India Studies in Business and Economics


Saiyed Raza Hashim
Rahul Mukherji
Brajaraja Mishra *Editors*


# Perspectives on Inclusive Policies for Development in India

## In Honour of Prof. R. Radhakrishna

Springer

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*(1942–2022)*

*The book is dedicated to the life and achievements of Prof. R. Radhakrishna who sadly passed away before it could be presented to him.*

# Foreword

This volume in honour of R. Radhakrishna consists of important essays. Most of them are extensively revised versions of previous papers, showing that Radhakrishna is not a fly-by-night operator and his interests are deep-rooted in lifelong cogitation, where genuine advance is incremental. If not, there would be no problems remaining since solutions do not need elaboration after total success, apart from in textbooks. Also, these are difficult times and many authors reflect on the present problems, giving the volume relevance in the '*annus horribilis*' as the Queen of England put it.

C. Rangarajan and Mahendra Dev write on the Rangarajan Committee Poverty Report. It is in a sense the latest in the official reports on Radhakrishna's lifelong interest: namely poverty and malnutrition. In spite of C. Rangarajan's valiant efforts, the report did not interest GoI policy-makers, which is difficult to understand, since from all accounts poverty and malnutrition remain serious problems and in a sense were highlighted in the forced migrations in early 2020. In fact, the cry of free grain is very compelling now (see IIMA Alumnus Webinar, COVID-19, introduction by Y. K. Alagh and also E-Adda, 29 October 2020, Uday Kotak). The chapter adds on social and health security to nutrition security as an objective. It has been suggested that the workforce weights it uses are in fact from the 1978 Poverty Report for rural labour force proportions and that may need re-examination, since such proportions have changed markedly since the seventies of the last century. Female labour participation has been highlighted as a major source of concern in Radhakrishna's work.

Former Governor, Reserve Bank of India, Duvvuri Subbarao mentioned about laments treasury dominance of fiscal and monetary policy. The trend he correctly states is more pronounced in the COVID-19 period. His essay brings out neatly the trilemmas in economic policy as one approaches full employment, and will interest policy-makers. During pandemic period, this author has accepted fiscal profligacy as a fact. Saving lives is important, and the dead will not come back, while those who are alive can be taken care of after the pandemic subsides (see the present author's Inaugural Lecture at the IIM Public Policy Group's Webinar on COVID). There is of course no question that this is a second-best solution: Dr. Subbarao's advice being 'optimal'.

Dilip Nachane and Partha Ray trace the history of the modelling reportedly used in the IMF, beginning with Pollack's Flow of Funds Framework and getting into the later programming models. While the earlier, Pollack models had an accounting framework of integration with National Accounts and were a policy tool of some power in terms of applicability; later general equilibrium policy models gave solutions of a directional kind and Nachane and Ray, bring out the inability of the IMF to go against the interests of the G7, if global stability so required. Models using prices and income distribution variables were a passion of Radhakrishna; with his Complete Demand Systems one of the earliest attempts at modelling income distribution in Demand Theory in India. The policy use of such models, as Nachane and Ray bring out, is another matter, but this essay does move in the direction that Erik Thorbecke visualized when he invited us for the seminar on The Theory of Economic Policy held at Amsterdam and on Income Distribution and Poverty Removal organized when Jan Tinbergen retired, saying that the seminar will continue until 'the problem is solved' by that meaning the intellectual policy problem.

Bhanoji Rao discusses the powerful connection between education and inequality. My favourite example is female education and the demographic dividend. She goes to college, marries late, the first child comes late, the last one early, and we are on the way to another Radhakrishna's objectives; although Rao is concentrating on early girl child education, a more critical and crucial problem.

Hans-Bernd Schäfer makes an interesting categorization of the economic consequences of accidental events and the legal principles underlying compensation for such events. Political and other claims eventually have to give way to such legal structures, which incidentally may or may not jive with welfare economics. Rahul Mukherji goes further using principles of The Theory of Public Policy (wider than the stricter economic laws of Tinbergen's Theory of Economic Policy in which the work is embedded (Radhakrishna being leading example)). In terms of The Theory of Economic Policy of the kind Radhakrishna has modelled, Mukherji's 'Tipping Points' would be open-ended. However, to be fair to Mukherji, modern institutional economics is pushing in the direction of explaining actual events in sociopolitical terms (as can be seen from the Nobel Prizes of last few years in economics). It is a little early to pass judgements on these reflections.

M. V. Nadkarni has discussed the viability crises of Indian agriculture. Nadkarni has a distinct perception of the crises of society in terms of fundamental environmental terms like climate change, which I have analysed separately in an invited Foreword to a festschrift in his honour edited by Ananta Giri; and an interesting question that arises from this kind of work is whether the process of entropy (as defined by the Harvard economist of Romanian origin: Nicholas Georgescu-Roegen) has already begun (A Doomsday Theory as it were).

Atul Sarma has a well-documented piece, with considerable detailed referencing on the abolition of the Planning Commission and the advent of NITI Aayog. With detail, important for researchers and students of economic policy, Sarma establishes that the NITI Aayog does not reform the erstwhile Planning Commission and its mandate is blurred and confusing. Sarma's piece is a solid third decade of the Twenty First Century manuscript on the age old 'Why Planning' debate.

M. Dinesh Kumar has a straightforward quantitative model of water scarcity for the next two decades of this century, using the technique of scenarios, and establishes beyond doubt that if appropriate policies are not followed, India is in trouble in the life-supporting water sector. It can only be hoped that somebody out there in policy implementation reads his model.

Sripad Motiram and V. S. Ranganadham Maddali discuss the classical economic statistics questions of the latest trends in unemployment statistics, with NSS estimates showing many areas of concern with both weekly status and person day measures and the latter on recent trends in India's forte 'official statistics' estimates. The latter, a state-of-the-art chapter, is important, especially after the controversies on The Technical Committee Report chaired by Sudipto Mundle and the resignation of members of the Statistical Commission, of which Radhakrishna once had the distinction of being Chairman. It is important because the sanctity of statistics, with its errors, has to be maintained if policy has to have any factual base.

