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**Speech by
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**HONOURABLE PRIME MINISTER DR. MANMOHAN SINGHJI,
HONOURABLE MEMBERS OF THE NATIONAL DEVELOPMENT
COUNCIL, LADIES AND GENTLEMEN**

I am glad that this long overdue meeting of the National Development Council to discuss and finalize the Approach Paper for the Eleventh Five Year Plan is taking place at last. When the first Draft of the Approach Paper was circulated by the Planning Commission, detailed comments on it had been made by the Kerala State Planning Board and presented to the members of the Commission at its Southern Regional Consultations held at Thiruvananthapuram in July 2006. The main thrust of that critique related to the crisis of petty production, i.e. of peasant agriculture and of small producers in traditional industries, which had come in the wake of the withdrawal of State support for this sector and its exposure to the vicissitudes of the world market. The State Planning Board's submission had argued that since the supposedly high growth rates in the economy had not alleviated this crisis, any strategy of "more of the same", i.e. of aiming for still higher growth without taking cognizance of this crisis and finding specific means of overcoming it, would be of little avail. That critique was particularly apposite in the context of Kerala which had been a special victim of this crisis and had seen more than 2000 peasants committing suicide.

The revised Draft of the Approach paper, I am pleased to note, has taken cognizance of this crisis, and has made several suggestions similar to ours: the re-introduction of a system of price support, backed by tariff protection; the provision of debt relief to the peasantry, including debt owed to private moneylenders; the augmentation of institutional credit for agriculture; the stepping up of public investment in agriculture; the revival of public extension services; and the interposing of the State, and of State-aided rural cooperatives, between the peasantry on the one hand, and the corporate giants, including MNCs, making incursions in various ways into the agricultural sector, on the other. We had asked in short for a "public-peasant partnership", to amend a currently-fashionable term, to make peasant agriculture viable and profitable; and the revised Approach Paper concurs with it. This is important, because an argument is often advanced that agriculture needs not tariff protection, but productivity increase; and that this latter objective is better served through the incursion of corporates into this sector. What needs to be defended however is not *agriculture per se, but peasant agriculture*, since the peasantry has nowhere else to go. And for *this*, the interposing of the State between the peasants and the

corporates is as essential as tariff protection, which is a necessary component of a price support regime to restore profitability, and without which substantial investments by the peasantry, which are a pre-condition for productivity increases, cannot occur. I welcome the fact that this line of thinking, which is also endorsed by the National Commission for Farmers, has found reflection in the revised Approach Paper for the Eleventh Plan. I hope that, apart from providing appropriate tariff protection, the Union government will also refrain from entering unilaterally into Free Trade Agreements whose consequences are deleterious for the peasantry in states like Kerala.

While the crisis is not confined to peasant agriculture alone, and incorporates a range of traditional industries, the revised Approach Paper does not carry forward its logic of extending State support and State protection to sectors outside of agriculture. There is no mention of tariff protection for non-agricultural traditional industries, no mention of meeting their credit needs from institutional sources, and no mention of steps to make them profitable and viable. On the contrary, there is talk of reducing non-agricultural tariff, and of the need for de-reserving items hitherto reserved for the small-scale sector, which would expose traditional small producers to competition from corporates and MNCs. True, there is much talk of nurturing "industrial clusters", housing traditional small producers. But, concentrating assistance on such "clusters" is tantamount to withdrawing it from all units outside of these "clusters". In traditional industries, which tend to be dispersed, this amounts to a *de facto* reduction of assistance. Thus, the "cluster" approach which suggests at first sight as if the State is extending a helping hand to traditional industries, amounts in effect to a withdrawal of its helping hand.

This has an important bearing on the employment discussion in the revised Approach Paper. The candidness with which the Paper Says bare the grim scenario on employment and poverty must be welcomed. Its perspective for the Eleventh Plan however is based on an aggregation of possible employment increases in each of the three major sectors, viz. agriculture, the organized sector, and the unorganized non-agricultural sector, as if employment increases in one sector do not impinge on such increases in other sectors, and as if the employment scenario is entirely a matter of fiscally-influenced technological decisions by capitalist producers, having nothing to do with consumer demand and life-style choices. As a matter of fact, the behaviour of overall employment is the net outcome of employment creation in some sectors and employment destruction in others. It depends not so much on technological choices within given product-

