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Uncontrolled Poverty And Disequilibrium In India After Economic Reforms

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Abstract

It is going to be 25 years since India embarked on big-bang economic reforms in 1991. What are the achievements in terms of growth and inclusive growth in the post-reform period? What are the issues in poverty measurement? Has poverty declined faster in the post-reform period? What are the determinants and policies needed for reduction in poverty? Has inequality increased in the reform period? What should be done to reduce inequalities? This paper addresses these questions relating to economic reforms, poverty and inequality. There has been visible change but some failures in the processes and outcomes in the post-reform period. Poverty declined faster in the second half of 2000s as compared to that of 1990s. Inequality increased in urban areas. Among other things, creation of productive employment is crucial for reduction in poverty and inequality. New generation wants equality of opportunity rather than just rights based approach. India aspiring to be a global power should invest in human capital and improve human development.

Keywords: Poverty, inequality, economic reforms, productive employment, equality of opportunity, multi-dimensional poverty

ECONOMIC REFORMS, POVERTY AND INEQUALITY

1. INTRODUCTION

It is going to be 25 years since India embarked on big-bang economic reforms in 1991. What are the achievements in terms of growth and inclusive growth in the post-reform period? What are the issues in poverty measurement? Has poverty declined faster in the post-reform period? What are the determinants and policies needed for reduction in poverty? Has inequality increased in the reform period? What should be done to reduce inequalities? This paper addresses these questions relating to economic reforms, poverty and inequality.

2. TWENTY FIVE YEARS OF ECONOMIC REFORMS: A SIGNIFICANT VISIBLE CHANGE BUT SOME FAILURES

Economic reforms were initiated in mid-1991 due to problems such as insurmountable external debt, unmanageable balance of payments situation, high possibility of acceleration in the rate of inflation and the underlying fiscal problems. The external factors like the Gulf war and the collapse of the Soviet economy have also contributed a bit to this crisis. With a view to tide over the unprecedented economic crisis and ensuring the sustainability of the growth

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process, it was considered necessary to introduce certain major policy reforms on industrial, trade and public sector fronts, almost simultaneously with measures of stabilization for reduction in fiscal and current account deficits. The reforms aimed at fundamental shift towards greater reliance on the market mechanism to allocate resources and influence decision making. In the first budget speech in 1991, the finance minister Dr. Manmohan Singh said that 'the idea of the emergence of India as a front ranking powerhouse of the world economy was an idea whose time had indeed come". Quoting Victor Hugo, he also mentioned that 'no power on earth can stop an idea whose time had come'.

It is well known that we have moved beyond 'Hindu Rate of Growth' in the last three and half decades. There is a debate on the turning point and structural breaks in economic growth in the country. Nayyar (2006) believes that the turning point in the early 1950s was much more important than the structural break in the early 1980s. Inspite of low growth during 1950-1980, there were some achievements such as creation of institutional capacities, development of social institutions and legal framework for a market economy, priority to science and technology, establishment of capital goods sector etc Thus, one view is that the base created during the first three decades after independence helped during the reform period since 1991.

Some argued that the turning point started in the Fifth Plan itself. Growth rate of GDP was 5% during 1974-79 period. According to this view, one of the reasons for this break could be increase in savings rate for household sector and public sector. Bank nationalization in 1969 could have helped in mobilizing savings in both rural and urban areas .

Everyone agrees that economic growth in terms of GDP since 1980s was much higher than during the period 1950s to 1970s. Some studies indicated that the real break occurred in the 1980s . According to some analysts, the growth in the 1980s was not sustainable and the real break occurred in 1991 because of economic liberalisation . There is no doubt that growth and other macro indicators have been much better since 1991. As shown in Table 1, growth rates of GDP increased significantly in the post-reform period led by service sector growth. The trend rate of GDP growth in the 25 year reform period has been 6.5 per cent per annum. The growth rate was nearly 9 per cent per annum during 2003-04 to 2007-09. In the last one and half decades, the growth rate has been around 7 per cent per annum. Service sector growth was 7 to 9 per cent per annum in the last two and half decades. Industrial growth was the highest in 2000s. On the other hand, agricultural growth in the last one and half decades was lower than those of 1990s and 1980s. The average growth of the last five years in agriculture was around 1.7 per cent per annum .

