



Subir Gokarn: Dimensions of inclusiveness-II

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The provision of a dole can enable the government to push through a reform agenda in agriculture.

In my previous article, I enumerated four dimensions of inclusiveness. In this one, I examine achievements and the gaps on each of the dimensions.

Opportunity: The most revealing indicator of failure is, to my mind, the fact that the number of workers who still rely on agriculture as their primary source of income has declined rather moderately from close to 70 per cent in the late 1970s to a little below 60 per cent today. Over the same period, the share of agriculture in GDP has declined from close to 40 per cent to a little over 15 per cent. Taken literally, this is a stark indicator of exclusion: a virtually constant proportion of the population dependent on a dramatically shrinking share of GDP.

The natural candidate for this transformation would have been the manufacturing sector. Why did our manufacturing sector not play a role in development similar to its role in so many other countries? There are a number of key reasons for this failure. From today's perspective, the most significant barrier is the regulatory framework governing labour markets. This is an issue to be discussed in the context of the "access" dimension.

Of course, the picture is not all bleak. Clearly, services stepped in to fill the void. To the extent that the demand is "derived" or dependent on the level of manufacturing activity, services cannot play an independent role. However, if the demand is "exogenous", i.e. coming from outside the system, there is no reason why services cannot play the same role as manufacturing did historically. The opportunity to export services provided India with a virtually unique source of exogenous demand, which it has taken full advantage of.

Capability: Our IITs and IIMs are often held up as models of excellence in the low-cost provision of quality higher education. However, the number of people who have a legitimate shot at any of these, or, for that matter, any institution of higher education, is a minuscule proportion of the people in the relevant age group. The lower tiers of the educational system are extremely exclusive, hugely discriminating between students on the basis of socio-economic background and ability to pay. This irony is compounded by the demographic transition, which has seen a huge bulge in the age group that is eligible for entry into the higher education system, without a commensurate increase in the capacity of that system. This mismatch is so large now that people are paying enormous amounts of money to increase their odds of admission into premier institutions. The beneficiary of this willingness to pay is the so-called "educational supplement" sector, an enormously profitable enterprise today.

Whether directly by way of fee payments or indirectly to the educational supplement sector, availability of education is directly proportional to family affluence. People who cannot afford to go to a decent school early in their lives most likely cannot gain access to decent streams of higher education later on. It is strange that we should have an education policy that so severely restricts private sector activity in the field, while providing an opportunity to the supplemental providers to earn substantial profits taking advantage of the demand-supply mismatch.

However, like the other dimensions of inclusiveness, capacity is also not a black-and-white story. There are notable successes at all levels, encompassing the entire range of motivations from pure altruism to pure commerce. One striking feature of higher education, or more appropriately, skill-based education, is how strong the supply response of the private sector has been when the opportunity presented itself in the IT and ITES

sectors. The same model is relevant to other rapidly growing sectors, be it entertainment, media, retail, logistics, hospitality and aviation.

With regard to ability to pay, the financial system becomes a very important contributor to inclusiveness. No potential student is handicapped by a lack of personal means if the financial system is willing to lend him money to against his future income potential. These loans are plentifully available in India, but they have traditionally been concentrated on the very set of institutions that I have judged to be exclusive.

Access: To be considered truly inclusive, the system has to have efficiency mechanisms that bring opportunities and capabilities together. Labour markets perform this function, efficiently or inefficiently, depending on the burden of regulatory restrictions that they have to work under. In particular, the job security regulations that manufacturing establishments above a certain size are required to comply with are a huge burden on employers and significantly reduce the attractiveness, in terms of potential profit contribution, of hiring new workers.

Regulations that are ostensibly designed to protect the worker's interests and therefore should be considered very much part of an inclusiveness agenda, are actually proving to be exclusive because they deter employers in the manufacturing sector from hiring more workers. We only need to look at our emerging service sectors, which are not subject to the same job security regulations.

Security: Our formal systems in this regard are extremely narrow in scope and coverage and really do not exist for the vast majority of the population. But, there are signs of movement. In particular, let me refer to the National Rural Employment Guarantee Scheme, which was implemented by the UPA government a couple of years ago. It is, in essence, a dole or an unemployment insurance scheme, in which the requirement that the beneficiary do some work is only to ensure proper selection; he will only come and do the work in order to earn this meagre amount of money if he is truly in need. Early journalistic evidence from its implementation suggests that while concerns about inadequate coverage, corruption and so on are not invalid, there are real benefits flowing from it in the poorest districts of the country. This scheme is an instrument to help government maintain its position and influence; success will obviously depend on how effectively it is implemented, but it clearly is a start.

There is another value to a rural dole. The one sector that has been largely untouched by policy reforms and has suffered enormously as a consequence, is agriculture. One reason is that change is risky, threatening an already fragile existence for many people. Under these circumstances, the provision of a dole could well reduce the threat perception of reforms in agriculture, thus providing the government an opportunity to push through with a reform agenda. If the scheme becomes reasonably effective in the eyes of its beneficiaries, it would be a wasted opportunity for the government not to follow up with the implementation of a reform strategy.

This has been excerpted from the 8th Dr. R. L. Sanghvi AMA Endowment Lecture, titled "Inclusive Growth in India: Dream or Reality?" delivered at the Ahmedabad Management Association, on December 6, 2007.

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