lines, as on changes in the product-mix itself, which in turn are influenced by changing demand patterns. *In an economy like ours where income distribution is highly skewed (and becoming more so), and where the rich imitate the life-styles of the affluent in the West, where products with very low employment content figure prominently, the free market necessarily causes a sharp disjunction between the GDP growth rate and the growth rate of overall employment.* In the absence of restrictions on changes in the product-mix, whether these are voluntarily adopted (as Gandhiji had visualized) or are imposed by State intervention (as was the case in India in the pre-"liberalization" era), the rampant consumerism of our domestic affluent, expressing itself through a quest for Western life-styles, will necessarily keep employment growth restricted, no matter how high the GDP growth rate. The revised Approach paper, paradoxically, endorses this consumerist quest in asking for FDI in retail trade. Its concern for employment generation is thus belied by a number of other measures it suggests, from de-reservation of items kept for the small-scale sector, to FDI in retail trade, all of which will cause significant net employment destruction.

The novel idea of the Planning Commission that it would specify employment targets to be achieved by the states during the Eleventh Plan, in addition to output and social sector targets, is therefore quite bemusing. It is unacceptable for a number of reasons. First, it goes contrary to the federal spirit of our Constitution, by unilaterally snatching away from the states their entire freedom to make plans of their choice. Secondly, it is restrictive of democracy in a basic sense. When the electorate of a state elects one government as opposed to another, it *ipso facto* chooses one particular development strategy, namely the one espoused by the elected government, over another. If the Planning Commission specifies a set of detailed targets for each state government, then it is negating that choice of the electorate. State governments must have the freedom to work out their own plans if the electoral choice of the people is to be respected. Thirdly, as mentioned earlier, when the Planning Commission's own employment target is suspect, to allocate this target across states makes little sense. Likewise, given the uncertainties surrounding the GDP growth rate (apart from the fact that the GDP growth rate *per se* means little), allocating this target to states makes little sense. The states merely become exposed to a situation where they will be held responsible for missing targets specified by someone else for them. Fourthly, having targets for variables like the GDP or employment makes sense only at a certain macro-level. In a domain within which capital and labour are freely mobile, having employment or GDP targets for particular regions is intellectually

untenable. Finally, as regards social indicators, where some may see a stronger rationale for specifying targets even for states, the Planning Commission's own policy predilection comes in the way of achieving such targets. Let me give an example.

The JNNURM, for some obscure reason, specifies as one of its "mandatory reforms" that stamp duty in a state must be reduced to 5 percent at the end of the seven-year period. In Kerala, where two cities are eligible for assistance under this programme, we have asked for a total assistance of Rs. 18,500 crores, of which Rs.7,000 crores will have to come from the state government and the urban local bodies. But the loss to the state exchequer on account of reducing stamp duty from the current 13.5 percent to 5 percent at the end of the programme will add up to more than Rs.7,000 crores over the seven year period. We thus have a bizarre situation. First, the state government and the ULB have to undertake a major and highly controversial reform programme, involving imposition of "user charges", amendment of the Rent Control Law and repeal of the Urban Land Ceiling Act, just to get Rs.4,500 crores of net outside assistance, which is less than 25 percent of the project cost, a clear case of the "tail wagging the dog"! Secondly, since the average stamp duty loss of Rs. 1,000 crores per annum represents almost a third of the "free" plan outlay (excluding devolution to LSGIs, power sector outlay, outlays dictated by lenders, and EAPs), it leaves my state (and I dare say other states) in a peculiar position. If we meet our infrastructure needs, we have much less funds for other sectors, including social sectors; but if we wish to meet our social sector commitments, then we cannot access JNNURM and meet our infrastructure needs. Thus, the JNNURM programme, which figures prominently in the Approach Paper, far from constituting a significant addition to the states' resources, puts them in a fiscal bind! It is hardly appropriate for the Planning Commission to fix social sector targets for states, when programmes like JNNURM catch them with "conditionalities" which make these targets that much more difficult to achieve.

This issue is important because there is simply no alternative, as far as the poor are concerned, to the provision of free social services through the public sector, for which a substantial expansion of such public services is necessary. The revised Approach paper talks of health insurance as a way of provisioning the health needs of the poor. But no insurance scheme can possibly meet the needs of the poor, as long as either the insurance company or the medical institution, belongs to the private sector, and is hence interested in making profits. And if the

medical institution is public, then it is much better to have free health service (on the pattern of the British NHS), at least for the poor, than an insurance scheme. Hence a substantial expansion of public health, and other social sector, facilities is essential. This being the case, getting states to relinquish resources in the manner that JNNURM does is counter-productive.