In the post-reform period, India has done well in many indicators such as economic growth, exports, balance of payments, resilience to external shocks, service sector growth, significant accumulation of foreign exchange, information technology (IT), stock market and improvements in telecommunications.

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Table 1. Growth in Real GDP (%) per annum

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Period	Agriculture	Industry	Services	GDP
1950s	2.7	5.6	3.9	3.6
1960s	2.5	6.3	4.8	4.0
1970s	1.3	3.6	4.4	2.9
1980s	4.4	5.9	6.5	5.6
1990s	3.2	5.7	7.3	5.8
2000s	2.5	7.7	8.6	7.2
2011-2 to 2015-16 (NS)	1.7	5.5	8.9	6.5

Note: New series refer to Gross value added (GVA) at basic prices; 2015-16 numbers are advance estimates; Numbers upto 2000s are based on 2004-05 base, GDP at factor cost. Source:Author's estimates for 2011-12 to 2015-16 based on Central Statistical Organization data. Panda (2013) upto 2000s.

After big-bang reforms in the early 1990s, India has followed a gradualist approach. Gradualism or calibration could be due to two factors. First, it is better to be cautious instead of taking many risks as India can't afford too many risks with so many poor people. Second one is where you do not need caution but you have to be gradual and slow due to compulsions of the democratic process in a very large and heterogeneous country. You need consultation and consensus building which often takes time. One good feature of Indian elections in recent years is that people are also voting for development apart from other factors.

Political Economy of Reforms: Tendulkar and Bhavani (2007) discuss some individual initiatives under political economy of reforms . They deal with four selective specific reform initiatives to illustrate the evolving political economy of interest group politics that determines the future path. They classify the reform measures into three broad groups keeping in mind the coalition politics. These are: (a) measures carried out by an agency other than the central government like the financial sector and exchange rate reforms carried out by the Reserve Bank of India; (b) measures that lie within the discretionary powers of the government; (c) measures that require legislative amendments. According to them, given the constraints of democracy, diversity and coalition politics, the progress of reforms can be fastest in category (a), slow in category (b) and extremely difficult in category (c). In the present context of disruptions to Parliament, their observation particularly on category 'c' is more relevant now.

They select two procedural and two institutional reforms to bring out both the strengths and weaknesses of coalition politics. In the case of two procedural initiatives (a) liberalization of domestic and international private investment and (b) liberalization of international trade in goods and services, the progress in reforms was rapid. The two institutional procedures are (a) privatization of government owned commercial enterprises and (b) organized labour

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market reforms. There was a partial success in the case of privatization while in the case of labour reforms, one observed emergence of informal labour flexibility.

Indian economy with more than 2 trillion dollars in 2016 is different from 1991. The country is more globally integrated now as compared to the year when reforms started. The global financial crisis that originated in the US in 2008 transmitted to emerging market economies like India . Again continued global slowdown in the last few years had adverse impact on India's economy as the value of exports declined significantly in the last one year.

