

“Fifty Years of Constitution:
Economic Reforms and Social Outcomes”

Extracts from the

19th T.A. PAI MEMORIAL LECTURE

delivered by

Honourable Justice M. N. Venkatachaliah

(former Chief Justice of India)

on the occasion of the

Founder's Day Celebrations

on Thursday; the 17th of January 2002 at Manipal



T. A. PAI MANAGEMENT INSTITUTE

Manipal – 576 119, Karnataka



T. A. PAI – A Life Sketch (17-1-1922 to 29-5-1981)

Born on January 17, 1922, T. A. Pai graduated in Commerce from Sydenham College of Commerce and Economics, Bombay. He joined the Syndicate Bank as Deputy Manager at the early age of 21 in 1943. In January 1962, T. A. Pai became the Managing Director of the Bank and retained the position till 1964. Under his stewardship the Syndicate Bank achieved one of the fastest rates of growth for any Bank in India and earned a name for pioneering schemes, innovation in mobilising small savings, financing, agriculture and helping the small man.

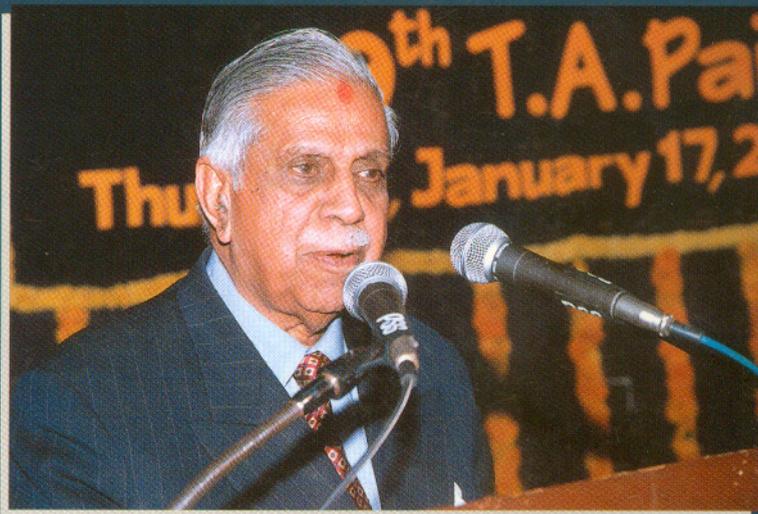
In 1965, T. A. Pai was appointed as the Chairman of Food Corporation of India, which he served in an honorary capacity with dedication and distinction. He, however, rejoined the Syndicate Bank as its Managing Director in 1966 and rose to become Chairman in December, 1967.

On March 2, 1970, T. A. Pai was appointed Chairman of the Life Insurance Corporation of India. Under his guidance the LIC made remarkable headway.

In appreciation of his services he was awarded Padma Bhushan in 1972. In 1973 he was awarded the degree of D. Litt. by the Karnataka University. He was also awarded D. Litt. by the Andhra University in 1975. In March, 1972, he was elected to Rajya Sabha from Mysore State. He was appointed Minister of Railways in July 1972 and was entrusted with the responsibility of the newly formed Ministry of Heavy Industry on February 5, 1973. The additional charge of Ministry of Steel and Mines was given to him on July 23, 1973.

T. A. Pai took over the Ministry of Industry and Civil Supplies in October, 1974 and was entrusted with the overall responsibility for industrial development in India. He played a key role in revising the Industrial Licensing Policy and reorienting it to promote full utilisation of installed capacity and encouraging fresh investments in socially desirable sectors of industry.

