 1951–1976
(Percentage change)



*The abrupt decline in Pakistan's population is due to the 1971 secession of Bangladesh (East Pakistan).

Source: *International Financial Statistics*, International Monetary Fund, May 1978.

With birth control offset by lengthening average lifespan, India's 2.1-percent annual rate of population growth remains uncomfortably high.

If by the word "socialism" one means public ownership of the means of production or comprehensive, cradle-to-grave welfare support, India's regime does not qualify. In fact, the bulk of economic transactions in India are private—with half the GNP produced in rural areas and no nationalization of agriculture.

The concept of public responsibility for welfare remains, however, even if existing social programs are gravely underfunded. And, as elsewhere in the Third World, the government *does* seek to control the "commanding heights" of the economy, either by regulating private business or through direct ownership of "core" sectors of the economy: oil, steel, banking, and other key enterprises. Even here, however, a small but significant proportion of modern industry remains in private hands.

The big underlying problem is population growth. "Removal of poverty and attainment of economic self-reliance" may have been the opening words in the 1972 draft of the Fifth Five-Year Plan, but paragraphs 2 through 10 deal with population control. Indeed, here "timeless" India may be running out of time. The Indian population of 635 million is currently growing at a rate of about 1 million per month—an annual increase greater than the total population of Venezuela.* Indian policymakers, confident that full employment and economic growth could more readily be achieved with a lower population growth rate, have had little chance to test their thesis.

The reason is simple: The effects of education, rising wealth, and family planning have been more than offset by the impact of penicillin and public health services. (Life expectancy, which was 32 years in the 1950s, jumped to 46 in the 1960s.) Thus, the current rate of total population growth—2.1 percent annually —may be less than that in many other Third World countries, but it is still uncomfortably high. And so the vicious circle continues: Broader educational opportunities and enhanced status for women (both of which could lead to a lower birthrate) are shaped in part by the pace of economic development—itself in part determined by the birthrate. The prospects? Uncertain.

An Odd Pattern

In some ways, India and the United States are similar. Both are large continental land masses with diverse agricultural and industrial resources. Both are relatively self-sufficient. But India has traditionally been a net importer of food and raw materials—not to mention investment capital. The United States has exported both. India began its postcolonial period with ample foreign exchange reserves, mostly sterling, the result of booming wartime trade. But by the mid-1950s, the decline in world prices and in the demand for jute, tea, and other traditional exports, combined with increasing Indian demand for imported industrial and consumer goods, led to a foreign exchange shortage that later became chronic.

As a result, India has had to rely on vast amounts of foreign aid ($30 billion since Independence). The major donors have been the United States and the Soviet Union, along with international agencies such as the World Bank. India has received 15 percent of all U.S. postwar foreign economic aid, representing one-third of India's total intake; the total is considerably higher

*The populations of Bombay (about 6 million) and Calcutta (7 million) have quadrupled since 1940.

if one adds in U.S. contributions to the World Bank and International Development Agency. But India has never received as much help as it could use effectively.*

In aspiring to be modern, socialist, independent, and democratic, India early adopted a strategy that has clearly affected the pattern and pace of development. In essence, that strategy called for (*a*) equal emphasis on economic growth, egalitarian income distribution, and a type of self-reliance falling midway between "autarky" and total dependence on foreign aid and investment; (*b*) government control of the critical sectors of the economy; (*c*) modernization and industrialization; (*d*) conservative fiscal and anti-inflationary monetary policies; and (*e*) an emphasis on import substitution over export promotion—that is, on consuming domestic goods rather than buying imported goods with export revenue.† Procedurally, this strategy required a high government profile and continual bureaucratic intervention in the economy.

In practice, an odd cyclical pattern has marked India's economic policy. When the Indian economy performs poorly, economic policymaking in New Delhi becomes more pragmatic and implementation more effective. When the economy is performing well, policy tends to be more ideological, more generally "socialist."

Thus, in the wake of a successful first five-year plan, the government in 1955 pledged itself to a comprehensive "socialist" pattern of society. But in 1966, amid drought, an acute foreign exchange crisis, and industrial bottlenecks, government policy shifted to favor incentives to productivity, import liberalization, and a freer rein for the forces of supply and demand.