A. Narayanamoorthy discusses the feasibility of the stated objective of doubling farm income in a short period and the outlines of radical terms of trade and pricing framework to move towards this direction. Parmod Kumar discusses that old favourite palm oil taking on edible oil and its trade aspects as a policy choice, emphasizing that import policy has an impact on domestic decisions and that the needs of the consumer have to be balanced with incentives to the domestic producer. Amita Shah describes fashion khadi.

K. N. Murthy has an interesting chapter using a model he had developed, originally worked on with Radhakrishna. The model has a strong demand side using complete demand systems, rural and urban by income groups, and tracks the economic consequences of government policies. He basically posits recent policy initiatives as external shocks on the economy, beginning with demonetization. He then tracks the effects through time. He concludes that after bearing the consequences in output, income and consumption, the economy returns to its dynamic path. Apart from its policy insights, Murthy's chapter shows the analytical strength of the methods Radhakrishna has worked with and trained generations of scholars in.

All in all, these essays will be a very substantial addition to policy literature in India. They show that the elephant moves slowly. Forced pressures are like waves which dissipate. The moral is that policy has to be structured with an understanding of 'structure' and the relationship of 'outcomes' with 'instruments' working through the 'structure'. Tinbergen still matters and was justifiably the First Economic Nobel. Radhakrishna and his friends and *chelas* are a great example of this policy truth, and I am happy to have read it.

Yoginder K. Alagh

# Preface

This Festschrift in honour of Prof. R. Radhakrishna is an occasion to celebrate a life dedicated to scholarship, mentoring and institution building in the service of inclusive growth. He was one of those rare economists who spent considerable effort with his peers and students to promote the view that economics as a discipline should not only be abstract and rigorous but also empirically and socially relevant. It should speak to disciplines such as sociology, politics and law, which form the context within which an economy operates to serve the poor. This volume reflects some of these aspects of Prof. R. Radhakrishna's life in the form of an incisive and wide-ranging account of the challenges facing inclusive growth in India.

Professor Radhakrishna's life as a teacher and mentor is as significant as that of a serious economist engaged with the policy process in the service of India's development process. This is evident from the large number of students and institutions that he had guided in his quest to serve the nation. The Andhra University (Vishakhapatnam), Indira Gandhi Institute of Development Research (Mumbai) and the Centre for Economic and Social Studies (Hyderabad) are only a few examples. Professor Radhakrishna, the institution builder, was involved with the evolution of the Institute for Development Studies, Andhra Pradesh (Visakhapatnam), at the time of his demise. Institution building for the professor involved imparting every kind of support to help a researcher get to the bottom of a social and economic problem without expectation of personal reward. Such teachers and thought leaders rejoice when others succeed. The silent service of such mentors cannot be measured in terms of their contribution to the economic and social growth of a nation.

Professor Radhakrishna's many contributions have manifested itself in a celebration where the leading policy economists of the country have contributed handsomely to this Festschrift. The unique facet of this volume is that it brings together not just economists from the scholarly domain, but also leading policy economists who have engaged with the Indian economy. Together, they provide a coherent rendition of the country's economic challenges and suggest mechanisms to deal with them. Eminent economists such as C. Rangarajan, Yoginder Alagh, S. R. Hashim, Dilip Nachane, Atul Sarma, Y. V. Reddy, Duvvuri Subbarao, Hans-Bernd Schäfer, S. Mahendra Dev, Sripad Motiram, Manoj Panda, M. Govinda Rao, M. V. Nadkarni and S. L. Shetty, have engaged in scholarly adulation by contributing to six important parts concerning India's inclusive growth. The six parts deal with the instruments of economic policy-making in India; econometric assessment of the development process; governance institutions; poverty and unemployment; and sectoral challenges such as agrarian distress, urbanization and water scarcity.

The detailed introduction by Prof. S. R. Hashim surveys the evolution of India's economic policy-making. It also provides a comprehensive introduction to the chapters and the conceptual frame of this volume. Students of Indian policy-making will find that economic policy-making is both a technical and a political process. It is important to understand what kinds of ideas won support in politics and for which reasons. Such an approach to political economy will tell us why India's Second Five-Year Plan was so different from the first. Why did the green revolution occur in India? How can one understand the transition to the growth-oriented phase in 1991? What were the implications of this growth process?

The contributions combine rigorous economic, legal, political and institutional analysis and sophisticated empirical work. The chapters cover topics as diverse as theoretical debates regarding the relative importance of fiscal dominance in monetary policy, to the International Monetary Fund's (IMF) flawed approach to financial crisis management, to the political and institutional conditions under which the state in India can deliver to the poor. What is the import of the transition from the Planning Commission to National Institution for the Transformation of India (NITI) Aayog after 2014? Policy concerns such as rapid urbanization, water scarcity and agrarian distress are also addressed.

The volume brings together the six above-mentioned interrelated parts. The first part concerns the instruments of public policy with which the developmental activity of inclusive growth can be performed. Three central questions are addressed within this part. First, does the Indian state have effective instruments to deal with the issue of balanced growth among the states? Y. V. Reddy argues that apart from the Finance Commission all other instruments for safeguarding the interests of the poorer states are relatively weak. Second, should economic policy be more concerned with fiscal dominance, which implies prudent management of the fiscal situation for ensuring economic stability? Or does the COVID-19 pandemic provide a good reason for generous public spending, despite falling revenues and a dip in economic growth? The volume presents a healthy debate between Duvvuri Subbarao and M. Govinda Rao on this issue. Third, how should economic losses be compensated in the law of torts? Is it enough to compensate for pure economic losses, or should the law of torts provide provisions beyond that framework? Addressing such legal concerns has important implications for the incentives that individuals and organizations have to take risks in economic life, argues Hans-Bernd Schäfer.

