



GOVERNMENT OF KERALA

**SPEECH
OF
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**AT THE
54th MEETING OF THE
NATIONAL DEVELOPMENT COUNCIL
TO DISCUSS
THE ELEVENTH PLAN DOCUMENT**

**ON
19th DECEMBER, 2007
AT
VIGYAN BHAVAN, NEW DELHI**

***Honourable Prime Minister, Chief Ministers,
Members of the Union Cabinet, Deputy Chairman
and Members of the Planning Commission,
Assembled Dignitaries, Ladies and Gentlemen,***

It is a matter of gratification that the Draft Eleventh Five Year Plan, though much delayed, is finally ready for presentation to the National Development Council. Notwithstanding the difference that undoubtedly exists between the approach of my Government and that of the Government of India on issues of plan strategy, I am glad that the planning process in the country can finally get underway on the basis of a concrete five year plan document.

At the same time however I shall be failing in my duty if I do not underscore the difference in outlook and approach between my Government and that of the Union Government as enshrined in the plan document. This difference was outlined by me in my comments on the Approach Paper to the Eleventh Five Year Plan presented to the NDC a year ago, and also in a document submitted by the Kerala State Planning Board to the southern regional conclave on the Approach Paper, convened by the Planning Commission at Thiruvananthapuram in July 2006. Looking at the Draft Eleventh Five Year Plan, I find that this difference still persists. The difference

begins with the very title of the Plan document "Towards Inclusive Growth". The suggestion here is that the growth process had hitherto excluded many but is now to be made more inclusive; that it had left several sections of society untouched whom it must now incorporate within its benevolent embrace; that it had by-passed them, and therefore left them in a state of persisting poverty and misery, unlike the rest of society whom it had touched and who had consequently prospered. My point is that *there are no sections untouched by the growth process in a modern society*. The persisting misery of some is the outcome of the same growth process which has brought prosperity to others; that the growth process which our country is witnessing necessarily has differential impacts on different sections of society; *that the misery of those in misery is not because of their pristine state of being untouched by growth, but precisely because they are victims of the very same growth process which has brought prosperity to others. In short, the "included" and the "excluded" are both created by the same growth process.*

An obvious manifestation of this proposition is the fact that the "excluded" are not where they were, say, a decade and a half ago. *Their condition too has changed drastically during this period, as has the*

condition of those who have prospered, but only for the worse. But this change too has been a consequence of the same growth process which has produced the other phenomenon, namely the prosperity of the "included". It is significant that according to the National Sample Survey data the proportion of rural population accessing less than 2400 calories per person per day has *increased* from 74.5 percent in 1993-94 to 87.0 in 2004-05, precisely during the period when the growth rate is supposed to have picked up. Since accessing 2400 calories is the *definition* of the poverty line in rural India, it follows that rural poverty in the country, strictly speaking, is *both* much higher than is officially claimed, *and* rising, instead of falling as claimed in the Plan document.

Other statistics too show a significant change for the worse for the lower segments of the rural population. Again according to the NSS, the percentage of rural households operating *nil* land area was 21.9 in 1993; it has increased to 32.0 by 2002-03. Lest it is thought that this rising landlessness is merely a symptom of occupational diversification, and hence of dynamism in rural India, I should mention that according to every single one of the various concepts of the unemployment rate used

in India, whether “usual status” or “current daily status” or “current weekly status”, there was a significant increase in unemployment of both males and females in rural India between 1993-94 and 2004. *Thus landlessness in terms of operational area was increasing in the very period when unemployment was also increasing, which suggests a process of immiserization that is systemic and not separate from the celebrated process of growth acceleration.* The same trend towards immiserization can also be observed with respect to owned area, where again the extent of landlessness has increased. And it is confirmed too by the decline in the number of bovines, ovines and milch cattle per 100 households between 1991-92 and 2002-03 (since peasants in distress typically first lose their cattle and then their land).

The immiserization I have mentioned is not confined to the marginal farmers, the landless or the agricultural workers. It affects large segments of the peasantry, as is evident for instance from the spate of peasant suicides all over the country. Thus the growth process has affected a very large segment of the rural population adversely even as it has increased the number of billionaires and brought some prosperity to the upper echelons of the urban

middle class. But if this differential impact is endemic to the growth process we have been experiencing, then more of the same can hardly have a favourable impact on the "excluded".