This points to a problem that lies at the core of the Approach paper's perspective. The Paper sees the State not as withdrawing from the economic arena, but as engaging with it in a different manner, by focusing on those spheres where the private sector is loath to enter and leaving the other spheres to the private sector. Allowing the private sector to "cherry-pick" in this manner may be acceptable if it left the State with enough autonomy, enough leverage, and enough resources to succour the poor and the marginalized, i.e. if the "cherry-picking" private sector remained sufficiently amenable to social control and social regulation exercised via the State. But if the state governments have to vie with one another in providing fiscal concessions to attract private capital into their respective states, if the creation of a favourable "investment climate" for private capital itself requires substantial public resources, if public resources have to be made available to private capital in the form of "viability gap financing" in PPP projects even when a guaranteed rate of return on equity is offered to such capital, then clearly we are in a different realm, where public resources are hijacked for private enrichment. And when such enrichment additionally takes the form of land speculation (including especially in SEZs), and when the consequence of such enrichment is to usher in structural change in pursuit of the consumerist life-style of the Western affluent, which has deleterious consequences for employment, then clearly there is cause for concern. And since any fiscal debility of the State as a whole has a particularly severe effect on state governments, the Approach Paper's assigning of greater responsibility to state governments as a part of its emphasis on the social sector, is precisely what is most threatened.

Of late however a new kind of problem has surfaced, not just in Kerala but elsewhere as well, namely that even the meagre amount of funds meant for the poor, for the marginalized population, and for social sector schemes, remains substantially unspent. It would be facile in my view to dismiss this phenomenon, which relates not merely to Central Sector Schemes, as mere administrative laxity. There are several structural reasons behind it. First, a distorted value

system has crept into the bureaucracy in the era of "liberalization" which sees large "infrastructure projects" as prestigious and worth pursuing, but not the paltry schemes and puny projects meant for the Dalits, the tribals, or the destitute. The fact that the Employment Guarantee Scheme which is one of the more far-reaching and ambitious schemes to have been launched in recent years has made such tardy progress all over the country, notwithstanding the large number of registrations under it, underscores the point. Secondly, in backward districts, precisely where such schemes are most needed and where they are targeted, there is a tremendous paucity of administrative staff and the requisite personnel. It is difficult to find an administrative officer, or a doctor, or a teacher who is willing to serve in a backward district. To an extent no doubt this has to do with the absence of proper amenities and institutions which deters government personnel from serving in backward districts; but the absence of government personnel also prevents the utilization of the available funds for the development of the district, and hence keeps it backward, creating a "vicious cycle". Thirdly, there are rigidities in the nature of the schemes, especially CSS, and a bewildering multiplicity of such schemes, which makes it all the more difficult to cope with administrative burden of generating and implementing appropriate projects for utilizing the available funds.

One can and should offer some pecuniary inducements for making officers go to backward districts, but that would not be enough. It may be necessary in addition to introduce a degree of compulsion. But this raises larger issues. After "liberalization" not only have income inequalities increased tremendously, making India one of the most unequal societies in the world, but the income relativities have become completely irrational. The Approach Paper expresses much concern about the lowering of the quality of our research institutions and universities. This is not surprising since the best talent which used to be drawn to the academia earlier now goes elsewhere because of the astronomical differences of income between the academic and the business, especially the financial, world. Government personnel in this sense are grossly underpaid, even though their salaries may be huge relative to those of certain other segments. To impose additional compulsions on them to serve in areas lacking in basic amenities may be a further deterrent for recruiting able young persons for such service. While compulsion may have to be resorted to, it requires in addition a straightening out of the absurdly irrational income relativities that have crept into our system which make it completely unviable in the long-run.

What is needed in other words, not just for better plan implementation, but even for reaching the goals for research and innovation outlined in the Approach Paper, is a comprehensive incomes policy. India has gone from being one of the more egalitarian societies in the world (in terms of salaries) to one of the most non-egalitarian. It is time that correctives are put in place.

The Centrally-Sponsored Schemes in addition are too rigid and inflexible. Kerala has also lost out in obtaining funds under such schemes. Most of them are meant for backward regions and states, and the very success of Kerala in terms of social indicators has resulted in an absence of funds coming her way. Of course one should not grudge larger funds going to backward states, but the second-generation problems arising from the very success of Kerala's social achievements require resources for their solution. Kerala has also lost out because the "Golden Quadrilateral" has largely by-passed her. Successive governments of Kerala have been arguing for a long time that the funds meant for CSS should be pooled together and distributed among the states according to certain criteria (perhaps, but not necessarily, the Gadgil formula), for the states to use according their own priorities. But even though a consensus on this may be difficult to arrive at, at the very least the existing CSS should have a built-in element of flexibility. I shall not go into details here but provide just one illustration relating to the Employment Guarantee Scheme.

