# ECONOMIC REFORMS AND NATIONAL IMPERATIVES

It gives me great pleasure to address this elite gathering on Economic Reforms and National Imperatives, a subject of vital importance, when we are at crossroads faced with conflicting views and compulsions on the pace and direction of our economic policies. Among the several shortages that plague India, the shortage of objective thinking is the worst. While there are large numbers of protagonists marshalling facts and arguments in support of their point of view, we have fewer thinkers who are able to approach issues with an open mind, analyse all the data without omitting inconvenient ones and present a balanced picture of the problems. Therefore the average reader who has neither the time nor the equipment to sift the truth often accepts as correct the version presented to him in print. The development of healthy democracy suffers where the electorate does not get correct facts. True democracy is one which reflects the public opinion and not merely that where periodical elections are held and majority in legislatures are secured.

Human progress through ages has been achieved by exchange of thoughts and ideas. Without a dialogue, ideas cannot grow. I therefore congratulate The Adarsha Community Centre on providing a forum for exchange of knowledge and information. My esteemed friend Shri Ghorpade is an intellectual, a scholar – politician with exemplary integrity, kindness, courtesy and cordiality. A progressive and forward looking Statesman. Sri Ghorpade has initiated a number of welfare measures for the amelioration of the conditions of the weaker sections in this area. I thank him for affording me the opportunity to share a few thoughts with you on Economic Issues facing the nation today.

A brief review of Indian economic history shows that in the era before Industrial Revolution, India's share in the world's manufacturing output was 17.6%. while that of U.K. Was 9.3% and of United States 2.3%. By 1900 India's share had dwindled to 1.7% as against U.K.'s share of 18.5% and the United States share of 23.6%. Furthermore, during the period 1871-1946 (a period when market economy prevailed) India registered a growth rate of 1.5% and there was virtually no increase in per capita income (Paul Kennedy).

The foregoing account clearly establishes that growth and development depends more on technological inputs than on free market economy. When the west partook of the Industrial Revolution India remained dormant under the Colonial rule. Thus the West overtook India in manufacturing out even though India had a free market economy during the corresponding period. In short technology is the fuel and free market the lubricant for forcing the pace of growth.

The rate of savings was 5% of the GDP at the time of our independence. Dadabhoy Nowroji painted the conditions picturesquely in his volume on Poverty and unbritish rule in India. Erstwhile Colonies including India had no infrastructure necessary for industrial development, no capital nor a Capital Market, no technological knowledge nor technically skilled personnel. There was an acute shortage of basic metals and minerals. The task of building a modern India was stupendous.

It was in this context that India launched its massive Five Year Plans raising resources internally and internationally seeking aid and loans from abroad and started heavy industries like Steel and Fertilisers. In the fifties, Private Sector in India had no resources to start million ton steel Plants or a Neyveli Lignite Corporation. It is the State that raised necessary resources, secured technical assistance and launched massive programmes. The regime of control and regulation that prevailed helped diversification of Industries into new areas like engineering, chemicals, metallurgical, consumer durables and also dispersal of industries to the backward states and strategic areas. Small Scale Industries sprang up quickly providing employment for 134 lakhs workers and an output of 2,09,300 crores in 1992-93, India ranked within the first 15 countries in the volume of value added by manufacture (World Development Report 1994).

While the controls and regulations played a useful role during the period of shortages of resources, they became a drag after these shortages had disappeared and the economy had started moving forward. These regulations tended to stifle growth, promote artificial scarcities, foster inefficiency, stall modernisation and induction of latest technology and create bureaucratic delays. Furthermore, they encouraged blackmarkets and corruption. The substitution of bureaucratic control on the scale, technology, location and product mix against entrepreneurial choice led to faulty decisions and unviable enterprises. The massive Public Sector with an investment of about Rs.1,40,000 crores did not produce any surplus for reinvestment in development but yielded a pitiful 0.024% by way of net profit. The State Electricity Boards had to be subsidised to meet their annual losses.

Meanwhile epoch making transformation was overtaking the world. The totally controlled economies of Soviet Union and East Europe collapsed and were changing over to a free market economy. It is interesting to compare the centrally planned economic systems of the Soviet Union and East Europe with India. The Centrally planned systems as in India were a great success at the initial period when the State mobilised large resources for investment in infrastructure and basic industries. Both lost the urge to improve efficiency and cut down costs in the absence of internal and external competition. Both were behind the Western countries in technological development and Upgradation as they pursued a policy of self-sufficiency in Research and Development. Both remained insulated from world developments.

