The Indian EXPRESS

Time has come to think big and long, about where we would like India to be in 2040: Deepak Nayyar

Deepak Nayyar was chief economic adviser to two short-lived governments — the ones led by V P Singh and Chandra Shekhar — and also in the first few months of the Narasimha Rao-led government.

Written by Shaji Vikraman | Mumbai | Updated: July 6, 2016 1:15 pm

Deepak Nayyar, who started his career in the IAS, left it early on to pursue an academic career.

At the height of India's balance of payments crisis in 1991 and in the run-up to that, Deepak Nayyar was Chief Economic Adviser to three governments — two short-lived ones led by V P Singh and Chandra Shekhar and later, for the first few months of the Narasimha Rao-led government. For much of that period, the finance ministry was engaged in fire-fighting measures, given the grave prospect of a sovereign default. Nayyar was the government's key man as he engaged in negotiations with the International Monetary Fund (IMF) and the World Bank.

Nayyar, who started his career in the IAS, left it early on to pursue an academic career. He, however, returned to the government as economic adviser in the Commerce Ministry, which in the mid-1980s, was headed by V P Singh. After his stint as chief economic adviser, Nayyar served as Vice-Chancellor of Delhi University. He is now professor emeritus of economics, Jawaharlal Nehru University.

In this photograph published in The Indian Express on July 26, 1991, Deepak Nayyar (second from right) is seen with Manmohan Singh (far left) at a press conference in Delhi. (Express Archive)

In this interview to The Indian Express, he says there was "little choice" but to carry out the reforms of 1991. Talking of the way forward, Nayyar says the government should concentrate on "three quiet crises" in the economy — agriculture, industry and infrastructure. Edited excerpts:

How did your role play out during your tenure in government from 1989 to 1991?

I served as chief economic adviser in the Ministry of Finance with three successive governments. The macroeconomic crisis ran deep. And crisis management of the economy was our overwhelming concern at the time. It was a difficult period and a critical role.

The external debt crisis, which surfaced in late 1990 and early 1991, brought India close to default on its international payment obligations. The balance of payments situation was almost unmanageable. The fear of acceleration in the rate of inflation loomed large. The underlying fiscal crisis was acute. This coincided with political instability. A short span of

four months, November 1990 to March 1991, witnessed the fall of two governments. The Union Budget could not be presented as scheduled in February 1991. This was followed by a prolonged political interregnum in the run-up to the elections, which were held in May-June 1991, with the assassination of a former prime minister (Rajiv Gandhi) in the midst of the elections.

As an economist, I have always worked on macroeconomic theory and policy. Yet, in terms o practice, my tenure turned out to be an experience of two lifetimes. I returned to academia richer for the experience and happier with the outcome. We had averted default. The economy in crisis was stabilised. And it was the beginning of much better times to come.

What was the one major challenge you had to overcome during this period?

The challenge was to manage the crisis in the short-term and return the economy to a path of sustained growth with price stability in the medium-term. The fiscal regime, shaped by the competitive politics of populism and the cynical politics of soft options through the 1980s, was simply unsustainable. The external debt crisis and payments situation was the Achilles heel of the economy. We were particularly vulnerable for three reasons: short-term debt was about $6 billion, of which $2 billion was rolled-over every 24 hours with overnight borrowing in international capital markets, and outstanding NRI deposits, more than $10 billion, were prone to capital flight, while foreign exchange reserves were a mere $1 billion that were not enough to finance imports even for a fortnight, let alone debt service payments. The prospect of default hung over our heads.

This formidable economic challenge was juxtaposed with continuing political uncertainty. It was fire-fighting day-by-day, surviving month-by-month, while working at solutions and strategising for what needed to be done when a government was in place. It was an exercise in multi-tasking. We managed to get $1.8 billion from the IMF, under the first credit tranche and the Compensatory and Contingency Financing Facility (to help meet the increased cost of petroleum imports) in January 1991, after tough negotiations that I led, almost without conditions. This provided some breathing time, but not for long. Cash margins on imports were raised to a whopping 200 per cent in March 1991. Gold worth $200 million, confiscated from smugglers, was sold in April 1991. But it was not enough.

The new government assumed office on June 24, 1991. Indeed, within one month, critical decisions were made. During this eventful month, a few of us worked almost 24×7. Adjustments in the exchange rate of the rupee were announced on July 1 and 3, 1991. Gold from the reserve assets of RBI, to raise $400 million, was shipped out to the vaults of the

Bank of England soon thereafter. On July 24, 1991, the Statement on Industrial Policy announced dramatic changes in the morning, while the Union Budget presented to Parliament announced far-reaching decisions in the evening. Around then, I was also taskec to negotiate a Standby Arrangement with the IMF and a Structural Adjustment Loan with th World Bank, both of which were concluded in September 1991.