The projects which are supposed to be taken up under the EGA exclude production operations and also projects meant to yield private benefits (an exception is made only for, irrigation projects on lands belonging to SCs, STs, beneficiaries of land reforms, and beneficiaries under the Indira Awas Yojana). This is as it should be, since there should be no scope for the use of public funds for private gain by the affluent. But it does greatly restrict the number of eligible projects, and does constitute an important reason, at least in Kerala, for the tardy utilization of funds. If the Centre could allow the use of EGA funds for financing farm labour costs of small and marginal farmers, in cases where they either come together for group farming, or use labour provided by labour co-operatives ("labour banks"), then a number of objectives would be satisfied without any damage to the basic principle of not using public funds for private gain by the affluent. First, it would improve the economic conditions of the small and marginal farmers. Secondly, it would give a fillip to the group farming/labour bank movement.

Thirdly, it would go a long way towards ensuring that funds meant for the poor do not remain unspent. This is just one example of the kind of flexibility I talked about earlier.

The Approach Paper talks about legalizing tenancy as a way of improving land use. In cases where there is concealed petty tenancy, with the tenants having little or no rights, all steps should be taken to give them legal recognition. But the Approach Paper's proposal is not concerned with this issue; it is concerned with the prevention of land lying fallow. The situation may differ from state to state, but in the context of Kerala a blanket legalization of tenancy to solve this particular problem is unwise, since it can become a means of undoing the land reforms undertaken in the state. A far better option would be to permit the leasing in of land only by labour co-operatives and similar organizations (e.g. certain SHGs). The LSGIs can be entrusted with the task of encouraging such leasing in, and generally ensuring that land within their jurisdiction does not remain fallow.

I find the revised Approach Paper's repeated and categorical advocacy of privatization of the mining sector unacceptable. The Kerala State Planning Board's submission had opposed this position in the Draft Approach Paper of the Planning Commission, but the Commission has not made any changes. There are two issues here. First, in the case of any exhaustible resource, the optimal rate of use of the resource has to be socially determined. And this can be ensured only through the social ownership of the resource, in this case mines. The Commission's position that coal mining should be thrown open to the private sector because Coal India cannot meet the Eleventh Plan requirements is disingenuous. Secondly, there is the issue of workers' safety, which is better ensured under a regime of social ownership than under private profit-making. Private mines, as recent experience of other developing countries shows, have become veritable death-traps for workers. There is no need to repeat that experience here. A related issue on which our nation has to take a stand is the rate at which our mineral resources are exported to other countries. The example of Myanmar, once a flourishing mineral-rich country, now reduced to the status of a "least developed economy" after the exhaustion of her mineral wealth, should not be forgotten.

While there can be no two opinions on the need for a "healthy development of quality

private education" (4.3.32), since education is an important component of nation-building, it must be prevented from degenerating into a mere profit-making activity. Successive judicial pronouncements have only upheld this position which has been the avowed basis of our national education policy. Social regulation of private educational institutions is essential for this, and we have recently enacted legislation in Kerala to introduce such regulation, both with regard to admission (where merit must count) and with regard to the fee structure. Any retreat from a recognition of the need for social regulation of private educational institutions can have serious adverse consequences.

It is unfortunate that the Approach Paper which talks so much about the need for strengthening higher education has not recommended the setting up of at least one Central University in every state. Central Universities can be a powerful means of breaking localism and parochialism, and of introducing a progressive, secular and pan-Indian consciousness. They can also improve the academic quality of neighbouring institutions through outreach programmes, joint seminars and faculty and student interactions. The Approach Paper talks of upgrading selected state universities into Central Universities, and these too are supposed to be funded jointly by the Central and state governments. This is grossly inadequate. Under the Eleventh Plan every state should have at least one Central University, fully funded by the Central government and following the normal rules of such universities. And these must be entirely new institutions. Kerala certainly must have one entirely new Central University under the Plan.

There are many other points, e.g. "labour market flexibility", the continued adherence to FRBM, and indiscriminate openness to FDI., where I have serious reservations about the direction indicated by the Approach Paper. As already indicated, I am skeptical about the Eleventh Plan meeting its basic stated objective of "inclusiveness". These reservations however will not stand in the way of my accepting whatever "consensus" emerges at this meeting of the National Development Council on the Approach Paper to the Eleventh Plan.

Thank you for your attention.