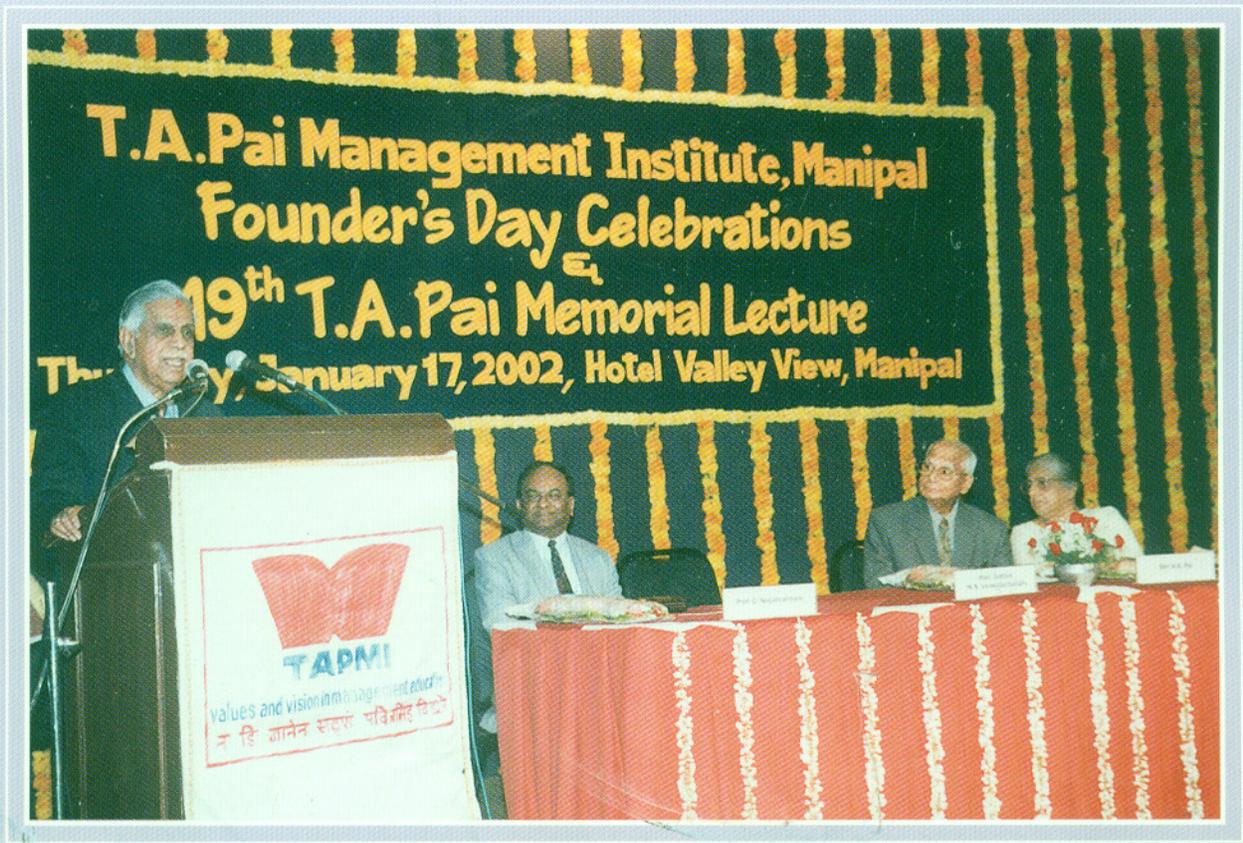
T. A. Pai founded Manipal Institute of Management in 1980, to set new standards in Management Education, Research and Consultancy relevant to Indian conditions. Renamed as T. A. Pai Management Institute (TAPMI) to perpetuate his memory, the Institute has come to be ranked among the top 15 B-Schools in India.



The Speaker....

Honourable Justice M.N. Venkatachaliah was born in 1929 and educated in Bangalore at Fort High School, Central College and Government Law College. He enrolled as an Advocate in the High Court of Mysore at Bangalore in 1952. He was appointed Judge of the Karnataka High Court in 1975 and elevated to the Supreme Court in 1987. He took over as the XXV Chief Justice of India in 1993 and retired in 1994. He was party to about 465 judgements of the Supreme Court, many of which were considered landmark judgements.

After his retirement, Justice Venkatachaliah was appointed the Chairperson of the National Human Rights Commission. He is currently the Chairperson of the Commission for the Review of the Constitution of India.



Honourable Justice M. N. Venkatachaliah delivering the 19th T. A. Pai Memorial Lecture. Also seen in the picture are (L to R) Prof. D. Nagabrahmam, Director, TAPMI, Shri K.K.Pai and Smt. Vasanthi Pai.

Shri K. K. Pai, Smt. Vasanthi Pai, Prof. Nagabrahmam, Prof. Balasubramanian, Justice Gururaj, Shri Ramesh Pai, Distinguished Guests, Faculty, Students, Ladies and Gentlemen!

I wish to thank you for this privilege of delivering the 19th T. A. Pai Memorial Lecture today. This series of lectures is dedicated to the memory of an extraordinary person, the late Shri T. A. Pai.

