

The Real Story on Gujarat's Development*

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For at least the past year in India, much has been made of the "[Gujarat model](#) of development", and the media have widely projected the idea that the state of Gujarat and its citizens have flourished because of effective and decisive governance, particularly in the realm of economic policies. This public perception probably played an important role in the BJP's general election victory.

But how valid is this perception? Are people in Gujarat really materially so much better off than their counterparts in other comparable states? What are the elements of Gujarat's economic success, and what are the economic policies that have been employed in the state? These questions become even more pressing now that Mr Narendra Modi is India's Prime Minister, and can be expected to put in place similar policies at the national level.

Unfortunately much of the recent literature on the state, even by reputed economic analysts, has been uncritical and verging on the hagiographic, and so has not provided a sober assessment of actual trends. Thus, GDP growth tends to be lauded without looking at its composition or its impact on mass consumption. Poverty reduction in Gujarat is highlighted as a big success when the evidence suggests that it has been slower than most other states despite higher growth, and generally confined to rural areas, with almost stagnant levels of urban poverty. The genuine progress in electrification and some other infrastructure is certainly to be welcomed, but typically it is lauded without noting that this has worked largely for the benefit of the corporate sector, with little improvement in infrastructure for the masses. Gujarat, like many other states, has proliferations of supposedly innovative "schemes" and "programmes" – but most positive accounts simply list these in glowing terms without assessing how they can work with very limited funds and very small numbers of staff.

In this less than balanced context, a new book that seeks to consider economic processes in Gujarat objectively is greatly to be welcomed. [Growth or Development: Which way is Gujarat going?](#) (Oxford University Press 2014), edited by Indira Hirway, Amita Shah and Ghanshyam Shah, provides a sober, balanced and solidly researched account of Gujarat's development over the past decade. The various articles in the book cover the most of the important aspects of economic growth and social development, and enable us to develop a more concrete understanding of both economic processes and the state government policies that have been associated with them.

The authors are careful to note that Gujarat's development has occurred very much within the overall neoliberal economic framework that was the approach of the central government as well. However, over the two decades that this has been in operation, there have been significant changes over time. In the first decade, the mining related industrialisation and focus on infrastructure was also associated with poor agricultural performance, inadequate employment generation and growing informalisation of the labour force and policy neglect of the social sectors. However, since then, there has been a structural break in agriculture which has experienced relatively rapid growth rates; there have been some huge investments in industry and infrastructure; various

developmental schemes have been launched in the state including those based on national rights-based legislation like the rural employment guarantee act and the right to education act.

Sebastian Morris notes that the recent good growth performance of Gujarat has been strongly related to electricity generation and the demand-side effects of higher agricultural growth (which in turn can be linked with good rainfall over this period as well as the effects of the Narmada project), but the easy availability of land and subsidised infrastructural facilities have also been major factors in determining investment. Indeed, Sunil Parekh shows that in the last decade the state has seen an exceptionally large inflow of private industrial investment, attracted by power supply to industry, good quality roads, small and large all-weather ports and shore jetties and the expansion of industrial parks special economic zones (SEZs). However, large investments have been focused on resource extraction, so Gujarat produces important raw materials, many of which are exported outside for further processing into value-added finished products. Because of this, the state economy does not enjoy the full benefits of industrial growth, even while suffering environmental degradation. Indeed, Viswanathan and Pathak point out that the sustainability of growth in Gujarat is questionable, since natural resource planning is not integrated with the growth process or with the major decisions about projects.

This pattern also brings up the contentious issues of subsidies provided to large businesses in Gujarat, an issue that is covered in detail in a chapter by Indira Hirway, Neha Shah and Rajeev Sharma. They use official documents of the past decades to show that the earlier policy objectives of promoting small-scale industries and balanced growth have been jettisoned in favour of promoting increasingly larger industrial units and mega-projects, without adequate attention to the employment generation effects of such projects. The strategies of incentives and subsidies have promoted crony capitalism, with a few favoured industrialists becoming major national players through state patronage. They argue that the multiple favours given to large industry have distorted factor markets and promoted the misallocation of resources by private investors, and reduced the public funds available for expenditure that would benefit other segments, particularly small and medium enterprises that also do not get sufficient institutional credit. It has also sharply reduced the public money available for social spending, such that Gujarat has much lower per capita public spending on social sectors even when compared to other states with lower per capita incomes and slower growth.