It must be said that any government that came to power in mid-1991 would have done roughly the same. The blueprints existed. There was little choice. The room for manoeuvre was negligible. However, it was possible only for an elected government with a mandate from the people. And it happened because Prime Minister Narasimha Rao was most decisive in this incarnation.

How much political support was there for economic reforms at the time?

The political support for economic reforms was minimal. There was no consensus even in the ruling party, let alone across the political spectrum, about what needed to be done. It wa more in the nature of a fait accompli. Silence meant neither consent nor acceptance. But there were two supportive factors. For one, there was a consciousness among politicians across parties, which did not necessarily mean an understanding, of the crisis in the economy. For another, the political system was somewhat tired of instability and conflict, so that opposition parties were simply not willing to bring down the government and force yet another round of elections. The reforms were crisis-driven rather than strategy-based. Even so, Narasimha Rao deserves much credit for the deft political management.

Were you satisfied with what was opened up when you were part of policy-making?

The fiscal adjustment in the Union Budget for 1991-92 was sorely needed. It turned out to be a path-setter. The industrial policy reform that removed barriers to entry for new firms and limits on growth in the size of existing firms was both necessary and desirable, but the competition law came more than a decade later. Trade policy reform was much needed but its pace hurt the industrial sector, exacerbated by the absence of effective anti-dumping laws. Public sector reform was no more than asset-sales, which meant selling the flagships and keeping the tramp ships. Financial sector reform dispensed with the over-regulation bu did not create structures of regulation and governance so that scams proliferated. In sum, I had concerns about the nature or sequence of change. Moreover, structural reforms were introduced but the institutions and rules necessary to govern markets were not put in place until much later.

If you were in government now, in a similar role, what would you push for?

At this juncture, the government should concentrate its attention on three quiet crises in the economy — in agriculture, industry, and infrastructure — which run deep and loom large as binding constraints on our economic performance.

The crisis in agriculture is much worse than it was in the 1960s. In fact, GDP per capita in th agricultural sector has been less than one-tenth that in the non-agricultural sector for the past 25 years. There is agrarian distress in rural India, where modest economic growth has been associated with negligible employment creation. Yet, it remains the only source of livelihoods to more than two-thirds of our population. And almost three-fourths of our poor live in villages.

The crisis in manufacturing is discernible even if invisible. Since 1990, India's share of manufacturing-value-added in, and manufactured exports from, the world has declined steadily, while the share of manufacturing in India's GDP has dropped by 4 percentage points. This suggests the beginnings of de-industrialisation. We need to industrialise for obvious reasons. It is the path to employment creation and a source of economic growth. Bu reviving manufacturing requires coordinated action that spans monetary policy, exchange rate policy, trade policy, industrial policy and technology policy.

The crisis in infrastructure stares us in the face. The physical infrastructure — power, roads transport, ports or communications — is grossly inadequate. Some of it is creaking at the seams. Some of it is on the verge of collapse. This could strangle our future prospects. The ideological belief in the magic of markets has led to a premature withdrawal of the State from public investment in infrastructure but private investment, whether domestic or foreign, has simply not been forthcoming. It is time to question this belief. Public action and government support are imperative.

What should India do in terms of reform for the next 25 years?

I believe that education and healthcare must be our focus in the next 25 years. Educational opportunities are too few. Learning outcomes are poor. Healthcare facilities for people are sparse. Health indicators are worse than in most countries. Public provision is simply not enough and what exists is not good enough. Yet, this is what will shape the wellbeing of our people and the future of our economy. Health and education are not just constitutive as the primary ends of development, but also instrumental as the means of mobilising our most abundant resource, people, for development. It is time to act here and now.

What does the reform effort of the last two years signify to you?

The reform effort is at the micro level with a focus on implementation. This is important, particularly if it improves capabilities of the State, because efficient markets need effective governments. However, it must be recognised that reforms are means and not ends in themselves. The essential objective of development is to eradicate poverty and improve the living conditions of people. In this quest, the focus must be on employment. It is the only sustainable solution for persistent poverty. Jobs can also drive growth because the same people who constitute resources on the supply side provide markets on the demand side. Hence, the macro level and the big picture are just as important. The time has come to think big and think long, about where we would like India to be in 2040 and how do we get there. This needs much more than reforms. It needs good governments and a developmental State