Business Standard

India's development transformation: From rationed to aspirational economy

The economy has changed considerably since 1988, especially for the professional classes and the rich

Rathin Roy March 16, 2018 Last Updated at 05:57 IST

In 1988, India was a small developing economy, which had successfully solved some basic development problems. Famine was a thing of the past. Aid dependency was minimal, growth stable, if low, and democratic institutions intact. A handful of elite institutions and universities provided enough leadership and technical acumen for a small economy. Five IITs, four IIMs a few regional engineering colleges and management institutes, a handful of (largely public) medical colleges and a clutch of universities provided good technical, liberal arts, social science and humanities education. Those who aspired for more went abroad but there was enough left over to enable the country's institutions to function at a low scale.

Aspirations were limited to economic stability and some social respectability. Access to better opportunities to consume, and access to public services, were rationed by the state. Food, automobiles, two-wheelers, imported goods, railway tickets, healthcare, and access to higher education were all rationed, either physically, or through fiscal and trade measures like exchange control and quotas, or a "meritocratic" system of filtered access to scarce higher education and technical opportunities. Institutions were badly run, but this did not matter, as the trick to get ahead was to exploit poorly functioning public systems to corner the benefits of rationing. Scarcity was the norm and the way to beat scarcity was to jump a queue, not to join one.

State-society relations evolved in response to this economic environment. Since the overriding objective was to access rationed scarce resources, government was seen as a rationing agent. Interactions between government and citizens were discretion-based — for every rationing rule, there developed a legal or illegal way to circumvent, or benefit from an exception to, the rule. This overarching ethic governed all relationships, whether between industry and government, police and the citizen, or the university and the student.

There were three ways in which the rationing game could be won — exiting the game by going abroad, cornering rents to pay for circumvention or exception, or joining the mechanism that administered circumvention and evasion. Quite logically, therefore, professions that are important but hardly at the intellectual cutting edge — like engineering and chartered accountancy — were worshipped. Students opting for pure science or humanities were disdained unless they managed to exit the game (go abroad) or join government.

The economy has changed considerably since 1988, especially for the professional classes and the rich. For them, scarcity is no longer a constraint. A massive movement in relative prices in favour of goods that these people consume has considerably enriched post 1988 generations. A car that would have cost me 4 years' salary as a college lecturer in 1988 is just 9 months' salary to today's entry-level lecturer. The same is true for white goods, air travel and a host of other such things consumed and produced by the top 10 per cent (max) of the income distribution. By offering a market for such things, India has experienced impressive, if unequalising, growth to become an emerging economy.

Prosperity has brought with it aspiration, not just of these 100 million, but also of the rest who now aspire for more than they did in 1988. Meeting these aspirations requires profound economic changes. But it also calls for an important institutional and socio-economic shift, away from a mentality of rationing, to a mentality of delivery of aspirations.

The "leading indicators" of economic prosperity today are things that the top 100 million Indian income earners consume, like sales of cars, two-wheelers, and personal and recreational services. The things that all Indians (rich and poor) consume are not leading indicators simply because there is either market failure or no business model to produce these things at affordable prices. These include a balanced and nutritious diet, affordable clothing, affordable housing, reasonable healthcare, and adequate education.

A consequence of these market and business model failures is that these goods continue to be rationed, by subsidising their consumption. Our attempts to provide affordable quantities of these important items of universal consumption have not resulted in their output at scale, notwithstanding pious statements about "rights-based" approaches. As a consequence, the much desired "aspirational" transformation has not taken place — rationing continues to influence behavioural responses of individuals and social groups. This gets reflected in demands for reservation, preferential access to subsidies, and individual investment in efforts to jump queues to obtain rationed goods. This, in turn, means that institutions are geared to delivering rationed goods and service, not delivery of these foods and services at scale and at affordable prices. Administering rules that ration public goods and services, broken by extensive use of discretion, continues to be the default business model of government, and of state-citizen and state-society relationships. Sincere efforts to improve regulation, and reduce corruption and nepotism, enjoy limited success as the underlying cause is not addressed.

Tackling this important challenge cannot be just the work of the government. A paradigm shift in economic policies towards meeting the demand of all sections of society for these important goods and services at affordable, non-subsidised prices should be the common socio-economic challenge that state and society must see as underpinning the future social contract. Until such a contract replaces the current, rationing-based, social contract, India's development transformation will continue to teeter at the brink of jeopardy.

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