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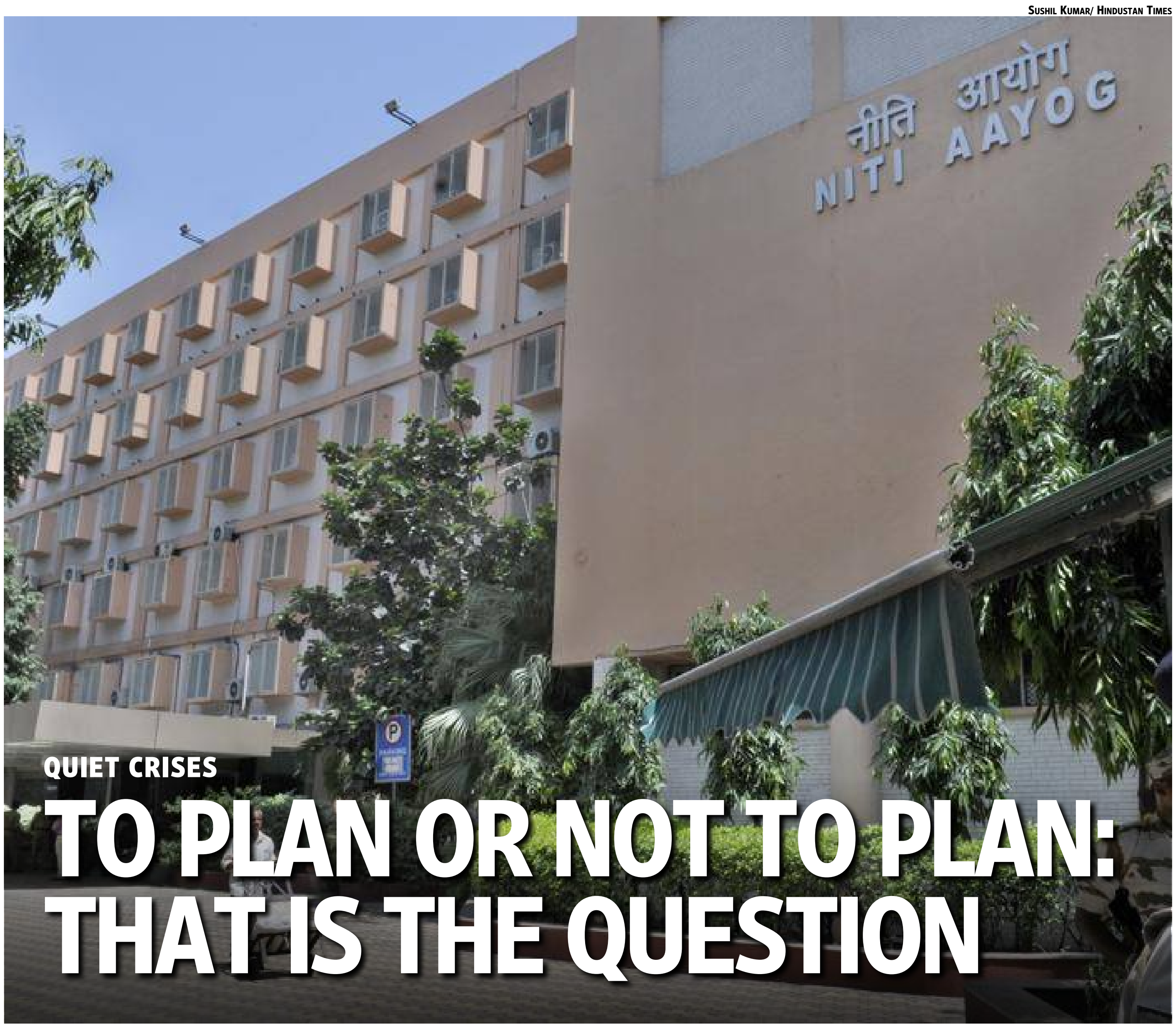

QUIET CRISES

TO PLAN OR NOT TO PLAN: THAT IS THE QUESTION

EXPERT VIEW

DEEPAK NAYYAR

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The erstwhile Planning Commission closed down soon after Prime Minister Narendra Modi announced the decision on 15 August 2014. Its demise was attributable partly to the ideological belief that planning is passé in this age of markets and globalization and partly to its poor performance combined with growing irrelevance.