The second part concerns the use of econometric modelling to assess economic management, growth and redistribution. Three central themes characterize this part as well. First, an analysis of the history of the International Monetary Fund's (IMF's) macroeconomic modelling reveals various reasons why the fund often failed in its policy objectives. Dilip Nachane and Partha Ray argue persuasively that the fund is driven more by a coherent hegemonic ideology rather than empirical scepticism.

Second, K. N. Murthy deploys modelling to assess the impact of policies such as devaluation, demonetization and reduction of the corporate tax rate on growth. Manoj Panda and Samraj Sahay deploy modelling to perform the challenging task of assessing the determinants of growth in the Indian states.

The third part of the volume discusses both the political conditions under which the governance can be improved, as well as, how to improve key governance functions of the economy. First, Rahul Mukherji argue that ideas within government evolve in a gradual way, as technocrats puzzle over policy issues. Good governance has much to do with how good policy ideas win political support to tip in favour of policies that serve the purposes of growth and redistribution. Second, the chapter by Atul Sarma argues that the replacement of the Planning Commission by the National Institution for Transforming India (NITI) Aayog did not adequately address India's policy challenges. This was despite the many problems that confronted the functioning of the Planning Commission at that time. It calls for serious evaluation of the institution. In his chapter, M. V. S. Ranganadham argues that the Indian statistical system is in need of regulatory reorganization. Collecting good statistics, after all, is important for ensuring the health of the economy. It is suggested that the National Statistical Commission should be directly responsible to the Parliament. It should be involved more intensively with standard setting and monitoring data collection.

The fourth part concerns a rigorous analysis of the measurement of poverty and unemployment. C. Rangarajan and S. Mahendra Dev argue that no matter how you calculate the poverty ratio, the empirical findings suggest that the figure is quite high. But the poverty ratio has also been declining. Also, a particular measurement of the poverty ratio would have much to do with what are the questions that a scholar or policy-maker wishes to address. Sripad Motiram makes some important observations about unemployment statistics in India. More meaningful ways of collecting the employment data are suggested in this part. Unemployment, especially among the educated youth is a pressing problem. Creating more jobs is a dire need of the hour.

The fifth part considers sectoral issues. S. R. Hashim engages with the issue of urbanization and development. Urbanization poses a serious challenge, especially for migrants. Persons living in census towns that have not become statutory towns cannot take advantage of either urban amenity that come with municipal planning, nor can they take advantage of loans and subsidies that serve the rural population. There is an urgent need to convert the status of census towns into statutory towns. Bhanoji Rao argues that it is important to address inequalities by addressing the issue of quality education for all. The next chapter in this part questions if Khadi, the cloth that inspired India to defy colonial rule, has a developmental basis, despite the adverse opinion of the Planning Commission and the Asian Development Bank? Amita Shah holds that Khadi production should be taken more seriously as an activity that can have a levelling impact on India with some technological advance and funding. M. Dinesh Kumar argues that India can deal with issues connected with water scarcity by largely turning its agricultural practices towards more efficient water utilization.

The final part on agriculture comes with some important policy suggestions. This part addresses the issue of agrarian distress. While India's agriculture sector constitutes approximately 15% of the gross domestic product, it feeds a majority of the citizens. This sector also grows much more slowly than the rest of the economy. The recent farmers' protest is an indication of both the political power of farmers and the threat of distress. M. V. Nadkarni argues that non-viability of small and fragmented agricultural land holdings is a persistent threat to the sector. Moreover, much land has been degraded and it has become easier now to acquire agricultural land for industrial purposes. Non-farm employment is a promising area for improving the conditions of the poor. Possibilities for non-farm employment would improve if the government could expend more resources on skill development in rural areas.

S. L. Shetty points to the dearth of public investment in agriculture. There have been periods when agriculture has not been served with public investment. The pre-green revolution period, for example, was marred by the lack of public investment in agriculture. This was somewhat corrected by the green revolution and its aftermath. There have also been times when agriculture has received subsidies but not public investment. It is stressed that public investment rather than subsidies is the need to rescue the sector from distress.

There is a strong view that production-related incentives will not be as effective as those that are related to the procurement and minimum support price (MSP) given for crop production. A. Narayanamoorthy argues that generous MSP can certainly help the farmer. But this policy instrument is of little use if only 30% of the production is procured for receiving that benefit. The agricultural product marketing committees (APMCs) are very inefficient and lack storage and weighing facilities. Moreover, small farmers cannot often reach these facilities. It is therefore recommended that getting the farmer to access the market is an important reform task.

Finally, Parmod Kumar argues that India can save precious foreign exchange from palm oil imports by promoting import substitution in this area. Palm oil has been tried successfully in twelve Indian states with provisions for subsidizing production. First, this requires fixing a pre-harvest price that protects farmers against exposure to the vagaries of the international market. Second, efficient procurement is required. And, a trained workforce with harvest machinery is required to serve efficient production as well.

Inclusive policies for India are exhaustive in more ways than one. It discusses policy instruments that address interstate inequalities, the importance of fiscal dominance and the role of incentives to deal with compensation for economic loss. Econometric modelling is used to deconstruct the IMF's approach to financial crises as well as to assess the impact of certain measures on economic growth. Governance institutions are addressed in terms of the political conditions under which they are likely to succeed in a democracy. The challenges facing the NITI Aayog and India's statistical system are addressed. The book also engages with the measurement of poverty and unemployment. Finally, the book comprehensively addresses the challenges facing urbanization, water scarcity and small-scale industry. The agricultural sector finds a special status as the one sector to which an entire part is devoted.

In addition, inclusive policies for India are also a methodologically interesting experiment. It combines analysis of the instruments of policy with sophisticated econometric and measurement approaches. It brings together economic, political and legal approaches to appropriately address the challenge of inclusive policies.