Shri Pai was a dynamic leader and an able administrator. As Chairman of the Food Corporation of India or of the Life Insurance Corporation of India or as a Member of the Union Cabinet, he left his inimitable imprint. He was a dreamer as well as a tireless worker. Shri Pai greatly cherished the values of honour, dignity and friendship. His biographer, Shri M. V. Kamath, paid a tribute to the extraordinary life of Shri T. A. Pai thus:

"Shri T. A. Pai made his way up to the national level by sheer strength of his dynamic personality.... he knew literally thousands of people and remembered their faces if not their names and very often the names of their wives and children as well.... he was guileless, a quality that was singularly touching.... his friendship was supportive, never demanding... he gave more than he took.... In fact, he was not the asking kind.... he accepted friendship and affection with genuine warmth."

On this occasion, a fitting tribute to his memory would, perhaps, be an introspection as to how we have promoted human well being since our Independence.

Social and Economic Philosophy of our Constitution

"A nation may make a Constitution, but a Constitution cannot make a nation". No Constitution, written or unwritten, is 'worth more than what the political temper of the community allows it to be worth'. A Constitution, however lofty its exhortations and sentiments, is not a self-executing document. It requires human agency to implement it. The political traditions of the people and the spirit of constitutionalism are what make a Constitution work. Its essence is in its practice.

The scheme for the realisation of the socio-economic agenda comprises both the justiciable Fundamental Rights as well as the non-justiciable Directive Principles. The judicial contribution to the synthesis and the integration of the Fundamental Rights and the Directive Principles in the judicial process of "constitutionising" social and economic rights has been crucial to the realisation

of the Directive Principles not only as a means to effectuate Fundamental Rights but also as sources of law for a welfare state.

The political structure and system under the Indian Constitution envisages a federal democratic form of government based on the values of Rule of Law, Republicanism and Social Justice. It provides a framework for the attainments of its social and economic goals. It envisages a State-centric welfare Government. Fundamental Rights and the Directive Principles are the conscience of the Constitution. The Constitution promises a peaceful social revolution.

As per available statistics, the relative contribution of various countries to the world manufacturing output in the year 1750 indicates India's at 24.5%, that of the United Kingdom at 1.9% and that of the United States of America at 0.1%. However, by the year 1900, India's share had come down to 1.7%; that of the United Kingdom had risen to 18.5% and of the United States of America increased to 23.6%. Since then, India's share has gone down even further.

At the time of the English takeover, India was comparable to England in industrial development. The conqueror industrialized while Indian industry was destroyed by British regulations and interference. Had they not been undertaken, Horace Wilson wrote in his *History of British India*, "the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the power of steam". They were created by the sacrifice of Indian manufacturers.

According to Noam Chomsky, in his book *"World Orders, Old and New"*, manufacturing industries, which had been comparable to the British at the time of the conquest, not only failed to develop but also were largely eliminated as "India sunk" into poverty and misery. India finally gained Independence: destitute, overwhelmingly agrarian, with a population that was abysmally poor, suffering from mortality rates that were amongst highest in the world.

The framers of our Constitution sought to unite the vast country with its great diversity, many languages and creeds with a common-bond of Constitutional justice on the great ideals of liberty, equality, fraternity and justice. Framers showed an uncompromising respect for human dignity, an unquestioning commitment to equality and non-discrimination, and an abiding concern for the poor and the weak. They made a bold attempt to base the constitutional foundations on the firm faith that all classes of people, followers of all faiths, and particularly the traditionally under-privileged should all join to work for their

united constitutional salvation on the shared faith that peoples of the several faiths must sink or swim together, and that in the long run prosperity and salvation are in union and not in division. Union of India was intended to be an indestructible union. The units had no power of secession. The cherished and lofty values of the Constitution are enshrined in the great words of its Preamble. Constitution promised Justice, social, economic and political; Liberty of thought, expression, belief, freedom of faith and worship; Equality of status and opportunity and to promote fraternity, assuring the dignity of the individual and the unity and integrity of the Nation.

On an overall assessment, the political, social and economic gifts of democracy have endowed us with significant rewards, particularly in the matter of enjoyment of personal liberty and individual freedom. The Press has been free and fiercely independent. To express it in the words of Finer, "We are so accustomed to the exercise of our civil rights that we have ceased to realize that they are as vital to our moral life as breathing is to our physical, and we take this miracle for granted!"

