INDIA AND CHINA

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Over the last two decades or so, the two most populous, large countries in the world, China and India, have been growing at rates considerably higher than the world average. In recent years the growth rate of national product of China has been about three times, and that of India approximately two times that of the world average. This has led to a clever defence of globalisation by a former chief economist of IMF (Fisher, 2003). Although China and India feature as only two among some 150 countries for which data are available, he reminded us that together they account for the majority of the poor in the world. This means that, even if the rich and the poor countries of the world are not converging in terms of per capita income, the well above the average world rate of growth rate of these two large countries implies that the current phase of globalisation is reducing global inequality and poverty at a rate as never before.

Statistical half truths can be more misleading at times than untruths. And this might be one of them, in so far as the experiences of ordinary Indians contradict such statistical artefact. Since citizens in India can express reasonably freely their views at least at the time of elections, their electoral verdicts on the regime of high growth should be indicative. They have invariably been negative. Not only did the 'shining India' image crashed badly in the last general election, even the present prime minister, widely presented as the 'guru' of India's economic liberalisation in the media, could never personally win an election in his life. As a result, come election time, and all parties talk not of economic reform, liberalisation and globalisation, but of greater welfare measures to be initiated by the state. Gone election times, and the reform agenda is back. Something clearly needs to be deciphered from such predictable swings in political pronouncement.

Politicians know that ordinary people are not persuaded by statistical mirages and numbers, but by their daily experiences. They do not accept high growth on its face value as unambiguously beneficial. If the distribution of income turns viciously against them, if the opportunities for reasonable employment and livelihood do not expand with high growth, the purpose of higher growth would be widely questioned in a democracy. This is indeed what is happening, and it might even appear to some as paradoxical. The festive mood generated by high growth is marinated in popular dissent and despair, turning often into repressed anger. Like a malignant malaise, a sense of political unease is spreading insidiously along with the near double digit growth. And, no major political party, irrespective of their right or left label, is escaping it because they all subscribe to an ideology of growth at any cost.

What exactly is the nature of this paradoxical growth that increases output and popular anger at the same time? India has long been accustomed to extensive poverty coexisting with growth, with or without its 'socialist pattern'. It continues to have anywhere between one-third and one- fourth of its population living in sub-human, absolute poverty. The number of people condemned to absolute poverty declined very slowly in India over the last two decades, leaving some 303 million people still in utter misery. In contrast China did better with the number of absolutely poor declining from 53 percent to 8 percent, i.e. a reduction of some 45 percentage points, quite an achievement compared to India's 17 percentage points. However, while China grew faster, inequality or relative poverty also grew faster in China than in India. Some claim that the increasing gap between the richer and the poorer sections in the Chinese society during the recent period has been one of the worst in recorded economic history, perhaps with the exception of some former socialist countries immediately after the collapse of the Soviet Union. The share in national income of the poorest 20 per cent of the population in contemporary China is 5.9 percent, compared to 8.2 per cent in India. This implies that the lowest 20 percent income group in China and in India receives about 30 and 40 percent of the per capita average income of their respective countries. However, since China has over two times the average per capita income of India in terms of both purchasing power parity, and dollar income, the poorest 20 percent in India are better off in relative terms, but worse off in absolute terms. The Gini coefficient, lying between 0 and 1, measures inequality, and increases in value with the degree of inequality. In China, it had a value close to 0.50 in 2006, one of the highest in the world. Inequality has grown also in India, but less sharply. Between1993-94 and 2004-5, the coefficient rose from 0.25 to 0.27 in urban, and 0.31 to 0.35 in rural areas. Every dimension of inequality, among the regions, among the professions and sectors, and in particular between urban and rural areas has also grown rapidly in both counties, even faster in China than in India. In short, China has done better than India in reducing absolute poverty, but worse in allowing the gap to grow rapidly between the rich and the poor during the recent period of high growth.

A central fact stands out. Despite vast differences in the political systems of the two countries, the common factor has been increasing inequality accompanying higher growth. What is not usually realised is that, the growth in output and, in inequality are not two isolated phenomena. One frequently comes across the platitude that high growth will soon be trickling down to the poor, or that, redistributive action by the state through fiscal measures could decrease inequality while keeping up the growth rate. These statements are comfortable but unworkable, because they miss the main characteristic of the growth process underway. This pattern of growth is propelled by a powerful reinforcing mechanism, which the economist Gunner Myrdal had once described as 'cumulative causation'. The mechanism by which growing inequality drives growth, and growth fuels further inequality has its origin in two different factors, both related to some extent to globalisation.

First, in contrast to earlier times when less than 4 percent growth on an average was associated with 2 percent growth in employment, India is experiencing a growth rate of some 7-8 per cent in recent years, but the growth in regular employment has hardly exceeded 1 percent. This means most of the growth, some 5-6 percent of the GDP, is the result not of employment expansion, but of *higher output per worker*. This high growth of output has its source in the growth of labour productivity. According to official statistics, between 1991 and 2004 employment fell in the organised public sector, and the organised private sector hardly compensated for it. In the corporate sector, and in some organised industries productivity growth comes from mechanisation and longer hours of work. Edward Luce of *Financial Times* (London) reported that the Jamshedpur steel plant of the Tatas employed 85000 workers in 1991 to produce1million tons of steel worth 0.8 million US dollars. In 2005, the production rose to 5 million tons, worth about 5 million US dollars, while employment fell to 44,000. In short output increased approximately by a factor of five, employment dropped by a factor of half , implying an increase in labour productivity by a factor of ten. Similarly, Tata Motors in Pune reduced the number of workers from 35 to 21 thousand but increased the production of vehicles from 129,000 to 311,500 between 1999 and 2004, implying labour productivity increase by a factor of 4. Stephen Roach, chief economist of Morgan Stanley reports similar cases of Bajaj motor cycle factory in Pune. In mid-1990s the factory employed 24000 workers to produce 1 million units of two wheelers. Aided by Japanese robotics and Indian information technology, in 2004, 10500 workers turned out 2.4 million units, i.e. more than double the output with less than half the labour force, an increase in labour productivity by a factor of nearly 6. (Data collected by Aseem Srivastava, 'Why this growth can never trickle down', aseem62@ yahoo.com). One could multiply such examples, but this is broadly the name of the game everywhere in the private corporate sector. □□□