

Gujarat: A Growth Story Retold

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As the mid-December elections to the Gujarat assembly approach, the propaganda machine around Chief Minister Narendra Modi and the Bharatiya Janata Party in the state is in full play, seemingly unmindful of any violations of the election-related expenditure code. For Modi this is a clinching election not only to declare his supremacy over politics in Gujarat, with a third-time return to Chief Ministership. As is being widely speculated, it is also the springboard for his candidature to lead the BJP in the national elections in 2014. Moving from short kurta to suits and from street meetings haranguing the Gandhi family to hang-outs on Google, he is pulling all stops to get to where he would like to be.

Not surprisingly, assessments of Modi's political prowess abound in the media. There are three elements of his political platform that have received attention. The first is his belief in, and practice and use of the most divisive politics built on the BJP's Hindutva agenda, in a state with a significant minority population. That had in the past helped consolidate the majority behind him. The second is his appeal to Gujarati parochialism, and ability to convince a significant section of Gujaratis that any criticism of him, his politics and his developmental "achievements" is nothing but motivated criticism of the state of Gujarat. The third is his willingness to use the state exchequer, public resources and the most neoliberal of strategies to extend the relative success (*vis-à-vis* other states) of industrialisation in Gujarat, and then claim that all progress on the industrial front in the past and during his tenure are the results of his developmental acumen and good governance.

This last element in the propaganda onslaught serves many purposes. It provides an economic basis to emerging Gujarati "nationalism". It helps divert attention from the killing and social and economic exclusion of minorities that his political agenda has led to. And, it papers over the glaring failures of the Gujarat government in providing for the basic needs and welfare requirements of the poor majority in its population, while exaggerating achievements on the industrialisation front.

In all this, Modi has been implicitly helped by the Congress—the principal opposition to him in the state and to the BJP at the national level. The Congress too has pursued and continues to pursue with relentless and unthinking enthusiasm a neoliberal strategy, with consequences similar to that under Modi in Gujarat. The Congress' image with respect to maintaining social harmony is also much sullied. Particularly, because of the games it played in the period that led up to Operation Bluestar, and the role it had in the unpardonable occurrence and handling of the 1984 anti-Sikh riots.

But history must not and, hopefully, will not judge Modi and his corner of the BJP only relative to the Congress. It must and will rely on the evidence of the performance of the Modi administration, including that on the most favourable segment of his balance sheet: development. So it is refreshing to find empirically rich and balanced assessments of the economic record of Gujarat and its Government under Modi. One such set of assessments comes in a book fortuitously released at a time when the Modi propaganda machine is in full throttle. Titled *Poverty amidst prosperity: Essays on the trajectory of development in Gujarat* and edited by Atul Sood (Aakar Books 2012),

who also coordinated the project, the volume is clear on its objectives: to be empirically meticulous when assessing the performance of Gujarat and the claims of the state's administration, but not get lost in the detail so as to arrive at a holistic view of Gujarat's development trajectory.

Sood et al begin by acknowledging that even before the Modi years, Gujarat was among the more developed and well performing states having benefited from the establishment of a range of chemical and petrochemical industries. This initial condition they note proved advantageous during the post-1990s liberalisation era. Markets left to themselves are by no means benign but tend to aggravate pre-existing inequalities. Thus, the turn to a more market-friendly strategy of growth at the national level delivered an increase in regional inequalities. Gujarat was one among the states that benefited from that tendency. When the growth performance of Gujarat after 2002 under the Modi administration is assessed the contribution of this advantageous initial condition must be taken account of.

To that end, Ruchika Rani compares Gujarat's growth during the period 1980-81 to 2009-10 with that in three other leading industrial states (Maharashtra, Haryana, and Tamil Nadu). Gujarat has been a consistent good performer except for one decade (the 1980s) when it slipped in terms of relative growth because of consecutive droughts that adversely affected agricultural production in the state. But even in that decade industrial and services growth in Gujarat was creditable, though Haryana topped the industrial growth league table. Thus, well before 2002, Gujarat was a well performing state in GDP growth terms.

However, there is one count on which Gujarat stands out, and this is the fact that while in the rest of India the shift in production was from agriculture largely to services, in Gujarat the role of industry in sustaining the overall high rate of growth of the state has been more marked throughout. So Gujarat does seem to have been more successful than even the other industrialised states in using industrial production as a driver of growth.

The second set of features of note relate to the first decade of the 21st century, which coincides with the Modi administration. This was the period, especially the years after 2002-03 and before 2008-09, when the Indian economy as a whole was growing at rate in the 8-9 per cent range, raising hopes of a shift to a new growth trajectory. During those years, Gujarat not only performed particularly well, but agriculture in Gujarat performed much better than agriculture at the national level (Sucharita Sen and Chinmoyee Malik). While this suggested that the state seemed to be registering broad based growth, the growth in agriculture was accompanied by a shift in favour of commercial crops (cotton, groundnut and fruits and vegetables) unsupported by investments in irrigation. The resulting continued dependence on rainfall appears to have substantially increased instability in agriculture. What the studies find disturbing is that this is resulting in the corporatisation of agriculture, which together with demands on land for industry and infrastructure is delivering complex changes in land ownership, holding and use. In the final analysis it seems to be capital, particularly industrial capital, that is gaining from Gujarat's growth.

Does the evidence suggest that this process is sustainable? No, seems to be the conclusion. Much has been made of the periodic Investors Summits that lead to a large number of MoUs worth huge sums of investment money. But these seem to be

more a part of the propaganda than the investment machine. The share of projects implemented came down from 73 per cent in 2003 to 31 per cent in 2009 and just 13 per cent in 2011. Thus, there does seem to be evidence of investment fatigue behind the growth story.