This becomes clear when we look at the specific elements of the Plan strategy which the Planning Commission expects will engender "inclusiveness". A major role is assigned to the proposed increase in the agricultural growth rate from 2 percent under the Tenth Plan to 4 percent under the Eleventh. Towards this end the Draft Plan document suggests a number of measures, from watershed management, to irrigation, to research and development, to contract farming. While watershed management, irrigation and research are undoubtedly of great importance, one measure that is conspicuous by its virtual absence in the document is the offer of remunerative prices to the peasantry. Instead of assured procurement at remunerative prices, the document talks only of "greater predictability in measures designed for price stability". In the absence of such assured remunerative prices, credit flow to small and marginal farmers will not increase, even if the Vaidyanathan Committee recommendations are implemented. It is the collapse of price support that is responsible to a large extent for the phenomenon of

agrarian crisis that has been haunting the country of late, but the Plan document fails to meet the problem head on. As a result, the 4 percent agricultural growth it expects to prevail over the Eleventh Plan period is unlikely to materialize. Even if perchance, it does materialize, then that can only be through the agency of large farmers, in which case the employment generation that the Plan document expects in agriculture is unlikely to occur. What is more, the license proposed to be given for contract farming in a situation where the State does not provide assured prices, will only entail a squeeze on the small and marginal farmers (whose bargaining strength is much lower than of the contracting corporate entities), whether or not they produce enhanced output. In short, the "inclusiveness" visualized in the Plan document for the indigent agricultural population will remain a chimera.

What a combination of debt relief and assured agricultural price can achieve is illustrated by the example of Kerala itself. We cannot of course provide assured agricultural prices for cash crops which are internationally traded. But we have provided an assured price for paddy at Rs.9 per kg. this year which is higher than what the Government of India has announced. This, together with the promise of

debt relief which the newly constituted Debt Relief Commission of Kerala has brought to the peasantry, has put an end to peasant suicides in Kerala. We must not of course be complacent, because the appreciation of the exchange rate of the rupee, on which more later, portends further hardships for the peasantry. But Kerala's case shows the general way forward for alleviating peasant distress, without which all planning becomes meaningless.

Realizing the Draft Plan's objective of "inclusiveness" depends crucially upon the absorption of the labour reserves into gainful employment. The Draft Plan's employment strategy however is suspect. The emphasis on skill upgradation and training is welcome, but it can make only a small contribution to the gigantic task of absorbing the massive labour reserves in the country. For this the two main mechanisms suggested in the Plan document are the increase in agricultural growth, and a shift of the work-force out of agriculture into rapidly growing manufacturing and services sectors. Employment absorption in agriculture, we have seen, is likely to be a chimera. When it comes to the shift of workers out of agriculture into the rapidly growing non-agricultural sectors, the record till now has been poor, as the Plan

document itself demonstrates. Some have argued that things have begun to change in the very recent period, but the recent shift out of agriculture has been into such low-paid jobs that it should more appropriately be considered *a shift in the location of the labour reserves rather than a diminution of the labour reserves through absorption into quality employment*. And even if this shift in the location of labour reserves is counted, for argument's sake, as gainful employment, the unemployment rate has nonetheless increased in the recent period, so much so that one can quite legitimately say that *the current rate of unemployment is the highest ever in post-independence India*. In short, the growth process that the Indian economy has witnessed of late has been accompanied by a distinct worsening of unemployment, disguised unemployment and underemployment. Nothing specific has been visualized in the Draft Plan to break out of this situation, to ensure that the growth process during the eleventh plan will have any different consequences for the employment scenario. The claim that this growth process will have any different impact in terms of "inclusiveness" therefore rings hollow.

While doing nothing palpable to make a dent on unemployment, the Draft Plan suggests a change in labour laws for introducing “labour market flexibility” as a means of reducing unemployment! There is neither any theoretical argument nor any empirical justification for the assertion that labour market flexibility has a favourable impact on employment. Insecurity of employment and denial of trade union rights have the ultimate effect of reducing the wage rate compared to what it otherwise would have been. This not only directly increases inequality in income distribution and hence militates against “inclusiveness”, but also has a *restrictive* effect on employment owing to the reduced purchasing power in the hands of the workers. Indeed several ILO studies conducted in the context of the European Community have shown that measures of “labour market flexibility” have not had any favourable impact on employment. And yet the Draft Plan not only proposes such “flexibility”, which is a euphemism for an assault on the rights of the workers, but puts forward the argument that the absence of such “flexibility” constitutes a “psychological” block for entrepreneurs. To restrict workers' rights for provide “psychological” satisfaction to the capitalists can scarcely qualify as

an "inclusive" growth strategy. It is noteworthy that while asking for an amendment of labour laws to the satisfaction of the capitalists, the Draft Plan is silent on the question of social security for unorganized workers which had been suggested by a government commission itself.