The brighter side of the half a century of the Constitution at work is that basic spirit and creed of democracy has taken deep roots in the country, feudal character of society and polity notwithstanding. But, the democratic processes are somewhat tainted by the impurity of the electoral processes and pervasive corruption. They detract from and threaten the very survival of democracy. The country is passing through a difficult phase.

The 73rd and the 74th Constitutional Amendments have provided a historic opportunity. The broader base of democratic debate, free compulsory education and an independent press will strengthen democratic institutions and processes.

India's Economic Performance: From Welfare State to Market Economy¹

Over the years, under the sweep of the global winds of change transforming a welfare economy into a market economy, the State has itself undergone a change in its character and in its mechanisms for the realization of its social and economic goals. The Overview of the World Development Report 2000 mentions, "The development landscape is being transformed, presenting policymakers with new challenges at the global and local levels". The Report recalls four critical lessons that 50 years of development-experience have

¹ Statistical information from the Consultation Papers released by National Commission for the Review of Constitution.

yielded. "First, macro-economic stability is an essential prerequisite for achieving the growth needed for development. Second, growth does not trickle down; development must address human needs directly. Third, no one policy will trigger development, a comprehensive approach is needed. Fourth, institutions matter; sustained development should be rooted in processes that are socially inclusive and responsive to changing circumstances". The lesson is that public goods, education, health, etc. are not the rewards of development but are essential for development itself.

India has recorded significant achievements along many dimensions of human development since Independence. Important changes are visible in the social sphere too where affirmative action, political organization and collective mobilization are gradually transforming the status and position of many socially backward communities, particularly among those classified as belonging to Scheduled Castes and Scheduled Tribes. The 73rd and 74th amendments to the Indian Constitution ensuring reservation of one-third of seats for women in elections to village-level *Panchayats* and *Nagar Palikas* have provided a further impetus to democracy, decentralization and local governance. Several positive changes are beginning to be felt at the grassroots level with women enjoying far greater freedom than before, with the induction of more and more women into public decision making, and with several thousands of self-help groups, voluntary organisations and civil society initiatives engaged in critical development action. Indeed the process of social change is so impressive in Kerala that it is said that a child born in Kerala today can expect to live longer than one born in Washington.

Most noticeable economic performance in India, however, is the expansion and diversification of production. New technologies, modern management, and the advances in science, medicine, engineering and information technology have increased domestic production of a wide range of goods and services. Particularly significant has been the increase in agricultural production. Between 1950-2000, the index of agricultural production increased more than four fold. Between 1960-2000, wheat production went up from 11 million tonnes to 75.6 million tonnes, and the production of rice increased from 35 million tonnes to 89.5 million tonnes. This is no mean achievement for a country that relied on food aid until the early 1960s. Similarly, there has been a rapid expansion in both industrial and service sectors. The index of industrial production went up from 7.9 in 1950-51 to 154.7 in 1999-2000. Electricity generation went up from 5.1 billion KWH to 480.7 billion KWH during the same period.

The economic growth has contributed to a steady and impressive growth in India's GNP. With the exception of four years, India has enjoyed a positive growth rate in its GNP every year since 1950. Particularly striking are the higher rates of growth after the mid-1980s, and even more so after the initiation of economic reforms in 1991. Prudent fiscal and economic management enabled India to avert the fiscal crisis that many East Asian experienced in the mid 90s. India's GDP grew annually by 6-8% per annum between 1994-2000 except in the year 1997-98 when it grew by 4.8%.

But, mere ruthless, futureless, jobless, and voiceless growth does not promote real progress. Movement from a welfare economy to a market economy would adversely impact the equality of distribution. It can produce unacceptable levels of economic inequality. Statistical data shows that in the USA the poorest 20% of the population had 1.5% share of income and consumption while the richest 20% had 45.2% (1994). In China, the poorest 20% had 5.5% share and the richest 20% had 47.5% (1995). This reflects, in a non-trivial sense, the anomalies and inequities of the international economic order. Over the 30 years from 1960 to 1990, the affluent 20% of the world enhanced their share of income and consumption from 70.10% to 86% while the poorest 20% have had their share reduced to 1%.