India has the potential to achieve 8 to 9 per cent GDP growth. In order to have higher and sustainable growth, the country needs to have appropriate policies and implementing systems. For raising growth investment has to be revived particularly private investment. There is a debt problem for private sector. It may take some time for revival of private investment and climate has to be created. Global economic situation is not in good shape. There has been slow down in Europe. Brazil and Russia are not doing well among BRIC countries. The slow-down in China is particularly worrying. Exports in India showed negative growth consecutively in the last 13 months. Therefore, one has to concentrate on domestic economy. Public investment in infrastructure and other areas is crucial as counter-cyclical measure to revive the economy. This can also raise private investment. The problem of large NPAs (non-performing assets) in public sector banks has to be resolved. Political economy with crony capitalism and political interference are visible particularly in public sector banks. One should stick to fiscal deficit targets. Revenue deficit has to be reduced to zero over time. Both the objectives of raising public investment and sticking to fiscal deficits can be achieved if non-merit subsidies are removed and disinvestment targets are achieved. On corporate tax, reduction in the rate must be accompanied by reduction in exemptions. This can be used for infrastructure and social sector development. Monetary policy by reducing repo rate has tried to improve credit and investment growth. However, monetary transmission to other banks has not happened.

The present NDA-led government has undertaken several reform measures in the last one and half years. The second generation reforms should be continued to improve growth although it looks like introduction of Goods and Services Tax (GST) may get delayed. Land acquisition and labour market issues should be left to states. There is a need for further improvement in the rank of 'doing business' in India. Among other things, introduction of Bankruptcy laws can help in improving business environment. Focus on agriculture and social sector is also necessary to improve sustainable economic growth and well being of people.

Five Failures

In the last 25 years of reform period, India has done well and one can see significant visible change. But, there have been some failures in policies, processes and outcomes in the post-reform period. I feel that there are five failures, which are elaborated below. There is a need to focus on these five areas in short and long terms.

(a) Slow Infrastructure development

Although there is lot of progress, almost all indicators score poorly if one looks at India's infrastructure particularly compared with countries like China. For example, power shortage is perennial in India. This is one of the single biggest constraints for our growth. Meeting the

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energy requirements for growth of this magnitude in a sustainable manner presents a major challenge. It is not surprising that the index of infrastructure across states is highly correlated with per capita income and level of poverty. In the post-reform period, we have much greater dependence on private investment through different forms of public-private partnerships (PPPs) than was the case when the reforms started. PPPs have not met the expectations. Ahluwalia (2012) says " policy is being framed such that PPPs should be a means of bringing private money into public projects and not siphoning public money into private projects!". May be a different approach is needed on PPPs. Moreover clearances on environment and land acquisition should be faster so that investments can be improved. Similarly ease of doing business in India has to be undertaken. Vijay Kelkar committee's recommendations would be useful to revive PPP in infrastructure projects. Particularly energy security is important for economic growth and providing power to many households.

(b) Failure in increasing labour intensive manufacturing

Rise in manufacturing employment is need of the hour. Share of manufacturing in total employment has been almost stagnant at 11 to 12 per cent for a long time. It increased marginally to 13 per cent in 2011-12. In 2010, India accounts for 1.4% of the world exports of manufactures while the share of China is a whopping 15%. The reforms since 1991 have not been comprehensive enough to remove the bias towards capital and skill intensive industries. Also there are distortions in input markets like land and labour. For example, some strongly believe that among other things, labour market reforms are one of the key factors for revival of manufacturing sector particularly in the organized sector.

A study by Ramaswamy and Agarwal (2013) strongly suggest that services sector would be an unlikely destination for the millions of low skilled job seekers. India needs to focus on manufacturing sector to provide large scale employment. Manufacturing has the capability because it has stronger backward linkages unlike the services sector. We cannot afford to neglect manufacturing at this stage of development. The policy signals have to clearly say that we stand to support manufacturing activity in a big way. India needs to focus on manufacturing sector to provide large scale employment. Manufacturing has the capability because it has stronger backward linkages. We cannot afford to neglect manufacturing at this stage of development. Labour intensity of organizing manufacturing sector has to be improved apart from increasing the productive employment in SMEs and unorganized manufacturing.

(c) Not taking advantage of demographic dividend.