The book also presents a variety of sectors and debates within those sectoral issues for the reader to assess their relative strengths. It is for these reasons that inclusive growth in India will guide both policy-makers and students of development policy who wish to deploy technical knowledge in the service of India's development.

New Delhi, India — Saiyed Raza Hashim
Heidelberg, Germany — Rahul Mukherji
Hyderabad, India — Brajaraja Mishra

# Contents

## Governance and Institutions



## Poverty and Unemployment



## Sectoral Issues



## Agriculture

# Editors and Contributors

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**Saiyed Raza Hashim** during his long professional career spanning over nearly fifty years, has held high positions in academics as well as in government—planning and economic administration and diplomacy. He held the positions of Professor and Head, Department of Economics, M.S. University of Baroda, Director, Institute of Economic Growth, Delhi, and Director, Institute for Studies in Industrial Development, New Delhi. He served in the Planning Commission of India as Adviser, Principal Adviser, Member and Member-Secretary. He was also Member and Chairman of Union Public Service Commission, Government of India. He has extensively worked and written on issues relating to poverty and inequality, water and agriculture. He Chaired the Working Group on Wholesale Price Indices (1997–1999), and was Chairman of the National Commission on Integrated Water Resources Development Plan (1997–1999). He has chaired the Planning Commission's "Expert Group on Identification of Urban Poor". He produced many Ph.D.s. He is the editor of Quarterly Journal of *Indian Association of social Science Institutions* (IASSI).

**Rahul Mukherji** joined Heidelberg University in 2016 as Professor and Head of the Department of Political Science, South Asia Institute. He has previously taught at the National University of Singapore, Jawaharlal Nehru University (New Delhi, India), Hunter College of City University, New York, and the University of Vermont (USA). His two most recent books are: *Globalization and Deregulation: Ideas, Interests and Institutional Change in India* (OUP, 2014) and *The Oxford India Short Introduction to the Political Economy of Reforms in India* (2014). Rahul Mukherji serves on the boards of journals such as *Governance*, *Pacific Affairs*, *India Review and Bandung: Journal of the Global South.*

**Brajaraja Mishra** is a faculty at ICFAI Business School, Hyderabad, India. Prior to this, he served as an assistant professor at Institute for Development Studies Andhra Pradesh, before which he was at Centre for Economic and Social Studies, Hyderabad.

His major areas of research are in the broader areas of inclusive development with specific interest on tribal policy and development, forest ecosystem, poverty/well-being and agrarian economy. His recent publications on tribal policy have wider academic interest.

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# Introduction: Inclusiveness in Development Strategies and Policies

**Saiyed Raza Hashim**

## 1 A Tribute

I am privileged to be associated with this book brought out in honour of Professor R. Radhakrishna. It is a happy occasion to recall my long association with him going back well over half a century since we were together at Gokhale Institute of Politics and Economies working on our doctoral theses under the inspiring guidance of Professor P. N. Mathur. Radhakrishna was a shining star of the weekly workshops which Professor Mathur used to conduct. Simple, courteous, kind and with a great sense of benign humour, Radhakrishna was enviably popular among teachers and students, all. He has preserved and enriched those qualities through times. This book which brings together the writings of so many of the most eminent economists, social scientists and policy makers, is a gesture of the affectionate regard which people have for him and his intellectual contributions. Starting with his work in applied econometrics ranging from econometrics of consumer behaviour to econometrics of inflation, consumption and welfare, his writings naturally flowed into the issues of poverty and its multidimensional manifestations, nutrition, food security, agriculture, well-being and inequality with strong policy implications. His collected works have been published in five volumes by Academic Foundation. The impact of his contributions goes beyond these publications. Radhakrishna occupied some of the highest positions in academic administration and in Government leaving a mark in every position he occupied. He made contributions of significance as Chair of Commissions and Committees. About one of his early contributions while working at Sardar Patel Institute, Professor Alagh (2020) has recalled that Radhakrishna argued after painstaking field research spread over years that the poverty lay in social structures and not in the evil of drinking. It was a bold conclusion upsetting the conventional wisdom of the times. Among many tributes paid to him by eminent academicians, I would like

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to quote just two. Professor V. N. Pandit of Satya Sai Institute of Higher Education says, ‘Prof. Radhakrishna has chosen to pursue an even harder intellectual strategy that is what makes him incomparingly distinct. He chooses to get deeper into problems that face society in all their aspects and follows these till a meaningful solution is found’ (Pandit, 2019). Professor Peter Timmer of Harvard University writes, ‘In an era where quantitatively-driven analytical insights into the linkages among such policy-relevant variables as food prices, income distribution, and nutrient intake seem to take a back seat to loud populists, who miss academic elites as ‘out of touch’ with the common folk, Prof. Radhakrishna provides… precisely these very insights and also uses them to identify clear and helpful policy initiatives…’ (Timmer, 2019). We look forward to seeing many more products of his creative genius in years to come.