The Draft Plan document has the complete hallmark of "supply side economics" and that too within the context of a neo-liberal regime. This mix has always spawned inequalities, and constitutes the root-cause for "exclusion". To suggest this very strategy as the means to achieve "inclusiveness" can scarcely carry conviction.

The Draft Plan expresses apprehensions about oil prices, but an even more serious and immediate threat to the people comes from the appreciating exchange rate. The appreciation which has been quite substantial over the last few months has brought loss of markets and closures to a host of small units, with seriously adverse consequences for employment, and a squeeze on the incomes of the cash crop growing peasantry. In Kerala which has a strong export crop base, this has brought great hardships to the growers: if coconut growers have been hit by the Centre's edible oil import policy, the growers of other crops like cashew have suffered on account of the

rupee appreciation. Public sector industrial units in the state which have been making profits for decades are suddenly faced with losses and are asking for budgetary subsidies for survival. We have here a classic example of speculation throttling enterprise, indeed of ordinary people being victimized by the caprices of a bunch of international financial speculators. This is what the Union government's adherence to neo-liberalism and hence to the policy of making India a part of the vortex of speculative global financial flows has entailed for the common people of the country.

Our federal arrangement which leaves exchange rate policy and trade policy entirely in the hands of the Union government, even though the ramifications of these policies are felt in sectors like agriculture which constitute state subjects, needs to be improved. Some years ago a proposal had been mooted at the NDC itself to form a Central Monetary Council with representation both from the state and the Union governments, which will have a supervisory role on monetary, exchange rate and trade policies. The time has come to revive this proposal to overcome the anomaly of state governments being at the receiving end of unilateral measures with little rationale which are decreed by

the Centre but impinge heavily on the states, including on state exchequers.

A second example of such unilateral measures decreed by the Centre but with adverse consequences for states that comes to mind relates to small savings. The Central government has announced measures that make small savings less attractive than before. Kerala which used to have small savings collections in excess of Rs.2500 crores per annum suddenly finds its small savings collections dropping to an estimated Rs.180 crores this year. Since the Union government only partially makes good the shortfall, the state has suddenly found itself desperately short of plan resources. To overcome such problems a degree of flexibility must be introduced with regard to the sources of borrowing, within an overall borrowing limit of the state fixed according to some well-defined principles. Otherwise states will forever remain mendicants in front of the door of the Union government and not be able to fulfill the role assigned to them in the process of planned development of the country.

I welcome the Plan document's recognition of the problems arising from the FRBM Act. Theoretically it is the revenue deficit which is supposed to capture "excess consumption" on the

part of the State that arguably needs to be curtailed, and not the fiscal deficit whose size is affected by public investment. In practice, as the Plan document recognizes, since a number of welfare expenditures which have important productive effects figure in the revenue account, putting curbs on the revenue deficit can be counter-productive. Neither deficit therefore constitutes an obvious target for control. In any case, to have a statutory ceiling on any deficit whatsoever that is binding in all seasons, come hell or high weather, is patently unreasonable. It is time therefore that the whole question of FRBM Acts both at the centre and the states is looked at afresh in the light of *reason* rather than the purely ideologically-inspired principles of "*sound finance*".

As is clear my government has serious difference with the entire approach and outlook of the Draft Plan. Supply-side economics within a neo-liberal regime in our view will never overcome disparities but will only accentuate them. A policy of control over financial flows; of enlarging the domestic market through a boost to *peasant agriculture* by making it remunerative; of instituting a relatively egalitarian pattern of landownership through appropriate land reforms; and of enhancing the purchasing power in the hands of the poor by taxing

the rich who are in the process of becoming super-rich; is in our view the preconditions for curbing the rampant growth in inequalities and the pervasive immiserization that currently characterizes the Indian society. Nonetheless, I welcome the fact that the Eleventh Plan document is ready and we can resume the process of planning on the basis of some concrete signposts.

Thank you for your attention.

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