Predatory Growth

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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 (Fischer, 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 per cent 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 per cent 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. Between 1993-94 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 rural areas has also grown rapidly in both countries, 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 realized 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 per cent 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 organized industries productivity growth comes from mechanization 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 produce 1 million tons of steel worth 0.8 million U.S. dollars. In 2005, the production rose to 5 million tons, worth about 5 million U.S 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.

The manifold increase in labour productivity, without a corresponding increase in wages and salaries becomes an enormous source of profit, and also a source of international price competitiveness in a globalizing world. Nevertheless, this is not the entire story, perhaps not even the most important part of the story. The whole organized sector to which the corporate sector belongs, accounts for less than one-tenth of the labour force. Simply by the arithmetic of weighted average, a 5-6 per cent annual growth in labour productivity in the entire economy is possible only if the unorganized sector accounting for the remaining 90 per cent of the labour force also contributes to the growth in labour productivity. Direct information is not available on this count, but several micro studies and surveys show the broad pattern. Growth of labour productivity in the unorganized sector, which includes most of agriculture, comes from lengthening the hours of work to a significant extent, as this sector has no labour laws worth the name, or social security to protect workers. Sub-contracting to the unorganized sector along with casualisation of labour on a large scale become convenient devices to ensure longer hours of work without higher pay. Self-employed workers, totaling 260 million, expanded fastest during the high growth regime, providing an invisible source of labour productivity growth. Ruthless self-exploitation by many of these workers in a desperate attempt to survive by doing long hours of work with very little extra earning adds both to productivity growth, often augmenting corporate profit, and to human misery.

However inequality is increasing for another reason. Its ideology often described as neo-liberalism, is easily visible at one level; but the underlying deeper reason is seldom discussed. The increasing openness of the Indian economy to international finance and capital flows, rather than to trade in goods and services, has had the consequence of paralysing many pro-poor public policies. Despite the fact that we continue to import more than we export (unlike China), India's comfortable foreign reserves position, crossing 230 billion U.S dollars in 2008, is mostly the result of accumulated portfolio investments and short term capital inflows from various financial institutions. To keep the show going in this way, the fiscal and the monetary policies of the government need to comply with the interests of the financial markets. That is the reason why successive Indian governments have willingly accepted the Financial Responsibility and Budget Management Act (2003) restricting deficit spending. Similarly, the idea has gained support that the government should raise resources through privatisation and so-called public private partnership, but not through raising fiscal deficit, or not imposing a significant turn over tax on transactions of securities. These measures rattle the 'sentiment' of the financial markets, so governments remain wary of them. The hidden agenda, vigorously pursued by governments of all colour has been to keep the large private players in the financial markets in a happy mood. Since the private banks and financial institutions usually take their lead from the IMF and the World Bank, this bestows on these multilateral agencies considerable power over the formulation of government policies. However, the burden of such policies is borne largely by the poor of this country. This has had a crippling effect on policies for expanding public expenditure for the poor in the social sector. Inequality and distress grows as the state rolls back of public expenditure in social services like basic health, education, and public distribution and neglects the poor, while the 'discipline' imposed by the financial markets serves the rich and the corporations. This process of high growth traps roughly one in three citizens of India in extreme poverty with no possibility of escape through either regular employment growth or relief through state expenditure on social services. The high growth scene of India appears to them like a wasteland leading to the Hell described by the great Italian poet Dante. On the gate of his imagined Hell is written, "This is the land you enter after abandoning all hopes".

Extremely slow growth in employment and feeble public action exacerbates inequality, as a disproportionately large share of the increasing output and income from growth goes to the richer section of the population, not more than say the top 20 per cent of the income receivers in India. At the extreme ends of income distribution the picture that emerges in one of striking contrasts. According to the Fobres magazine list for 2007, the number of Indian billionaires rose from 9 in 2004 to 40 in 2007, much richer countries like Japan had only 24, France 14 and Italy 14. Even China, despite its sharply increasing inequality, had only 17 billionaires. The combined wealth of Indian billionaires increased from US dollars 106 to 170 in the single year, 2006-7. This 60 per cent increase in wealth would not have been possible, except through transfer on land from the state and central governments to the private corporations in the name of 'public purpose', for mining, industrialisation and special economic zones (SEZ). Estimates based on corporate profits suggest that, since 2000-01 to date, each additional per cent growth of GDP has led on an average to some 2.5 per cent growth in corporate profits. India's high growth has certainly benefited the corporations more than anyone else.