The Rupee trade with those countries which concealed foreign exchange shortages, exposed our vulnerability, the moment the situation changed.

With the world changing over to market economy, India could not remain isolated and thus the economic reforms of 1991 became necessary and inevitable. It is not impossible to conceive of a system where people lived with only what was produced within the country and available to each according to the system of distribution practised by the country. That would imply that the people of such a system would be denied all the facilities and amenities of life enjoyed by the rest of the world, that they would be deprived of the fruits of scientific and technological developments and that in short they would have to accept a lower standard or life.

Economic conditions in our country since 1990 have been propitious for a smooth and orderly change and assimilation with the global economy. We have overcome food shortage, built a diversified though indifferent industrial structure, created a large reservoir of scientific and technical personnel the second largest in the world, developed a capital market and powerful stock exchanges.

The foreign exchange crisis of 1991 which brought India to the brink of default in payments jolted the slumbering Indian economy into desperate action. A the behest of International financial Agencies, we devalued the Rupee eased out controls and regulations over most industrial enterprises, liberalised imports, reduced customs and excise duties, allowed foreign investments upto 49% in all enterprise and to 51% in specific areas, liberalised royalty payments for purchase of foreign technologies etc. The role of the Private Sector was recognised and investment restrictions were diluted. These and other liberal measures have come to stay and in my view cannot be reversed except marginality whatever political party may come to power in future. These reforms are expected to maximise production, minimise cost, improve quality and create surpluses which in turn would increase income, eradicate poverty and improve the standard of life of the masses.

These measures met with initial success. The fiscal deficit of 8% in 1990-91 was reduced to 6.5% to 91-92. Foreign Direct Investments flowed at a higher rate. There was acceleration in industrial output and the Stock Market was booming. However our inability to adopt austerity measures and prune expenditure, the increasing debt burden and interest payments, the current deceleration in industrial growth and in Exports have created concern over the future of the economy.

Dr. Manmohan Singh who is no alarmist recently stated: "Industrial growth has slowed down from 12 to 9% export growth has come down substantially in the current fiscal and inflation rate was going up". In another speech Dr. Manmohan Singh said "The income gap has become wider. Extreme poverty and affluence walk side by side." These are strong indictments of the current state of our national economy.

As early as 1954 Prime Minister Nehru, the architect of modern India, defined the objective of economic growth and development which has remained the cornerstone of our Constitution. He said "I suggest that the only policy we should have in mind is that we have to work for the 360 million people, not for a few, not for a group but the whole lot and to bring them up on equal basis".

We can forget the national objective only at our peril. One should always bear in mind that the ultimate objective of economic reform is the welfare of the people and that unless the reforms are harnessed to improvement of the conditions of life of the masses, they will be of no consequences. Enhanced production without equitable distribution, economic growth without elimination of poverty, fashionable imports without food for the masses spell disaster to the nation. Revolutions never give advance notice.

Conscious efforts should be made and administrative and legal action taken to ensure that the minimum needs of the masses are met. We cannot trust the 'trickle down' action to percolate to the masses within a foreseeable time frame. It may be that in the "long run" the benefits of market economy may seep through the labrynth of social strata and reach the masses but that will neither enthuse nor provide consolation to those at the sub-marginal level of existence. As Keynes put it "in the long run we are all dead".

India strove for freedom not for substituting the Brown rulers for the White but for economic emancipation, eradication of poverty and establishment of an egalitarian society. As early as the Karachi Congress in 1931, these objectives were clearly spelt out. The Constitution of India directs that the State shall strive to promote the Welfare of the people. Secure adequate means of livelihood, prevent concentration of wealth and distribute the resources of the community as best to sub-serve common good. Successive election manifestoes of Parties had emphasised the welfare aspect of their economic policy and had received a mandate to govern on that basis.

The election manifesto of the ruling party in 1991 did not speak of a change over to market economy or deviation from the concept of a Welfare State. Therefore the objectives of our national economic policies are for the poor and the weak to benefit from the increased tempo of economic activity.