## 2 The Disconnect Between Theory and Reality

Inclusiveness in development is broadly understood as carrying all the people together in the process of development. Given the conditions of extreme poverty, malnutrition, inequalities, unemployment and social deprivations, a mere trickle-down of the benefits of growth would not help in bringing up all the sections of people to a level of development at which they are able to live a humanely descent life. Extra effort and specific focus in development policies and programmes would be required to achieve this. Evolving a strategy which accelerates growth and also takes care of these dominant issues of underdevelopment has always been a challenge. Growth is important because it generates resources for enhancing capacities for further growth and inclusive development. The historical experience of the actual working of the economic machine shows that in the pursuit of growth, other objectives of development most often fall by the way side, leaving only a slow and inadequate trickle-down to take care of the poor and the left behind. Those in better position in respect of initial resources, i.e. capital, education and skills, social privileges, etc., are able to gain more in the process of economic growth. Similarly, non-agricultural sectors, and people associated with these sectors are able to gain considerably more than the agriculture. But sometime inadequate understanding of the growth machine may also be responsible. For example, the growth theory has always emphasized ‘capital formation’ as the source of growth. But how to divide resources between ‘human capital formation’ and physical capital formation does not become clear from the macro-theory. The K in the Harrod-Domar growth model has come to be identified with physical capital. This has also been the approach to development planning in India. The countries which placed more emphasis on human capital formation had both more growth and more inclusive development. Many times, it happens that the general strategy of the model that has been adopted for combining the objectives of growth with inclusiveness remains somewhat fuzzy in unfolding all the implications of its working out in all its multiple dimensions. A model fuzzily demonstrates the final outcome without an assessment of time taken to reach that outcome and without clearly indicating what happens to the people and the economy on the way to that final outcome, what new problems arise and what sectoral imbalances are created. A corrective to this approach could be 'intervention' from outside the model, i.e. setting aside a fund of resources for direct intervention to bring the development closer to the track of inclusiveness. The poverty alleviation and rural employment generation programmes in India were in the nature of such direct interventions. Even the 'green revolution' was the result of an outside intervention in the model then adopted for development. But the scales of these programmes were perhaps not of the required magnitude to have a decisive impact on the situation. Large scale direct interventions are required in education, healthcare, social security, and in raising the incomes of the farmers. These efforts would result in creation of productive human capital out of the large young population which we celebrate as demographic dividend, impacting growth and inclusive development both significantly.

## 3 The Historical Context

Indian thinkers on economic development had always been sensitive to the problem of poverty and rural underdevelopment. The National Planning Committee under the Chairmanship of Jawaharlal Nehru had, in 1938, endorsed the objectives of eradication of hunger and poverty, land reforms, modernization of agriculture and industrialization, among others (Mishra, 2014). In the same year the Minister of Industries of the Congress ruled Provinces expressed their opinion through a resolution that the problems of poverty and unemployment, of national defence and of economic regeneration could not be solved without industrialization (Mishra, 2014), thus linking industrialization with inclusive development.

A group of eight prominent industrialists under the auspices of the Federation of Indian Chambers of Commerce, Bombay, proposed in 1944 a plan for development of India, generally known as the Bombay Plan (1945). The principal objective of the plan was to bring about a doubling of the per capita income within a period of fifteen years. They emphasized the production of machines for quickening the pace of industrial development in India and at the same time production of the 'most essential classes of consumption goods', making the fullest possible use of small scale and cottage industries. The Plan, significantly aimed at achieving a minimum standard of living for the people within fifteen years. The Plan worked out in some details the per capita food requirement, anchoring it to per day calorie requirement of 2800. They also recommended a minimum of 30 yards of cloth per person per annum and 100 ft$^2$. of house room per person. The Bombay Plan was remarkable for defining its objectives and its approach and for defining in details the elements of a minimum standard of living which was much more generous than the 'poverty lines' recommended by the Planning Commission in seventies and later. Amal Sanyal (2010) comments that it is curious that the Plan has faded out of the public memory as completely as it had occupied centre stage when it was brought out. It needs to be mentioned here that in the same year, i.e. 1944 in which the Bombay Plan was prepared, M. N. Roy, under the auspices of Post War Reconstruction Committee of the Indian Federation of Labour, had drafted a People's Plan which favoured a socialist agenda for the society. People's Plan argued for socialization of agriculture and industry and also emphasized production of goods for the basic needs of the people. Elements of this plan were closer to Nehru's idea of planning. This could be a reason why the Bombay Plan faded out.

Almost all the mainstream of thoughts on reconstruction of India in the post-independence period had emphasized the provision for the fulfilment of the basic needs of the people and the development of agriculture and village and small industries on which depended an overwhelming majority of people for their work and livelihood. The Sarvodaya and Bhoodan Movements in early fifties had emphasized the importance of agriculture and land reforms, small industries and decentralized participatory people's planning.

## 4 Five-Year Plans—The Gap Between Intentions and Outcomes

The Planning Commission was established in 1950 and the First Five-Year Plan was launched in 1951. The main emphasis of the FFYP was on the construction of irrigation projects and on increasing the productivity of agriculture by spreading improved techniques of farming. An important emphasis of the Plan was increase in food production. Attention was also given to increasing the supply of industrial consumer goods. Land reforms, particularly the abolition of zamindari system was aimed at. Government activity was looked upon as merely supplementary to private activity and was coming in only where private enterprise seemed to have failed (Gadgil, 1972/1952). The First Five-Year Plan is generally described as successful. The food situation improved and the inflation was under control. Agricultural production increased partly as a result of investments in irrigation and partly as a result of good monsoons. However, Professor Gadgil was of the view that the First Plan did not launch a planned economy in the sense that a large part of the achievements of Plan period had not been planned (Gadgil, 1972/1957).

The Second Five-Year Plan (1966–1961) was a radical shift in approach to planning under the newly adopted political philosophy of Socialistic Pattern of Society. Emphasis shifted to rapid industrialization based on basic and heavy machine producing industries and a very large size of investment which could only be realized by sacrificing consumption in the near future. Consumer goods industries were relegated to backstage, and supply of consumer goods was left to small and cottage industries whose productive capacity was limited and productivity low. The idea was that the supply itself would allocate resources between capital formation and consumption. By controlling the supplies of consumer goods, savings would be forced. By producing machines which could only be used as capital goods, capital formation would be enhanced and growth accelerated. This strategy necessitated licensing and control of industries, high tariffs to discourage imports or a complete ban on imports of certain commodities. Large and very ambitious size of investments (plan outlay) also necessitated heavy deficit financing. Even agriculture was relatively neglected. This was rather a radical departure from the development philosophy which had been conventionally evolved overtime and which had been largely embodied in the Bombay Plan. Could this be a reason why the Bombay Plan was almost blacked out from debates and discussions during the decade of fifties? One can only guess. Gadgil thought two forces might have worked to bring about this radical shift in the approach to planning. 'One was the reported development in communist countries—in particular the reported transformation of the situation in China. The other was the economic situation within the country itself' (Gadgil, 1972/1957, p. 113). Gadgil has further commented that 'the much larger size of the Plan may have been due, again, to persistent unemployment, but most probably owed in a large measure to the reported pace of progress in communist countries' (Gadgil, 1972/1957, p. 115).

