

# INDIA NEEDS A BOTTOM-UP GROWTH MODEL

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

A Mohalla clinic, at the Yamuna Bazar area in New Delhi. Such clinics have been set up to provide affordable health care to the poor people. | Photo Credit: [Sushil Kumar Verma](#)

India's bold decision to stay out of the Regional Comprehensive Economic Partnership (RCEP) until the needs of the country's small enterprises, farmers, and poorest citizens are properly addressed dismayed many economists. The Indian government's fear was that the resulting increase in Chinese exports would harm small producers and farmers.

China and India, the two most populous countries in the world, both embarked on new journeys around the same time. More than 70 years later, China has progressed much faster. India, on the other hand, is yet to reach the development indicators that China attained back in the early 1990s.

A Chinese thought leader said 15 years ago that both countries have the same vision: of prosperity for their citizens. To reach there, they must cross a turbulent stream by feeling the stones underfoot. But how do governments do that?

First, they need to make their policies people-centric rather than growth-centric. The Communist Party of China demands that local officials address the needs of citizens' effectively, as does Singapore's government. The Chinese government derives its legitimacy from citizens' satisfaction with their well-being, not from a vote in an election, Singapore Minister Tharman Shanmugaratnam once said.

In the case of India, its constitutional structure enables its States to adopt different models of development. Thus, there is a 'Kerala model', a 'Gujarat model', and now a 'common man's model' implemented by the Aam Aadmi Party (AAP) in Delhi. Local, participative governance has been a distinction of Kerala's model. and the State has been well ahead of the rest of the country, matching China in its Human Development Indicators in education, health, and women's inclusion.

Delhi's AAP government has adopted a people-centric model of government. It has established School Management Committees with parental involvement. Teacher training budgets have increased five-fold. The performance of Delhi's government schools is not only higher than the national average, it now exceeds the performance of private schools in Delhi. Public health expenditures have more than doubled. 'Mohalla clinics' have been set up in poor colonies to provide accessible and affordable health care.

The share of unauthorised colonies provided with piped water has increased from 55% to 93% in just five years, reducing the need for poor people to pay for expensive tanker-delivered water. But despite water subsidies for the poor, the Delhi Jal Board's income has increased. Electricity supply has expanded to include 20% more consumers. Amongst Indian metros, Delhi provides the cheapest electricity. Yet, its distribution companies, all in the private sector, have improved their financial performance.

The government has computed that its programmes for improving the 'ease of living' of citizens by improving the quality and accessibility, and reducing costs, of a range of public services has increased savings per family by 4,000 per month. The increase in disposable incomes has resulted in additional consumer-buying power, estimated at 24,000 crore per annum.

This proves that growth must be bottom-up to be equitable and sustainable. India has climbed many rungs on the World Bank's 'Ease of Business' rankings. Yet, investments to expand production ventures have not increased much because consumer demand has slumped, even for basic items like packaged biscuits. It seems odd that democratically elected governments in many countries, including India, who should be focused on citizens' well-being, have become so focused on making it easy for global capital to do business in their countries. This has made citizens rise up against the globalisation paradigm promoted by an 'establishment' of policymakers and economists. Citizens want their governments to put jobs in their countries first, and to implement policies that increase incomes at the bottom of the pyramid rather than facilitating only further growth at the top.

India's complex, socio-economic environmental system is under even greater stress. The country must improve on many fronts simultaneously. India ranks very low in international comparisons of human development (education and health), even below its poorer subcontinental neighbours. It is the most water-stressed large economy in the world; its cities are the most polluted. India's economic growth is not generating enough jobs for its burgeoning population of youth: the employment elasticity of India's growth (numbers of jobs created with growth) is amongst the worst in the world. Bold actions without an understanding of the whole system can cause great harm. The bold move to demonetise the currency notes in 2016 was an egregious example. Unemployment of persons with vocational education has gone up between 2011-12 and 2017-18, from 18.5% to 33%. India now has a larger number of frustrated youth.

The RCEP decision shows that India is now standing up to pressure from a rump of Washington Consensus economists who continue to advocate that more free trade is the solution to India's economic problems, even when there is evidence that India has not benefited from the agreements it has entered into.

India's challenge now is to build an Indian ecosystem in which competitive enterprises will grow to create more opportunities for jobs for youth and for increasing citizens' incomes. Growth of incomes in India will make India more attractive for investors. A stronger industrial system will give India more headroom in trade negotiations too. India's industrial and entrepreneurial ecosystem's growth must be accompanied by an improvement in environment. Policies must be managed with a whole systems view. While 'Ease of doing Business' gauges health from a business perspective, 'ease of living' should become the measure of the health of the whole system.

Policy decisions invariably require compromises between competing interests. Here, Mahatma Gandhi's talisman provides a good test. The government should think of the needs of the poorest citizens first. Reduced duties on imports benefit citizens as consumers. However, a citizen's more fundamental need is for a good job and source of income to buy the imported goods. India urgently requires an employment and income strategy to guide its industry and trade policies.

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