After several years of high growth along these lines, India of the twenty first century has the distinction of being only second to the United States in terms of the combined total wealth of its corporate billionaires coexisting with the largest number of homeless, ill-fed, illiterates in the world. Not surprisingly, for ordinary Indians at the receiving end, this growth process is devoid of all hope for escape. Nearly half of Indian children under 6 years suffer from under-weight and malnutrition, nearly 80 per cent from anaemia, while some 40 per cent of Indian adults suffer from chronic energy deficit. Destitution, chronic hunger and poverty kill and cripple silently thousands picking on systematically the more vulnerable. The problem is more acute in rural India, among small children, pregnant females, Dalits and Adivasis, especially in the poorer states, while market oriented policies and reforms continue to widen the gap between the rich and the poor, as well as among regions.

The growth dynamics in operation is being fed continuously by growing inequality. With their income rapidly growing, the richer group of Indians demand a set of goods, which lie outside the reach of the rest in the society (think of air conditioned malls, luxury hotels, restaurants and apartments, private cars, world class cities where the poor would be made invisible). The market for these good expands rapidly. For instance, we are told that more than 3 in 4 Indians do not have a daily income of 2 U.S dollars. They can hardly be a part of this growing market. However, the logic of the market now takes over, as the market is dictated by purchasing power. Its logic is to produce those goods for which there is enough demand backed by money, so that high prices can be charged and handsome profits can be made. As the income of the privileged grows rapidly, the market for the luxury goods they demand grows even faster through the operation of the 'income elasticities of demand'. These elasticities roughly measure the per cent growth in the demand for particular goods due to one per cent growth in income (at unchanged prices). Typically, goods consumed by the rich have income elasticities greater than unity, implying that the demand for a whole range of luxury goods consumed by the rich expands even faster than the growth in their income. Thus, the pattern of production is dictated by this process of growth through raising both the income of the rich faster than that of the rest of the society, and also because the income elasticities operate to increase even faster than income the demand for luxuries.

The production structure resulting from this market driven high growth is heavily biased against the poor. While demand expands rapidly for various up-market goods, demand for the basic necessities of life hardly expands. Not only there is little growth in the purchasing power of the poor, but the reduction in welfare expenditures by the state stunts the growth in demand for necessities. The rapid shift in the output composition in favour of services might be indicative of this process at the macro level. But specific examples abound. We have state-of-the-art corporate run expensive hospitals, nursing homes and spas for the rich, but not enough money to control malaria and T.B. which require inexpensive treatment. So they continue to kill the largest numbers. Lack of sanitation and clean drinking water transmit deadly diseases especially to small children which could be prevented at little cost, while bottled water of various brands multiply for those who can afford. Private schools for rich kids often have monthly fees that are higher than the annual income of an average unskilled Indian worker, while the poor often have to be satisfied with schools without teachers, or class rooms.

Over time an increasingly irreversible production structure in favour of the rich begins to consolidates itself. Because the investments embodied in the specific capital goods created to produce luxuries cannot easily be converted to producing basic necessities (the luxury hotel or spa cannot be converted easily to a primary health centre in a village etc). And yet, it is the logic of the market to direct investments towards the most productive and profitable sectors for 'the efficient allocation of resources'. The price mechanism sends signals to guide this allocation, but the prices that rule are largely a consequence of the growing unequal distribution of income in the society. The market becomes a bad master when the distribution of income is bad.