The approach to the Second Plan was formalized in a mathematical model by Prof. P. C. Mahalanobis. It came to be known as Mahalanobis model. The model, formulated in the framework of a closed economy with highly simplified assumptions, demonstrated that higher allocation of investments to capital goods sector in preference to the consumer goods sector gave a slower rate of growth in the initial stages, but a much accelerated rate of growth later, thus quickening the transformation of the economy from a primary sector economy to a highly industrialized economy. The method of financing the Plan and its implications in terms of prices and cost of hiring were not a part of the model.

It may not be correct to say that the approach to the Second Plan was inspired by the Mahalanobis model as many of the model enthusiasts would like us to believe. The approach to the Second Plan was a political decision largely influenced by the developments in the communist countries. Mahalanobis only put a mathematical garb on the approach with highly simplified assumptions. The approach to the Second Plan became the approach to planning in India for almost the next three and a half decades, i.e. till 1991 when comprehensive economic reforms were undertaken. The approach necessitated high doses of deficit financing, import controls, licensing of industries, a major role for public sector and rationing of consumer goods. The shortage of consumer goods created extreme hardships for the people, particularly for the poorer sections of the society. Heavy doses of deficit financing created high inflation. Shortages led to rationing and control and in turn to black markets and smuggling. Agricultural production declined due to lack of such investments which could have protected the agriculture to an extent against the vicissitudes of the weather. Droughts had also intensified during the mid-sixties. The implementation of the Second Plan faced considerable road blocks mainly due to resource constraints. There was balance of payment crisis. Foreign exchange was not forthcoming (Datta, 2021). The decade of sixties, immediately following the Second Plan was the worst performing decade in the entire period of development after independence. Agriculture declined and the industry growth did not pick up beyond what it was in the decade of fifties (Table 3.1 in Datta, 2021).

It can be seen in retrospect that, in spite of the best intentions of the planners and policy makers, inclusiveness was a casualty, because perhaps the planners were in too much of a hurry to contemplate the impact and implications of each of the elements of the Plan in all its dimensions. Some of the things could not be clearly foreseen because of lack of data and lack of prior research into the working of the system. Sometimes assumptions were taken as facts and sometimes imitating other countries (China and the Soviet Union) became a political compulsion.

G. D. Birla, an eminent industrialist and one of the authors of the Bombay Plan, criticized the Second Plan, pointing out that in order to succeed, the Mahalanobis strategy needed to have room for all sorts of industry, small, medium and big even as it emphasized the heavy and the core sectors. He prophetically predicted that massive shortages of consumption goods and jobs would get in the way of public sector investment (Sanyal, 2010).

Quite in contrast to the approach to the Second Five-Year Plan which laid emphasis on the products of capital goods (narrowly interpreted as the production of steel and machines) for accelerating the rate of capital formation, Vakil and Brahmanand (1956) came out with a thesis that it was the supply of wage goods which would raise productivity of the working class and enhance productive employment by eliminating disguised unemployment. It was explained that the root cause of poverty was the shortage of wage goods or 'the wage goods gap'. The wage goods were identified as the items of food, cloth, matches, soap, salt and kerosene. Also included were medicines, health care services, basic education, water electricity roads and recreational services. They called the wage goods as 'liquid capital'. Their prophetic insight which had the imprints of conventional wisdom and the elements emphasized in the Bombay Plan did not find many adherents among the planners and the policy makers of the times.

## 5 The Green Revolution—A Saviour

The decade of sixties was a decade of acutely difficult economic conditions for India. Apart from the extraneous factors like conflict with China in October 1962 and the war with Pakistan in September 1965 which severely dislocated the Government budget, severe food shortages started appearing from the beginning of the decade culminating in the famine of 1966–67, because of unfavourable weather conditions. Imports of food grain from the USA under easy payment conditions of PL 480 came under strain for political reasons. Inflation was at a very high level. It was under these circumstances that a political decision was taken to intensify production of food grain within the country with the objective of becoming self-sufficient in basic food. Norman Borlaug was invited to India. Despite bureaucratic hurdles imposed by India's grain monopolies, the Ford Foundation and Indian Government collaborated to import wheat seed from the international Maize and wheat Improvement Center (CIMMYT). The state of Punjab was selected by the Indian government to be the first site to try the new crops because of its reliable water supply and a history of agricultural success. India began its own Green Revolution programme of plant breeding, irrigation development, and financing of agrochemicals' (en.wikipedia.org/wiki/Green_Revoluation). The green revolution started showing results. The gross food grain output increased from 83 mt in 1961–70 to 103 mt in 1971–75, 120 mt in 1976–8 and 139 mt in 1981–85. Given the high population growth during the period, the per capita availability did not improve so dramatically, but the import dependence was almost done away with. The per capita availability was 159 kg in 1966–70, 156 kg in 1971–75, 161.4 kg in 1976–8 and 166.3 kg in 1981–85 (Figures taken from Table 5.1, p. 110, Radhakrishna, 2019). The pace set by the green revolution has continued and food production has considerably diversified over the years. The green revolution contributed enormously to India's food security and to the alleviation of poverty. This was perhaps the most inclusive policy adopted, though not as a part of the planning model adopted in the Second Plan and followed in substance through the plans till 1990. The green revolution, though, came under severe criticism at that time on the ground that it favoured the better endowed farmers and already agriculturally developed regions thus increasing inequalities. With hindsight, there should be no hesitation in concluding that on balance it had great positive impact on inclusiveness.