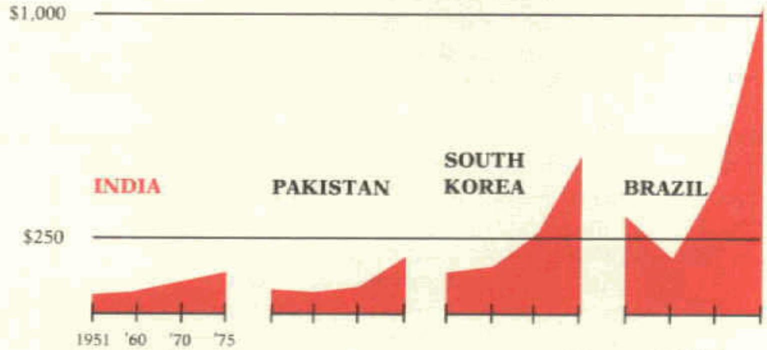
Similarly, in response to the nation's comfortable food position in 1969, Indira Gandhi moved leftwards, split the Congress Party, and nationalized India's 14 largest banks. Then, following the agricultural and industrial reverses of 1973, the wholesale wheat trade was de-nationalized and costly social programs were cut back.

The extremely high cost of famine relief and of recurrent economic crises demands an improvement in the quality—and consistency—of government policy. Some analysts believe that

*Between 1969 and 1974 India received $5.3 billion in foreign aid. Of this amount the United States contributed $1.5 billion; the Soviet Union and Eastern Europe $250 million; the International Bank for Reconstruction and Development $219 million; and the International Development Association $780 million.

†This emphasis on self-reliance, often counterproductive, can be traced back to the *Swadeshi* (or "buy Indian") movement that began early in the century.

CHANGES IN PER-CAPITA GNP: INDIA AND OTHERS*



*In current U.S. dollars.

Source: *International Financial Statistics*, International Monetary Fund, May 1978.

India's per-capita GNP, up 30 percent since Independence, lags behind those of Brazil, Korea, Pakistan. The U.S. figure: $7,060 in 1975.

India may now be heading toward a different economic pattern. During the last months of her 11-year tenure as Prime Minister, Indira Gandhi moved away from doctrinaire socialism, gave more freedom to the private business sector (including multinational companies),* and enforced unusually strong sanctions against organized labor. She pressed the lackluster bureaucracy to be more responsive to public needs by working harder, making decisions faster, and functioning more imaginatively. To some degree, market forces were again allowed to take precedence over direct government involvement in economic affairs.

These shifts, introduced just as India was recovering from a spate of bad harvests, helped the economy to recover. But despite improved food production, a reduced rate of inflation, and a rapid rise in foreign exchange reserves to $5 billion (due partly to remittances from those Indians working in the Persian Gulf, and partly to a crackdown on illicit foreign exchange transactions), the gains for the overall economy were modest. Employment barely expanded in 1975–77, investment stayed in the doldrums, and the population, of course, kept growing.

In March 1977, when Morarji Desai's Janata Party over-

*India officially welcomes foreign investments; in fact, however, the environment for foreign operations has not been the best. Foreign equity holdings in India are limited to 40 percent—with very few exceptions. IBM and Coca Cola have recently shut down their Indian operations.

whelmed Mrs. Gandhi's Congress Party, economic policy promptly became the subject of a great national debate. Although the conflicting views of the ruling coalition's leaders virtually ensure that the debate will continue to be lively, the tentative outline of a new policy is evident: There is a greater commitment to rural development, including small-scale cottage industries, instead of large, capital-intensive manufacturing. The shift would have pleased Mahatma Gandhi.

What has always been most difficult to explain about the Indian economy is the significance of noneconomic factors. Gunnar Myrdal in *Asian Drama* underscored the negative impact on India's development of caste, regionalism, and tradition. And indeed, these cultural factors, along with competing ideologies, have made compromise, not consistency, the necessary ingredient in economic policy. Yet all this has allowed India to modernize while remaining a single nation, and the economic costs are outweighed, in my view, by the benefits in terms of national cohesion and a democratic way of life.

Poverty is so acute that outsiders cannot understand how the political task of "nation-building" could be more important than economic progress. Yet India's leaders, from Nehru to Mrs. Gandhi, have given precedence to noneconomic matters. As they saw it, India experienced internal and external challenges in the past quarter-century that could be ignored only at the cost of its new status as a sovereign nation: mass migrations, three outbreaks of war with Pakistan, border differences with China that led to war in 1962, and periodic domestic clashes over language and religion. All of this has sapped India's economic development effort.

The post-Independence Indian experience in politics and economics has sometimes been described as an experiment. This characterization is inaccurate and belittling; the Indian environment is not a carefully controlled laboratory. Rather, it is a frontier environment—rough and, despite some familiar elements, full of surprises. Indira Gandhi's Emergency was a surprise; so was her electoral defeat at the hands of Morarji Desai. The biggest surprise of all will come if Prime Minister Desai's shaky coalition can actually accelerate the pace of economic development—something Desai's predecessors repeatedly failed to do. Yet to fail now would be as great a danger to India's democracy as the Emergency ever was.