There are insidious consequences of such a composition of output biased in favour of the rich that our liberalised market system produces. It is highly energy, water and other non-reproducible resources intensive, and often does unacceptable violence to the environment. We only have to think of the energy and material content of air-conditioned malls, luxury hotels and apartments, air travels, or private cars as means of transport. These are no doubt symbols of 'world class' cities in a poor country, by diverting resources from the country side where most live. It creates a black hole of urbanization with a giant appetite for primary non-reproducible resources. Many are forced to migrate to cities as fertile land is diverted to non-agricultural use, water and electricity are taken away from farms in critical agricultural seasons to supply cities, and developmental projects displaces thousands. Hydroelectric power from the big dams is transmitted mostly to corporate industries, and a few posh urban localities, while the nearby villages are left in darkness. Peasants even close to the cities do not get electricity or water to irrigate their land as urban India increasingly gobbles up these resources. Take the pattern of water use. According to the Comptroller and Auditor General report released to the public on 30th March 2007, Gujrat increased the allocation of Narmada waters to industry fivefold during 2006, eating into the share of drought affected villages. Despite many promises made to villagers, water allocation stagnated at 0.86 MAF (million acres feet), and even this is being cut. Water companies and soft drink giants like Coca Cola sink deeper to take out pure ground water as free raw material for their products. Peasants in surrounding areas pay, because they cannot match the technology or capital cost. Iron ore is mined out in Jharkhand, Chattisgarh and Orissa leaving tribals without home or livelihood. Common lands which traditionally provided supplementary income to the poor in villages are encroached upon systematically by the local rich and the corporations with active connivance of the government. The manifest crisis engulfing Indian agriculture with more than a hundred thousand suicides by farmers over the last decade according to official statistics is a pointer to this process of pampering the rich who use their growing economic power to dominate increasingly the multitude of poor.

The composition of output demanded by the rich is hardly producible by village artisans or the small producers. They find no place either as producers or as consumers; instead, economic activities catering to the rich have to be handed over to large corporations who can now enter in a big way into the scene. The combination of accelerating growth and rising inequality begins to work in unison. The corporations are needed to produce goods for the rich, and in the process they make their high profits and provide well-paid employment for the rich in a poor country who provide a part of the growing market. It becomes a process of destructive creation of corporate wealth, with a new coalition cutting across traditional Right and Left political division formed in the course of this road to high growth. The signboard of this road is 'progress through industrialisation'. The middle class opinion makers and the media persons unite, and occasionally offer palliatives of 'fair compensation' to the dispossessed. Yet, they are at a loss as to how to create alternative dignified livelihood caused by large scale displacement and destruction in the name of industrialisation. Talks of compensation tends to be one sided, as they focus usually on ownership and, at best use rights to landed property. However, the multitude of the poor who eke out a living without any ownership or use right to landed property, like agricultural labourers, fishermen, or cart-drivers in rural areas, or illegal squatters and small hawkers in cities, seldom figure in this discussion about compensation. And yet, they are usually the poorest of the poor, outnumbering by far, perhaps in the ratio of 3 to 1, those who have some title to landed property. Ignoring them altogether, the state acquires with single minded devotion land, water and resources for the private corporations for mining, industrialisation or Special Economic Zones in the name of public interest. With some tribal land that can be acquired according to the PESA (1996) act only through the consent of the community (Gram Sabha), consent is frequently manufactured at gun point by the law and order machinery of the state, if the money power of the corporations to bribe and intimidate prove insufficient. The vocal supporters of industrialisation never stop to ask, why the very poor who are least able, should bear the burden of 'economic progress' of the rich.

It amounts to a process of internal colonisation of the poor, mostly dalits and adivasis and of other marginalised groups, through forcible dispossession and subjugation. It has set in motion a social process not altogether unknown between the imperialist 'master race' and the colonised 'natives'. As the privileged thin layer of the society distance themselves from the poor, the speed at which the secession takes place comes to be celebrated as a measure of the rapid growth of the country. Thus, India is said to be poised to become a global power in the twenty first century, with the largest number of homeless, undernourished, illiterate children coexisting with the billionaires created by this rapid growth. An unbridled market whose rules are fixed by the corporations aided by state power shapes this process. The ideology of progress through dispossession of the poor, preached relentlessly by the united power of the rich, the middle class and the corporations colonise directly the poor, and indirectly it has begun to colonise our minds. The result is a sort of uniform industrialisation of the mind, a standardisation of thoughts which sees no other alternative. And yet, there is a fatal flaw. No matter how powerful this united campaign by the rich corporations, the media, and the politicians is, even their combined power remains defenceless against the actual life experiences of the poor. If this process of growth continues for long, it would produce its own demons. No society, not even our mal-functioning democratic system, can withstand beyond a point the increasing inequality that nurtures this high growth. The rising dissent of the poor must either be suppressed with increasing state violence flouting every norm of democracy, and violence will be met with counter-violence to engulf the whole society. Or, an alternative path to development that depends on deepening our democracy with popular participation has to be found. Neither the rulers nor the ruled can escape for long this challenge thrown up by the recent high growth of India.

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