It is also worth noting that in the process of implementing this strategy of subsidising large private investment, the state government of Gujarat has built up a large burden of debt, which is unsustainable and will be paid for eventually by its citizens. In effect this is a model of crony capitalism that promotes and incentivises big business through all sorts of explicit and implicit subsidies, keeping wages low and suppressing collective action by workers in the name of the primacy of economic growth.

The growth of agriculture since 2000 has been mainly led by shifts in cropping patterns, improved productivity and price effects – as Amita Shah and Itishree Patnaik show. These are all positive developments, but the authors note that these benefits have not really reached the poorer regions, since the benefits of growth have been confined to those who are able to access irrigation through canals and groundwater

extraction. Primary surveys suggest that marginal cultivators and farm labourers have also not benefited from this growth through higher incomes, though it has certainly benefited the state economy as a whole.

The lack of improvement in workers' conditions is a recurring leitmotif in the various contributions to this volume. Jeemol Unni and Ravikiran Naik show that during the period of rapid GDP growth, employment has remained almost stagnant in the state, while the quality of employment has deteriorated through informalisation of labour. Wage rates have increased only marginally, much less than the increase in labour productivity. Even when compared to neighbouring Maharashtra (a state hardly known for its development model) the case of Gujarat is peculiar because the status of labour in the state has deteriorated in spite of rapid income growth. As it happens, [NSSO data indicate](#) that while Gujarat's per capita income is around 20 per cent higher than the per capita income for the country as a whole, rural wages are about 20 per cent lower and urban wages are 15 per cent lower! Clearly, the bargaining position of workers in Gujarat, in both towns and villages, is very weak not just absolutely, but when compared to the rest of India.

This inherently unequal pattern of growth is reflected also in the nature of urbanisation, which remains weak and unbalanced. Darshini Mahadevia notes that large industrial investments and incomes have not translated into concomitant urbanization, because the industrialisation has been capital-intensive and has not generated much formal employment. Even so, urban beautification projects frequently demolish slums and displace the poor. Perversely, the Basic Service for the Poor (BSUP) schemes for the rehabilitation of the project affected people are located outside the city, pushing the poor out to the periphery and away from their workplaces. Urban Gujarat, like much of urban India, now presents a paradoxical combination of picture of high growth and low human welfare, particularly among the dominant population of informal workers.

With all this information, it is not surprising to learn that it will be difficult for the state to attain the Millennium Development Goals related to decline in infant mortality and maternal mortality. Leela Visaria finds very slow progress in the immunisation of children, while undernutrition and malnutrition, particularly among women and children, is a major health problem in Gujarat, with little improvements during the last decade. In nutrition indicators, Gujarat ranked 13 among 17 major Indian states, the lowest among all high-income states, and below even Orissa and UP. Nearly 45 per cent of children below five are undernourished. (Earlier this year Mr. Modi told an American newspaper recently that malnutrition in Gujarat had more to do with young girls dieting to look slim and pretty.)

Sudarshan Iyengar considers the state of education in Gujarat. In terms of primary school infrastructure, the state is better than the national average in terms of condition of school buildings and electricity connections, but lags behind on other parameters like drinking water, toilets, and library facilities. Despite its high economic status, the student–teacher ratio in the state is too high, and this is reflected in low performance of students in reading, writing, and mathematics. The dropout rate among girl students is higher than the all-India average. Privatisation of education has increased apace, but this has not improved the quality of education.

Overall, the scholarly contributions in this book suggest that the much-vaunted “growth” in Gujarat is not just overstated, it may actually be misleading about the actual condition of the people. So now the hope must be that, regardless of the model that he chose for Gujarat, Mr. Modi does not seek to apply the same policies for India as a whole.

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