By late 1990s, the fifth of the world's people living in the highest-income countries had:

- * 86% of world GDP -the bottom fifth just 1 %
- * 82% of world export markets -the bottom fifth just 1 %
- * 68% of foreign direct investment -the bottom fifth just 1 %
- * 74% of world telephone lines, today's basic means of communication -the bottom fifth just 1.5%.

As a result of these inequalities, there has not been a perceptible and significant improvement in the quality of people's lives. For instance, there has been a marked slowing down in the rate of reduction in infant mortality in recent years. Again, despite the better growth record in recent years, progress in bridging gender gaps has been slow. Between 1991 and 1997, literacy gaps between women and men has hardly been bridged. India's low level of human development reflects the persistence of extensive human deprivations. Despite the growth record, India's backlog of human poverty is indeed enormous.

Poverty is defined as the inability of an individual to secure a normative minimum level of living. The normative minimum has been defined by an official working group as consumer expenditure of Rs. 20/- per capita per month at 1960-61 All India Prices. This minimum, however, excluded expenditure on health and education, which are to be provided by the State as per our Constitution. This minimum amount is considered enough to get food for minimum energy requirements for an active and healthy life and also minimum, clothing and shelter.

The Planning Commission Task Force on 'Projection of Minimum Needs and Effective consumption Demand' defined the poor as *'those whose per capita consumption expenditure lies below the midpoint of the monthly per capita expenditure class having a daily calorie intake of 2,400 in rural areas and 2,100 in urban areas'*. The poverty lines corresponding to these norms were worked out with reference to the NSS data for the year 1973-74. The poverty line turned out to be Rs. 49.09 per capita per month at 1973-74 prices for rural India.

The estimated magnitude of poverty remains fairly high until 1970s; the proportion of people below the poverty line has declined since years 1980. The 55th round of the household consumer expenditure survey (July 99-June 2000) indicate significant decline in poverty to 26% (This estimate may not be strictly comparable to the earlier estimation because of some changes in the methodology of data collection).

It has long been believed that economic growth is the specific remedy for the ills of poverty. Some economists argue that for a country like India, 7 to 8 per cent rate of growth per year over a period of 15 years can help in solving the problem of poverty. This is the famous "*trickle down theory of development*". Our own experience in this country as well as many others in the world show that this is not necessarily correct. Indian agriculture has not been able to sustain the population dependant on agriculture. The component of agriculture in the G.D.P. is about only a quarter despite nearly 75% of the population dependant on it. There is the prospect of increasing rural de-population with increasing urbanization with all its attendant problems. The large grain producing countries of the world like USA and Canada have around 3% of their working force on agriculture; India has 73%. This large segment of population contributes only 25% of the GDP.

Knowledge - driven Global Economy: Role of Science and Technology

As Jeffrey Sachs, in his article "*New Map of the World*" has said, "Today's world is divided not by ideology, but by technology. This demands bold new thinking and development".

"With the end of the cold war, old ideological divisions are over. Virtually all nations proclaim allegiance to global markets. But a more intractable division is taking hold, this time based on technology. A small part of the globe, accounting for some 15% of the earth's population, provides nearly all of the world's technology innovations. A second part, involving perhaps half of the world's population, is able to adopt these technologies in production and consumption. The remaining part, covering around a third of the world's population, is technologically disconnected, neither innovating at home nor adopting foreign technologies".

"Many of the technologically excluded regions, especially in the Tropics, are caught in a poverty trap. Among their greatest problems are tropical infectious disease, low agricultural productivity and environmental degradation- all requiring technological solutions beyond their means. Some times the needed technologies are available abroad, but the countries are too poor to buy or license them on the necessary scale. Often, the technologies do not exist in appropriate forms, and poor-country markets offer scant incentives for research and development".

"But such transitions are far from automatic. If more of the 2 billion people who live in the technologically excluded countries are to join in the benefits of globalisation, three things need to happen. First, the new technologically driven character of the global economy must be properly thought through: geography, public health, and ecology must be brought into the analysis of technological change and economic growth. Second, governments need to change their approach to aid, spending more, and more wisely. Third, participation in international assistance needs to be broadened and recast. Multinational firms and first-world universities and scientific establishments need to be engaged, and the official agencies charged with global development (the IMF, the World Bank and the various UN agencies) must be reformed".

In India there are 390 million children below the age of 14 who need education, health-care, and nutrition. 670 million of Indians do not have basic sanitary

facilities. Nearly two million do not have access to potable water. Maternal anaemia and low birth-weight related problems are serious limitations on social development.