The NITI Aayog was established in its place on 1 January 2015. Eighteen months later, it is struggling to find its niche in the government. It is definitely not a commission on policies that its name in Hindi suggests. And its search for an identity is elusive. There is no evidence, yet, that it can become a National Institution for Transforming India, the grand title embedded in its English acronym NITI.

The irony is that there is a strong rationale for such an institution in India, despite the profound changes since 1950. Market forces matter much more, both in the national economy and the world economy, which makes it essential to rethink and redefine the role of the government in a market economy. With the passage of time, sharper departmental divides and shorter time horizons are characteristics of the government, which makes it necessary to think big and to think long in terms of ideas. In principle, both these tasks could be performed by NITI Aayog, but only if it acquires the ability to think independently and the stature to command political support.

The need for an institution, which can reflect on redefining the government's role in the economy and engage in long-term strategic thinking about development, is clear from the complexity of solutions to the problems confronting us. India is a land of multiple crises. It would suffice to focus on three quiet crises in the economy—in agriculture, industry, and infrastructure—which loom large as determinants of future prospects. Indeed, these are binding constraints on our economic performance, which need strategic thinking on what can be done and how it is to be implemented. Seeking quick fixes, or attempting to postpone the day of reckoning, can only mortgage our future.

There is a crisis in agriculture that runs deep, perhaps much worse than it was in the mid-1960s, which cannot be ignored simply because it is silent. Even so, there is little discernible cognition. Farmers' suicides are reported in newspapers. Maoist movements are considered law and order problems. But neither of these is recognized as symptomatic of agrarian distress or a deeper crisis in rural India, where modest economic growth has been associated with negligible employment creation. The agricultural sector accounts for a small proportion of GDP (gross domestic product) although it supports a large proportion of the population in terms of livelihoods. In fact, GDP per capita in the agricultural sector has been less than one-tenth that in the non-agricultural sector for the past 25 years. Yet, its political significance shaped by its share of votes in a democracy is directly proportional to its share in the population. Its potential economic significance is also considerable since incomes from agriculture could drive economic growth from the demand side.

Agriculture needs serious attention across a wide range. It needs large amounts of public investment, which would raise yields and increase double cropping, without a rapid depletion of groundwater resources by private tube wells. It needs reviving extension facilities, including credit for inputs that had been provided by state governments but were wound up progressively during the 1990s in the hope that markets would do better. It needs R&D (research and development) in agriculture, particularly to develop technologies for dry land farming of the sort that enabled Brazil to transform its savanna lands into a prosperous agriculture. It needs addressing the chronic shortage of pulses, perhaps by purchasing agricultural land abroad to grow pulses. It needs some mitigation and partial socialization of risk borne by farmers, which is largely privatized. It needs creation of transportation, storage and processing facilities for fruits and vegetables that perish without reaching consumers. It needs rural infrastructure, whether roads or power, which would help promote non-agricultural rural employment. All this requires strategic thinking and coordinating policies, which can be implemented, but not conceptualized, by departments in the Union government or state governments that function in silos.

> It is not possible to provide 'maximum governance' with 'minimum government'

There is a crisis in manufacturing that is discernible, even if invisible. The performance of the industrial sector has been most disappointing, when compared with our past or with other developing countries. Evidence suggests regress rather than progress during the past 25 years. India's share of manufacturing value added in, and manufactured exports from, the developing world has declined steadily, while the share of the manufacturing sector in India's GDP has dropped by 4 percentage points. This suggests the beginnings of de-industrialization, which is a cause for serious concern. India needs to industrialize for obvious reasons. It is a path to employment creation. It is a source of economic growth. It can drive productivity increase in other sectors, through linkages or spillovers, and unleash India's enormous industrial potential embedded in its pool of entrepreneurs. Of course, we need to reconcile these aspirations for industrialization with environmental concerns.