But that growth story needs explaining. It clearly is not because of Gujarat's record of good industrial relations, since the evidence shows that Gujarat had witnessed the highest number of strikes and other forms of labour unrest in recent times, around issues such as wages, allowances and personnel management. However, this may not have resulted in declining investor interest because of support from the "rule of law" imposed on labour by a government committed to wooing capital.

What should have mattered, of course, was the willingness of the state to incentivise industrial investment. The issue here is not just the absolute volume of incentives. States in India have, especially during the era of liberalisation, been competing with each other to attract investment. Some combination of tax concessions, investment subsidies, low interest credit, cheap or near-zero cost land and resources and a pro-business labour policy was put on offer by competing government to win investor interest. This, unfortunately, is a race to the bottom where losers in the game are deprived of resources without receiving large private sector projects, whereas winners are denuded of resources and the benefits of the projects flow largely to corporate capital rather than to the state's government and people.

Underlying this competition was the fiscal crisis that overcame the states because of the unequal framework for sharing revenues and expenditures between the Centre and the states in India's quasi-federal polity. With state governments unable to invest much, growth depended on private investment. And higher the level of investment and rate of growth the larger the revenues garnered by the state is likely to be. Thus the fiscal framework encouraged the transmission of the private-sector friendly strategy from the Centre to the states. In the beggar-thy-neighbour incentivisation game that followed, Gujarat with its early advantage has turned out a winner.

Besides engaging in this competition over incentives to attract private capital, the principal role of the state government in Gujarat in facilitating industrial investment and agricultural commercialisation appears to be the provision of infrastructural support for private capital (Santosh Kumar Das and Pankaj Vashisht and Gaurav Arya). With some of the best ports in the country, a road network that has expanded considerably and enhanced power generation and distribution capacities of quality, Gujarat is among the infrastructurally more developed states in the country. But the question is, if there is little money with the state to undertake investment, how has it been able to provide high-cost, capital-intensive infrastructure? Here too the strategy has been to incentivise and attract private investment. The Gujarat government has been particularly successful in collaborating with private capital in joint venture projects, such as public-private partnerships and build-operate-and-transfer schemes, to assure profit to the private sector in return for infrastructural investment. Overall, the inflation of profit seems to be the basis of this growth strategy.

Thus far, in terms of growth, this strategy seems to have worked for Gujarat's government, making the state the industrial and overall growth success that it appears to be. But as Sood notes in his introductory essay, the connect between this type of growth and growth of poverty and inequality is strong, though seldom underlined.

One difficulty with modern manufacturing (as also with modern services) is that the responsiveness of employment growth to output growth is poor (Sangeeta Ghosh). Moreover, given the focus on chemical-, petrochemical- and metal-based products in manufacturing in Gujarat, there are few linkages with an employment generating unorganised sector. The result is near jobless growth in manufacturing, despite signs that the high growth of Gujarat's organised sector has delivered some recent increase in organised employment. Overall employment growth has been focused on casual jobs or self-employment. Stagnant real wages and the lowest shares of wages to value added among states is the result (Ruchika Rani and Kalaiyaran A.).

The difficulty is that since this growth has been bought at the expense of state resources (in the form of tax concession and subsidies) and societal resources (such as land and forests), the ability of the state to protect and compensate those who are marginalised in this process is eroded. With employment not growing and the state unable to spend adequately on welfare, Gujarat appears increasingly a deeply divided society. A third of its populations still lives below the poverty line. Gujarat lagged behind Maharashtra and Tamil Nadu in terms of poverty reduction and decrease in inequality. Benefits in terms of poverty reduction over time are substantially different across regions and social groups in the state. Strikingly, 86 per cent of the state's tribal population lives in the southern regions of the state where monthly per capita expenditure has either increased only marginally or fallen in recent years (Nidhi Mittal).

The nature of the state's development trajectory is highlighted even more sharply in assessments of other forms of social deprivation, especially with respect to education (Sourindra Ghosh) and health (Sandeep Sharma). With a disproportionate share of the state's resources geared to incentivising private investment, it is not surprising that the ratio of development expenditure to gross state domestic product has fallen since the 1990s. As a result, Gujarat's expenditure on education relative to its domestic product was not only below that in all states combined at the turn of the century, but has also fallen at a higher rate since. The state's ranking in terms of literacy levels of children and adults among the 15 major states has fallen, and so has its ranking with respect to school attendance. Gender gaps and social disparities in education are higher than in other states.

The picture with respect to health seems even more dismal. Health expenditure to net state domestic product has fallen in Gujarat between 1995 and 2010. As a result, under the present government's rule, Gujarat ranked ninth in terms of public expenditure on health among 15 major states during the first half of the last decade, and eleventh among 15 during the second half. The results are as expected. Life expectancy compares with the national average in a state that is among the leaders in terms of domestic product and its growth, and infant mortality is higher than the national average and significantly so relative to comparable states in terms of economic growth. What is more, the rate of decline in infant mortality is below the national average.

Thus, at a time when doubts arise about the sustainability of Gujarat's growth trajectory, the evidence is that the benefits of that growth have not been shared adequately, if at all, with much of the state's poor and working population. Gujarat's recent history has not only widened the social and communal divide in the state, but the class and economic divide as well. It is as if the authoritarianism implicit in a kind

of political strategy provides the basis to push further ahead with an inequalising strategy of growth within the framework of parliamentary democracy. Neoliberalism and a divisive political agenda seem to go hand in hand. We must wait to see whether this would make a difference to the outcome in the next elections.

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