## 6 Economic Reforms and Growth—Not Good News for Inclusiveness

The overall economic condition continued to be critical even in the decade of seventies. The critical economic situation led to more controls, stricter licensing and a spate of nationalization, starting with the nationalization of the scheduled commercial banks in 1969. The price inflation was very high, particularly after the spike in international price for crude oil. Food situation was still critical. There were widespread public agitations. It was realized that the approach to development planning that had been adopted would not deliver on reducing severe poverty and hunger, and hence, some direct action was needed. About 50–60% of the population was at this time extremely poor going even by very modest standards of minimum needs. Poverty alleviation programmes consisting of wage employment programmes and asset building programmes were adopted, almost detached from the rest of the planning process. Of course, once the programmes were formulated, the Planning Commission took over the task of allocating resources for the programmes and monitoring their progress. In one form or the other the programmes still survive.

A mild degree of economic reform was attempted in early eighties. Imports were liberalized to some extent and industrial licensing was broad banded. The growth rate of GDP increased from 3.16% in 1971–80 to 5.40% in 1981–90 (Hashim, 2020; Table 2.2). However, the economic woes persisted through the decade of eighties. By the year 1990, the foreign exchange reserves were almost exhausted, coming down to a level enough to meet only three weeks' imports. The new Narasimha Rao government with Manmohan Singh as finance minister in mid-1991 undertook radical measures to put the economy back on the rails. The main ingredients of the new economic policy were economic liberalization and privatization of the domestic sector, fiscal reforms and easing of foreign trade, falling in line with increasing globalization. The rate of growth of money supply was controlled and the exchange rate of the rupee was adjusted downwards (Hashim, 2020). These reforms produced quick results. The annual rate of inflation came down from the peak of 17% in the middle of 1991 to 7% by the end of 1992–93. The foreign exchange reserves which had slid to $1 billion, shot up to over $6.4 billion by 1992–93. The rate of economic growth which had dropped to 1.2% in 1991–92 rose to about 4% in 1992–93 (Srivastava, 2011). Reforms produced results. GDP growth rose to 5.7% in 1991–2000, 6.8% in 2001–2005 and remained around this average at least till 2015. The GDP almost trebled in a 10 year period from 1997–98 to 2007–08 (Hashim, 2020).

This turnaround of the economy after the reforms, however was not good news for inclusiveness. The share of wages and profits in net value added in organized manufacturing had remained around 50% each till the year 1988–89. By the year 2010–11, the share of wages had declined to about 30% (IHD, 2014). Reasons for this decline in labour share may be infusion of new technology which raised the productivity of capital, increased globalization and trade openness as well as changes in labour market institutions and policies (Jacobson and Occhino, 2012–13). Declining share of labour in GDP has worked itself out in the form of increasing share of informal employment and increasing open unemployment. Inequalities in income distribution have widened.

Radhakrishna has written comprehensively on post-reform development in Indian economy and its implications for inequality and well-being. His presidential address delivered at the 99$^{th}$ Annual Conference of Indian Economic Association at Tirupati in 2016 (2019/2016) draws upon a number of his earlier writings on the subject. I draw upon his address in what follows. While total employment (UPSS) increased by mere 14.7 million between 2004–05 and 2011–12 registering a growth rate of 0.45% per annum in contrast to the annual GDP growth rate of 7.7%. The implicit employment elasticity during the period tends to zero. The share of profits in net value added in the industries covered by the Annual Survey of Industries increased from about 22.1% in 1990–91 to 55.5% and profits in net value added in organized manufacturing had remained around 50% each till the year 1988–89. By the year 2010–11, it had declined to about 30% (IHD, 2014). Reasons for this decline in labour share may be infusion of networking which raised the productivity of capital, increased globalization and trade openings as well as changes in labour market institutions and policies (Jacobson and Occhino, 2012–13). Declining share of labour in GDP has worked itself out in the form of increasing share of informal employment and increasing open unemployment. Inequalities in income distribution have widened.

Inter-state income disparity widened during the post-reform period. Among the major states, Assam, U.P., J&K, Jharkhand and M.P. lagged far behind the states of Maharashtra, Haryana, Tamil Nadu, Uttarakhand and Gujarat. Growth of Punjab was sluggish. In 2013–14, the GSDP per capita of Gujarat was 4.3 times that of Bihar, and per capita GSDP of Kerala was 3.7 times that of Bihar. One of the root causes of inequalities is access to quality education. Disparities in access to quality education exist between rural and urban areas, between states and between various sections of population even within the same city. About 4/5th of rural students and 1/3rd of urban students at primary level were attending government schools in 2014. Per person expenditure at primary level incurred during a session in private schools was 10 times that in government schools. Quality of higher and technical education also varies widely (Radhakrishna, 2019/2016).

The rate of reduction in officially estimated poverty is positively associated with the rate of growth of GSDP per capita. Radhakrishna, however points out that even if income poverty is eliminated in India, other forms of poverty, e.g. malnutrition, may persist. Malnutrition in India was higher than that in Sub-Saharan Africa.

Montek Singh Ahluwalia, who, as Finance Secretary under the then Finance minister Manmohan Singh, played a key role in shaping the reforms in the early nineties, has observed that the reforms definitely achieved a significant acceleration in growth and they also succeeded in reducing poverty. However, they had been less successful in generating good quality jobs. There was progress in providing better access to education, health services, and clean drinking water and sanitation, but less than was hoped. The area where performance had been most disappointing was environmental sustainability (Ahluwalia, 2018).