It is known that with demographic dividend, there will be large numbers joining labour force. Labour force in India is expected to increase by 32 per cent while it will decline by nearly 5.0 per cent in China over the next 20 years. India is supposed to have surplus of 56 million while rest of the world will have shortage of 47 million working population. Demographic dividend varies across regions. Northern states will have young population (dependency ratio in Bihar 1.05 , UP 1.08)Southern states have already started aging (dependency ratio TN 1.74, Kerala 1.79). There has been sluggish progress in education and skill levels of workers. Young population is an asset only if it is educated, skilled and finds productive employment. During the Twelfth Five Year Plan (2012–17), 50 million non-farm employment opportunities are proposed to be created and at least equivalent number of people would be

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provided skill certification. There are huge challenges in raising education and skills of workers and population.

In India, education and skills of workers is low although it has been rising over time. As shown in Table 2 even in 2011-12, around 78 per cent of rural female, 56 per cent of rural males, 47 per cent of urban females and 30 per cent of urban males are either illiterate or have been educated upto primary level. Only about 5 per cent of rural females and 13 per cent of rural males have education higher secondary and above. In the case of urban workers, the share of graduates and above rose significantly particularly for urban females.

Table 2 Education of Workers: 1999-00 to 2011-12 (Usual Principal and Subsidiary Status, UPSS)

	Female			Male		
	1999-00	2004-05	2011-12	1999-00	2004-05	2011-12
	Rural					
Not literate	73.9	66.4	56.3	39.6	33.8	28.0
Literate&upto primary	15.5	18.4	21.8	27.3	29.4	27.6
Middle	6.2	8.7	10.8	16.3	18.1	19.0
Secondary	2.8	3.6	5.9	9.3	9.3	12.9
Higher secondary	0.9	1.4	2.6	4.2	4.6	6.6
Diploma/certificate	--	0.5	0.5	--	1.0	1.1
Graduate&above	0.6	0.9	2.1	3.3	3.8	5.0
All	100.0	100.0	100.0	100.0	100.0	100.0
	Urban					
Not literate	43.9	37.3	27.9	16.0	13.1	11.2
Literate&upto primary	17.6	20.3	19.5	21.9	22.7	18.8
Middle	10.3	11.9	12.3	18.8	19.4	17.5
Secondary	8.8	7.3	9.1	16.9	15.0	16.5
Higher secondary	5.5	5.1	7.1	9.4	9.2	10.9
Diploma/certificate	--	3.4	2.3	--	3.7	2.9
Graduate & above	13.9	14.7	21.8	16.8	16.9	22.2
All	100.0	100.0	100.0	100.0	100.0	100.0

Regarding skill development, only 10 per cent of the workforce in the age group of 15-59 years received some form of vocational training in 2009-10. The percentage of workers who received vocational training was the highest in the service sector with 33 per cent. This is followed by manufacturing (31 per cent), agriculture (27 per cent). In the non-manufacturing and allied activities only 9 per cent had vocational training (GOI, 2013). But, the main problem is that vast majority of workers have non-formal vocational training. Only 11 million workers had formal training while 33 million workers had nonformal training. The present

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government has also emphasized the importance of skill development. This has to be given priority to take advantage of demographic dividend.

(d) Slow social sector development.

Although there have been achievements in social sector during the reform period, the progress has been very slow. India has success in growth but there is a failure in progress of social indicators . The country is not only behind china but the progress is slower than many of the Asian countries. It is known that India's rank of human development index (HDI) is lower compared to many other developing countries. Basically the argument is that compared to economic growth, reduction in inequality, hunger, malnutrition is much slower. Improvement in health and quality of education is slower. There is disconnect between economic growth and malnutrition. Slow reduction in malnutrition is one of the failures in the post-reform period. We know that the solutions lie in improving agriculture, health, women empowerment and nutrition programs. Also, regional disparities are high in human development. Southern states have done better than Northern and Eastern states. There are five problems in social sector: (a) low levels of social indicators (b) slow progress (c) significant regional, social and gender disparities (d) low level and slow growth in public expenditures particularly on health and (e) poor quality delivery systems. Social sector should be one of the focus areas for sustainability of economic growth and equity.