"Make in India" is simply an exhortation. Better infrastructure, appropriate labour laws, land for factories and "ease of doing business" are permissive factors that could allow or enable manufacturing to revive. But these are not causal factors that can make it happen. The revival of manufacturing and the resumption of industrialization in India require radical changes in monetary policy, correctives in exchange rate policy, calibration of trade policy, and a rebirth of industrial finance. Strategic coordination of these policies in a long-term perspective, often described as industrial policy, was at the foundations of success at industrialization elsewhere in Asia. The government must be able to coordinate and harmonize these policies between the ministries of finance, commerce, industry, and environment, as also the Reserve Bank of India, and state governments, whenever necessary. This needs understanding, which is possible only if there is an institution that can do such long-term strategic thinking, and capabilities of coordinated action, which the government alone can provide.

There is a crisis in infrastructure that 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. The story is much the same for the social infrastructure—education and healthcare, or even sanitation facilities and safe drinking water. The public provision is simply not enough, and what exists is not good enough. In this milieu, human development is at risk and economic growth is unsustainable. But that is not all. There are strategic choices to be made now that would shape our future. For energy, should we think big beyond fossil fuels, about solar energy—given our phenomenal natural endowment of the sun—or about wind energy, which can be harnessed? For water, should we think long about rainwater harvesting (for drinking water and irrigation), harnessing excess floodwaters during monsoons, and watershed development, to pre-empt the shortages and scarcities that are inevitable if we do not act now. For transport, should we think about the optimum mix of railways and roads as means of moving people and goods across a country that could be a continent?

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. The exceptions are education and healthcare as business, which not only shut the doors on large numbers who cannot finance themselves but also carry the dangers of poor quality and little, if any, accountability. Faith in the much-touted public-private-partnership model represents a triumph of hope over experience. It is almost a non-starter. Even where it has materialized, in a few places, there is a socialization of costs and privatization of benefits. The role of the government, and the importance of public action, cannot be stressed enough. Without it, growth cannot be sustained, let alone be transformed into development that improves the well-being of people. Once again, this needs strategic thinking across sectors over time.

Most would find these arguments persuasive. But many would question the ability of our governments to perform this role. It would seem that we moved from a widespread belief, prevalent in the 1950s, that the State could do nothing wrong, to a strong conviction, fashionable in the 1990s, that the State could do nothing right. The dramatic change in thinking was attributable to past experience (inept or excessive intervention), and the conjuncture in time (collapse of Communism), reinforced by the dominant political ideology of the times (markets and capitalism). This ideology is now subject to question almost everywhere. However, in India, even if market failures are recognized, concerns about inept or corrupt governments remain larger than life.

More of the same or business-as-usual is obviously neither acceptable nor desirable. But the history of capitalism suggests that success at economic development is observed mostly in countries where governments and markets complement each other and adapt to one another as times and circumstances change. There are many things that only markets can and should do. However, there are some things that only governments can and must do. If governments perform these tasks badly, it is not possible to dispense with governments and replace them with markets. Governments must be made to perform better. Indeed, efficient markets need effective governments. Strategic intervention is desirable to guide the market, interlinked across activities or sectors, to attain broader development objectives situated in a longer time horizon. This needs an institution in the government, not preoccupied with day-to-day tasks, which can think big and think long. It is planning in a different incarnation. Those who do not like the word can change it. But the task remains.

The bottom line is that it is not possible to provide "maximum governance" with "minimum government". What we need is "good government" for "good governance".

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NEXT ESSAY

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