There is a wrong notion that market economy and welfare state are mutually exclusive and that the market economy is based on the survival of the fittest while welfare concept rests on

State action in social development and poverty alleviation programmes. In practice, however, countries like Sweden, Denmark and New Zealand whose economy is market-oriented are regarded as Socialist countries with State cover for the citizen from cradle to the grave.

In India where about 38% of the population remain below the poverty line State action for social development like universal primary education, health, housing and minimum needs must continue to be the responsibility of the State. Likewise State cannot ignore the imperative of an efficient Public Distribution System to supply cheap and good quality essential goods to the poor and the needy. To abandon the weak to fend for themselves is to invite social turmoil and upheavel.

The first casualty of market economy is employment. The pursuit of productivity, efficiency and cost reduction necessitates induction of sophisticated labour saving equipments and consequent reduction of work force. Since countries with market economies have shortage of manpower, the problem of redundancy is met through unemployment relief payments or redeployment in other jobs. But in our country where unemployment is the rule and employment is the exception, adequate care has to be bestowed on maintaining and increasing employment opportunities commensurate with the growth of population. In this context, Jawahar Rozgar Yogana and I.R.D.P. Schemes have a good potential for employment and need to be expanded and strengthened. Small scale sector today enjoys reservation of over 800 industries. Schemes for obligatory purchase from the Small Business of 20% of the parts component etc. as in America may be adopted by us for assisting Small Scale Industries. The Khadi and Village Industries produced goods worth about Rs.2,700 crores and provided employment to 51 lakhs of Villagers in 1992-93. Out of this 46% were women and about 30% are from S.C/S.T. The expansion of this sector is another national imperative.

The aim of economic reforms is to make our industries competitive with international producers. Obviously this cannot be achieved overnight as foreign competitors are equipped with technology and skills developed over centuries. As a first step free and unfettered competition in domestic market should be ensured. Free competition within the country will enable industries to sharpen their efficiency and upgrade technology. A time frame may be fixed whereafter national market may be progressively opened to external competition. The multinationals have advantage of economies of scale, enormous capital resources, buying raw materials cheaply from their own units abroad and pricing products so as to squeeze out local products. Thus, even the most efficient local industry is not on a level playing ground with the multinationals.

As Finance Minister, I had suggested splitting the L.I.C. Into four regional Corporations and introducing competition among them. In the old the Communist Yugo-Slovia competition among Public Sector units was well known. Instead, if we introduce foreign competition abruptly, the result may prove harmful to the nation. L.I.C. Which provides substantial resources for the Plan may not be able to serve this role.

It is imperative that the national lays enough emphasis on self-reliance in Science and technology.

The national cannot afford to go on importing every advance that takes place in developed countries. After importing the latest technology, National Research and Development should do innovative work on them so that it may forge ahead of others atleast in a few areas. The break through in Missile technology achieved by India gives hope of similar break through in other areas. In this connection it would be advisable to repeal the Industries Development and

Regulation Act and enact a new law for the few industries which for strategic or other reasons require regulation.

Regional disparities and imbalances are a threat to national unity. Since the licensing and regulation are no longer available under the economic reforms, incentives for dispersal of industries will have to continue for a stated period.

The Public Sector has played a useful role in the early stages of our economy. In the current stage of development they are no longer necessary except in select areas of Defence, Nuclear energy, Oil and or other strategic fields. The Private Sector is today capable of undertaking multi million Rupee projects. They are now able to secure foreign credits and Hi Tech collaboration from advanced countries. It would therefore be wasteful diversion of Government resources to start new Public Sector enterprises except in areas specified earlier. The contradictory pressures namely that when Public Sector fails, it should be handed over to Private Sector and if Private Sector fails, it should be taken over by Public Sector must be resisted, subject to reasonable safeguards for the workmen affected.

To sum up, it is necessary to combine the market economy with the imperatives of social development and poverty alleviation. India will have to follow a middle path between unbridled market economy and totally controlled and regulated one. The market forces should be harnessed for expanding employment and welfare. We may have to adopt a new **"Market Socialism"** or **"Socialist Market Economy".** India has a genius for compromises – like Mixed Economy and I am sure it will be able to forge a welfare ideology with Market Economy.