(e) Governance Failures

Last and fifth one is governance. Reforms were expected to improve governance at various levels. However, there are new problems in governance and persistence of old problems including corruption. Apart from many achievements, the post-reform period also witnessed many scams in the financial and real sectors. These scams in the last 25 years could have been avoided with better governance. There has been a nexus between politicians, business people and bureaucracy. Crony capitalism is one of the factors for corruption. Jalan (2006) says the interface between politics, economics and governance, and their combined effect on the functioning of our democracy, which will largely determine India's future.

A study on performance of Karanataka's Lokayukta suggests that without overhaul of the country's administrative structure, ex-post prosecution of corruption or withdrawal from economic activities can not reduce corruption (Babu et al, 2013) At present the design of anti-corruption ombudsman leaves a lot to the personality of Lokayukta. The analysis also suggests that the overburdened legal system needs legal reforms. Many people feel that governance problem is the biggest constraint for achieving our development goals in the country.

The focus of reforms can now be shifted to more efficient delivery systems of public services. It has been recognized that better governance is very important for inclusive development. This is important for better implementation of sectoral policies and poverty alleviation programmes. Social mobilization, community participation and decentralized approach are needed. The new government is talking about 'minimum government and maximum governance". Fixing governance problem is important for success of the above four areas also .

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To conclude on economic reforms, India has done very well in many indicators on economy in the post-reform period. It has to focus now on unfinished reforms and the above five failures. On economic reforms, commenting on the analysis of Tendulkar and Bhavani (2007, 2012), Reddy (2013) says that this work could be supplemented with two other areas of study. First one is the impact of global financial crisis on the destination of economic reforms. Second is the critical role of states in the future of reforms. This is important because of the increasing role of state governments in providing economic and social infrastructure.

3. POVERTY

Eradication of poverty is an important objective of development policy. We describe here briefly on measurement of poverty and discuss policies for reduction of poverty.

Measurement of poverty

There are many approaches for poverty measurement. Human beings need a certain minimum consumption of food and non-food items to survive. However, the perception regarding what constitutes poverty varies over time and across countries. Generally the approach is to look at it in terms of certain minimum consumption expenditure on food and non-food items. Any household failing to meet this level of consumption expenditure can be treated as a poor household.

In India, we have had a long history of studies on measurement of poverty starting from the study of Dadabhai Naoroji (1901)13. Officially, the erstwhile Planning Commission was the nodal agency in the Government of India for estimation of poverty. These estimates are based on the recommendations of the committees appointed by it. A working group of the Planning Commission prepared a methodology of poverty estimation in 1962. There has been intense debate on this methodology by the academicians, experts and policy makers over the years. The Planning Commission constituted Task Force/Expert Group from time to time to review the methodology. These preoccupied with issues of trade and fiscal policy and financial markets. Reform would have been more popular if it were equally concerned about the appalling governance structure in the delivery of basic social services for the poor (p.4998).

13 Srinivasan (2007) reviews the evolution of poverty lines in India from a historical perspective and critically discusses some issues relating to official poverty lines. Also see Deaton and Kozel (2005), Vaidynathan (2001). Srinivasan (2013), among other things, discusses about poverty lines in India in the recent past. For a discussion on poverty debate in India see Deaton and Kozel (2005)

include the Task Force under the chairmanship of Y.K. Alagh in 1977 (GOI, 1979); the Expert Groups under the chairmanship of D.T. Lakdawala in 1989 (GOI, 1993) and S.D. Tendulkar in 2005 (GOI, 2009) .

Tendulkar Committee submitted its report in 2009. The Expert Group (Tendulkar) did not construct a poverty line. It adopted the officially measured urban poverty line of 2004-05 based on Expert Group (Lakdawala) methodology and converted this poverty line (which is Universal Reference Period URP-consumption based) into Modified Reference Period (MRP)consumption. Here the MRP-consumption based urban poverty line is worked out as

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the level of per capita consumption expenditure in the MRP consumption distribution that corresponds to the bottom 25.7 per cent of the population in 2004-05. The Committee moved away from the calorie intake as anchor for poverty estimation.