One - way Globalisation

Efficiency in governance and strong stable governments are particularly critical during the transition into a market economy. Nicholas Stern of the World Bank says, "the terrorist attacks on the United States of America on September 11 were one aspect of globalisation. Rapid growth and poverty reduction in China, India and other countries that were poor 20 years ago is another. The development of the Internet and easier communication and transportation around the world is a third. The spread of AIDS is part of globalisation, as is the accelerated development of life-extending technologies".

Globalisation has also meant migration and opening-up of opportunities in other countries. Poor countries have been able to harness the potential of their abundant labour to break into global markets for manufactured goods and for services. India received 12 billion dollars in remittances from its workers overseas. This is six times what it gets in foreign aid.

However, the third world sentiments against globalisation are building up because of their disadvantages in a global market. Out of the 3,37,000 patents granted in 1998, 91% went to the OECD countries with a global population of just 19%. Out of 70 billion dollars spent on Health Research in 1998, less than 0.5 % went towards the problems of the Tropics. Out of 1,223 new drugs introduced during 1975-1996, only 13 were relevant to the problems of the under- developed countries.

According to a 1999 Human Development Report, the GDP in the Russian Federation fell by 41 per cent from 1991 to 1997. The life expectancy of the Russian male dropped four full years to 58. The report blames the transition to capitalism and affects of globalisation. But the real problem is that the vast majority in the third world see market economy as all-elite private club and not as a means of achievement of common goal.

In a remarkable writing on this topic the noted economist, Hernando De Soto, in his book, "*Mystery of Capital*" identifies, "the major stumbling block that keeps the rest of the world from benefiting from capitalism is its inability to convert their assets into live capital". The inhabitants of these countries, the

author says, "possess talent, enthusiasm and an astonishing ability to wring a profit out of practically nothing". Why does, he asks, capitalism thrive only in the West as if enclosed in a 'bell jar' ?

The poor in these countries, he says, hold their assets in defective forms, whose ownership is not adequately recorded. Because the rights of these possessions "are not adequately documented, these assets cannot readily be turned into capital; cannot be traded outside of narrow local circles where people know and trust each other; cannot be used as collateral for a loan and cannot be used as a share against an investment". In the West, by contrast, every parcel of land, every building, every piece of equipment or store of inventories is represented in a properly document that is the visible sign of a vast hidden process that connects all these assets to the rest of the economy. As a result of integration, citizens in advanced nations can obtain descriptions of the economic and social qualities of any available asset without having to see the asset itself.

Poverty in the Third World: Myth and Reality

The value of savings among the poor in the third world is said to be: forty time all the foreign aid received throughout the world since 1945, and that if the United States were to hike its foreign-aid budget to the level recommended by the United Nations - 0.7% of national income — "it would take the richest country on earth more than 150 years to transfer to the world's poor resources equal to those that they already possess". The savings of the poor in the third world and former Communist countries, the author says, is 9.3 trillion dollars.

This is a number, De Soto says, is worth pondering: "\$9.3 trillion is about twice as much as the total circulating us money supply. It is very nearly as much as the total value of all the companies listed on the main stock exchanges of the world's twenty most developed countries: New York, Tokyo, London, Frankfurt, Toronto, Paris, Milan, the NASDAQ and a dozen others. It is more than twenty times the total direct foreign investment into all Third World and former communist countries in the ten years after 1989, forty-six times as much as all the World Bank loans of the past three decades, and ninety-three times as much as all development assistance from all advanced countries to the Third World in the same period". He adds a poignant touch:

"The words 'international poverty' too easily bring to mind images of destitute beggars sleeping of the kerbsides of Calcutta and hungry African children starving on the sand. These scenes are, of course, real, and millions of our

fellow human beings demand and deserve our help. Nevertheless, the grimmest picture of the Third World is not the most accurate. Worse, it draws attention away from the arduous achievements of those small entrepreneurs who have triumphed over every imaginable obstacle to create the greater part of the wealth of their society. A truer image would depict a man and woman who have painstakingly saved to construct a house for themselves and their children, and who are creating enterprises where nobody imagined they could be built. I resent the characterization of such heroic entrepreneurs as contributors to the problem of global poverty. They are not the problem. They are the solution."