## 7 The Festschrift

This book presents papers, exploring in depth and in the perspective of post-reform developments in India, issues pertaining to growth and equity. The book brings out how the public policy instruments created to promote growth turn out to be regressive, promoting inequalities, personal and regional, and creating a highly asymmetric federalism in India. The book examines the efficacy of fiscal and monetary reforms and also emphasizes the need for strengthening institutions of governance in order to boost investors' confidence. On the issue of governance and institutions, a way for liberal democracies to fight 'clientalism' and develop the capacity to pursue the goals is explored. Exercises in econometric modelling for explaining factors in growth and for vetting policies are also presented. With changes in the levels of income and pattern of consumption, perceptions on poverty have also changed. An approach to evolving a new poverty line has been explored. It has been pointed out that cities cannot be made inclusive without addressing the plight of migrants and the urban poor. Inequalities in education become root cause of other inequalities. A village industry like Khadi needs to be promoted for its involvement of women and rural poor. It has been pointed out that there is a crisis in agriculture mainly because of persistent decline in public investment in agriculture and the failure of the non-agricultural sectors to absorb the surplus agricultural workers. The book provides insights into the working of an emerging economy and a large democracy, which has to constantly strive for public acceptability of the tensions of its negotiations between equity and growth.

## 8 Instruments of Public Policy and Reforms

Exploring the role of institutions and instruments of public policy relevant to inter-state inequalities in levels of development, Y. V. Reddy, in his paper on inter-state inequalities, points out how the institutional and instrumental dispensations to the states have been regressive, to start with, and have become even more regressive over the years. In addition to this, there has been a drain of resources from the poorer regions to the richer regions. One resource is the skill and talent (brain drain). Even more important in the given context is the drain of savings from the poorer to the richer regions through the banking system. The constitution has mandated appointment of a Finance Commission every five years to recommend sharing of Union Taxes between the Union and the States, and also to recommend grants to States which are in need of assistance. Equity considerations can be built into the criteria for tax deduction and also in grants. The Planning Commission was set up as an advisory body on allocation of public investments. It assumed the role of dispensing plan assistance to States. The Planning Commission also approved the Annual Plan of States and approved their market borrowings. Channels of transfers have been normal plan assistance, special plan assistance and centrally sponsored schemes. Y. V. Reddy points out that the tax devolutions and the grants by the Finance Commission have been, on the whole, progressive. Only about 20% of the total transfers were less progressive. Planning Commission's dispensations have been regressive. Per capita plan outlays were invariably higher in respect of the richer states. Poorer states were handicapped by absorptive capacity. Centrally sponsored schemes required matching contributions by the states. Terms and conditions of borrowings would tend to be favourable to the richer states. External borrowings would more particularly favour relatively more developed states. Banks accumulate savings from the poorer states, but find more lending opportunities obviously in richer states. Central tax concessions also tend to be regressive in nature. Thus, except for the Finance Commission, no other public institution focused on the inequalities among the states in pre-reform as well as in post-reform period. Only formula-based tax devolution is progressive. Discretionary transfers from the Centre favoured non-poor states.

Duvvuru Subbarao in his paper on Fiscal Dominance of Monetary Policy makes a strong plea for the independence of monetary policy, and by implication, the independence of the monetary authority (the Central Bank) whose primary responsibility was controlling inflation in the interest of stability and growth. Fiscal dominance of the monetary policy leads to high inflation. The price level in the economy is not dependent only on the money stock but also on the proportion of outstanding debt that is backed by monetary authority. He finds that the share of debt backed by monetary authority, on an average, is higher in developing countries. He points out that the period 1980–91 in India was a period of intensive fiscal dominance. Whittling down of the fiscal dominance took place after the reforms from 1991 onwards. The Fiscal Responsibility Act of 2003 boosted monetary independence further. However, 2008–09 Global Financial Crisis necessitated a coordinated stimulus package. The impact of the stimulus package in the wake of COVID-19 needs to be watched.

Subbarao's strong plea in favour of price stability has positive implications for inclusiveness since inflation hurts the poor most. But 'fiscal activism' in the shape of stimulus packages in the wake of recessionary economic situation is also needed in order to create jobs which the poor need most.

Govinda Rao writing on the state of Indian economy during the pandemic times, points out that the pandemic struck at a time when the economy was already slowing down. The estimated growth at 4.2% in 2019–20 was the lowest in the last 11 years. There was a declining trend in the period 2015–16 to 2019–20. He further notes that even as the economy gradually recovered from the shock of demonetization in the third quarter of 2016–17, the subsequent quarters showed steady decline. He is of the view that the government would have to come up with substantial additional stimulus to accelerate growth, yet he concedes that in the given circumstances of slowing economy and raging fiscal imbalance, significant fiscal action would be difficult. The government may have to substantially disinvest and spend on infrastructure. The prospect of a 'V' shaped revival in the immediate future does not look possible.

It may be of relevance to mention here that in an interview with Karan Thapar, Montek Singh Ahluwalia (2021) made an interesting observation that the recovery in India was K-shaped. The formal sector could be experiencing a V-shaped recovery, that was not true for the whole economy. The rural and the informal sectors could not be said to be experiencing the same. This was what he preferred to call a K-shaped recovery.

With an objective of facilitating international trade, promoting exchange stability and assisting in the establishment of multilateral system of current payments, the IMF makes resources temporarily available to members. Dilip Nachane and Partha Ray describe in their paper how the theoretical foundations of the functioning of IMF have evolved over the years, ultimately becoming a Global Economy Model. Not denying the brilliance of these exercises, the authors note that the philosophy of research in the IMF is quite monolithic in nature. There are evidences of group think and almost an unquestioning faith in 'new consensus macroeconomics'. Given a host of other limitations of the model, or the philosophical underpinning of the IMF's functioning, the IMF failed to give early warning of the Global Financial Crisis, and the authors think that the disconnect between macro and financial sector in IMF's model was responsible. They conclude that in the ultimate analysis, the IMF is a quota based organization and its functioning reflects this skewed governance structure.

How much institutional, including legal factors can promote (or hamper) economic development is what Hans-Bernd Schafer reflects upon in his paper: Law and Economics of Pure Economic Loss in Tort. The exclusion of pure financial losses from liability in tort is widespread across legal systems. Pure economic losses are losses of wealth which occur without an infringement of an absolute right. The author argues that many pure economic losses deserve compensation under the economic rationale as recent research has shown. Some catastrophic accidents as the Alaska