In June 2012, the Government of India appointed an Expert Group (C. Rangarajan as Chairman) to take a fresh look at the methodology for the measurement of poverty. The Committee submitted its report towards the end of June 2014.

The Expert Group (Rangarajan) has gone back to the idea of separate poverty line baskets for rural and urban areas. In defining the new consumption basket separating the poor from the rest, the Rangarajan Committee is of the considered view that it should contain a food component that addresses the capability to be adequately nourished as well as some normative level of consumption expenditure for essential non-food item groups (Education, clothing, conveyance and house rent) besides a residual set of behaviorally determined non-food expenditure. The introduction of norms for certain kinds of non-food expenditures is an innovation. In the absence of any other normative criteria, the median fractile class expenditures were treated as the norm. In fact, non-food consumption as a proportion of total consumption has been steadily rising. That is why the Group decided to take a fresh look at the basket rather than only updating the old basket for price changes.

The poverty lines in the year 2011-12 for all India are presented in Table 2. For 2011-12, for rural areas the national poverty line using the Tendulkar methodology is estimated at Rs. 816 per capita per month and Rs. 1,000 per capita per month in urban areas. Thus, for a family of five, the all India poverty line in terms of consumption expenditure would amount to about Rs. 4,080 per month in rural areas and Rs. 5,000 per month in urban areas. Per year it would amount to Rs.48960 in rural areas and Rs.60,000 in urban areas.

Similar numbers are given for estimates based on Rangarajan Committee methodology. The poverty lines based on Rangarajan committee are higher than those of Tendulkar Committee. For a family of five, the expenditure would amount to Rs. 4860 in rural areas and Rs.7035 in urban areas.

Table 3: Poverty Lines in 2011-12, All India (Rs.)

	Tendulkar Committee			Rangarajan Committee		
	Monthly Per capita	Monthly per house hold	Per year per house hold	Monthly per capita	Monthly per house hold	Per year per house hold
Rural	860	4080	48,960	972	4860	58320
Urban	1000	5000	60,000	1407	7035	84420

Source: GOI (2009), GOI (2014)

There have been questions on whether one can live with this money. Sundaram (2011) mentions Suresh Tendulkar's views on absolute poverty line as follows. " The absolute poverty line is not the aggregation of expenditure needed for purchasing the commodities and services required for fulfilling all the basic needs. This follows from the problems of objective norm specification as well as those of aggregation across interdependent basic needs… and from the fact that households are not uniform in their composition, tastes and

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location across climatic conditions. There is therefore an inherent and irreducible element of arbitrariness in the specification of the absolute poverty line and (there is) no alternative but to treat it as broadly representing a 'low enough yet reasonable' minimum living standard" (p.111, Sundaram, 2011). As shown below, there were about 250 to 350 million poor people based on these poverty lines of the two committees. One should be concerned about the poor population.

Trends in Poverty: Declined faster during 2004-2012 period as compared to 1993-2005 period.

In the post-reform period, there has been a debate about the impact of reform policies on poverty. It has been argued that inspite of higher GDP growth, the rate of reduction in poverty has been slower. However, this was true till the early 2000s. Poverty declined only 0.74 percentage points per annum during the period 1993-94 to 2004-05. But, as shown in Table 3a, poverty declined by 2.2 percentage points per annum during the period 2004-05 to 2011-12. It is the fastest decline of poverty compared to earlier periods.