He tells the story of an Indian merchant who had been promised by a prophet that he would surely become rich beyond all imagining if only he would seek his treasure. The merchant travelled the world only to return home old, sad and defeated. As he re- entered his abandoned house, he needed a drink of water. But the well of his property had silted up. Wearily, he took out his spade and dug a new one - and instantly struck the Golconda, the world's greatest diamond mine. According to him the Leaders of the Third World and former communist nations need not wander the world's foreign ministries and international financial institutions seeking their fortune. In the midst of their own poorest neighbourhoods and shanty towns there are - if not acres of diamonds - trillions of dollars, all ready to be put to use if only we can unravel the mystery of how assets are transformed into live capital.

Political Challenges

The urgent issues are the issues of governance, of empowerment of civil society, of human security, of environment, of probity in government. Every delay and dishonesty in requiting the legitimate expectations of the citizenry pushes society more and more into the extra-legal system. People get trapped helplessly in dysfunctional governments. In the third world, extra-legal activities "burgeon when the legal system imposes rules that thwart the expectations of those it excludes".

The architecture of an inclusive society is equally important. Democracy is not a mere crude numerical concept. It needs an inclusive society. The great caring and just Indian society of the dream of the Mahatma has not taken-off. The civil society in India is a fractured, fragmented agglomeration of embittered groups in perpetual conflict with each other. Such an un-empowered civil society cannot achieve much. It cannot even expect its entitlements from the political society. The politicians have a free run.

Environment and Human Security

Economic development, spurred by globalisation, creates new environment problems. There is broad agreement among scientists that human activity has led to global warming and that much greater climate change is in store unless collective, corrective actions are taken. The United States, with only four per cent of the world's population, emits nearly 25 per cent of greenhouse gases. Global warming melts the Polar ice caps, alter oceanic levels and inundate coastal stretches apart from causing other serious consequences to human survival.

It is equally important to provide for the legitimate concerns of ordinary people in their daily lives. "For many of them, security symbolized protection from the threat of disease, hunger, political repression and environmental hazards. For most people, a feeling of insecurity arises more from worries about daily life than from the dread of a cataclysmic world event. Will they and their families have enough to eat? Will they lose their jobs? Will their streets and neighbourhoods be safe from crime? Will they be tortured by a repressive state? Will they become a victim of violence because of their gender? Will their religion or ethnic origin target them for persecution?"

These are the concerns. Only an inclusive conflict free, just and caring society can mean happiness for all. This ancient hospitable land which opened its doors to the world and which was known for its magnificent contribution to Art, Astronomy, literature, aesthetics, fine-arts, and to the irresolvable issues of man's spiritual quest towards which the whole world turned for inspiration is bogged down deep in social evils. What it needs is a robust spell of social reconstruction. Things need to change.

Fifty years ago, Albert Einstein summed up the discovery of atomic energy with characteristic simplicity. He said, "everything changed". He went on to predict, "we shall require a substantially new manner of thinking if mankind is to survive".

Thank you, Ladies and Gentlemen.

TAPMI TODAY ...

T. A. Pai Management Institute, Manipal (TAPMI) has earned, over the years, recognition and awards including.

- * Ranked among the top 15 B-Schools in India consistently for the past three years by leading business publications, Business India and Business Today.
- * Accredited with "A" rating by the National Board of Accreditation of the AICTE, Government of India.
- * Accredited with 5 Star rating by the National Assessment and Accreditation Council of the UGC.
- * Recognised as one of the Five National Nodal Centres for Faculty Development by AICTE.
- * Recognition of the Post Graduate Programme in Management as equivalent to MBA by the Association of Indian Universities.
- * Recipient of the "Best Management Institute of the Year Award" from the India HRD Congress.

The Faculty members who have won individual recognition Include:

- * Prof. Rajagopalan – "Best Teacher Award", "Best Innovation in Management Education Award".
- * Prof. Natarajan – "Best Case Writing and Presentation Award".
- * Prof. Pitabas Mohanty – "Best Young Teacher Award", "Best Paper Presentation Award".

The Students of TAPMI have also been receiving recognition in the past few years. These include:

- * "Best Management Student of the Year Award" by Vishal Dhawan from India Leadership Summit, 2001.
- * "Best Management Student of the Year Award" by M.P. Sunder from India Leadership Summit, 2000.
- * "Best Young Manager Award" by Ritu Srivastava at IIM, Indore, 2001.