Table 3a: Changes in Poverty: All India estimates based on Tendulkar Committee methodology

	Rural	Urban	Total	Rural	Urban	Total
1993-94	50.1	31.8	45.3	328.6	74.5	403.7
2004-05	41.8	25.7	37.2	326.3	80.8	407.1
2011-12	25.7	13.7	21.9	216.5	52.8	269.3
Annual decline 1993-94 to 2004-05 percentage points	0.75	0.55	0.74			
Annual decline 2004-05 to 2011-12 percentage points	2.32	1.69	2.18			

Source: Planning Commission, press release, 2013

The estimate of poverty ratio for the years 2009-10 and 2011-12 derived from the Expert Group (Rangarajan) methodology and Tendulkar methodology are summarised in Table 4.

Table 4: Poverty Estimates in 2009-10 and 2011-12

Year	Poverty Ratio			No. of poor (million)		
	Rural	Urban	Total	Rural	Urban	Total
Expert Group (Rangarajan)						
1. 2009-10	39.6	35.1	38.2	325.9	128.7	454.6
2. 2011-12	30.9	26.4	29.5	260.5	102.5	363.0
3. Reduction (%age points)	8.7	8.7	8.7	65.4	26.2	91.6
Expert Group (Tendulkar)						
1. 2009-10	33.8	20.9	29.8	278.2	76.5	354.7
2. 2011-12	25.7	13.7	21.9	216.7	53.1	269.8
3. Reduction (%age points)	8.1	7.2	7.9	61.5	23.4	84.9

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Source: GOI (2014)

A comparison of the poverty ratio for the two years 2009-10 and 2011-12

Derived from the Expert Group (Rangarajan) method and the Expert Group (Tendulkar) method shows that the average level of poverty ratio derived from the Expert Group (Rangarajan) method is higher than that derived from the Expert Group (Tendulkar) method. The all-India poverty ratio derived from the

Expert Group (Rangarajan) method is 8.4 percentage points higher in 200910 and 7.6 percentage points higher in 2011-12 than that derived by the

Planning Commission using the Expert Group (Tendulkar) method. The all India poverty ratio in Expert Group (Rangarajan) fell from 38.2% to 29.5%.

Totally, 91.6 million individuals were lifted out of poverty during this period. Though Rangarajan Committee methodology gives higher level of absolute poverty ratio, the reduction in poverty ratio from Rangarajan method is not very different than that of Tendulkar method (GOI, 2014).

5. CONCLUDING OBERVATIONS

Soon we will complete 25 years of economic reforms in India. There have been winners and losers due to economic reforms. But, the net outcome has been positive in the last 25 year period. Both markets and state have roles in the globalization world. There has been significant visible change in terms of economic growth and other indicators. In the post-reform period, India has done well in many indicators such as economic growth, exports, balance of payments, resilience to external shocks, service sector growth, significant accumulation of foreign exchange, information technology (IT), stock market and improvements in telecommunications. But, there have been some failures in the processes and outcomes. The five failures mentioned in this paper are: slow infrastructure development, failures in increasing labour intensive manufacturing, not taking advantage of demographic dividend, slow social sector development and governance failures. These failures have to be corrected in the next few years in order to have higher economic growth and equity.

Poverty declined faster in 2000s compared to that of 1990s. But, still India has more than 300 million poor population and some of the non-poor also falls under vulnerable category. Creation of productive employment is crucial for reduction in poverty. Inequality in consumption seems to have increased particularly in urban areas. There are significant inequalities by sector, region, gender and social groups. The new generation wants basically equality of opportunity in all fields and quality public and private services — and not just rights-based approach. Central government should play an important role in achieving higher growth and equitable development. However, apart from the Central government, the policies of the state governments are essential for achieving these objectives. State governments have been fiscally responsible than the Centre. In many important areas like agriculture, health care, rural infrastructure and, state governments spend much more than the Centre. Therefore, policies and governance at state level are much more important for better outcomes. Reforms, among other things, can be shifted to more efficient delivery systems of public services.

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Many reckon that poor governance is the biggest constraint to achieving goals of the new-generation India. A major institutional challenge is the accountability of service providers, particularly the public sector. It will be difficult to improve service delivery without accountability even if resources are made available. Better coordination between states and the Centre and decentralised systems can enhance accountability.

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