

Left & Right: Liberalisation revisited

The *Intelligent Person's Guide to Liberalisation* by Amit Bhaduri and Deepak Nayyar is an insightful introduction with a deft left touch to the problems of India's economy. Considering that the maximum rumblings in the common minimum programme concern the meaning of liberalisation, the book is timely and serves a useful purpose. It is a window to the mind of the economists of the Left who are uncomfortable about liberalisation.

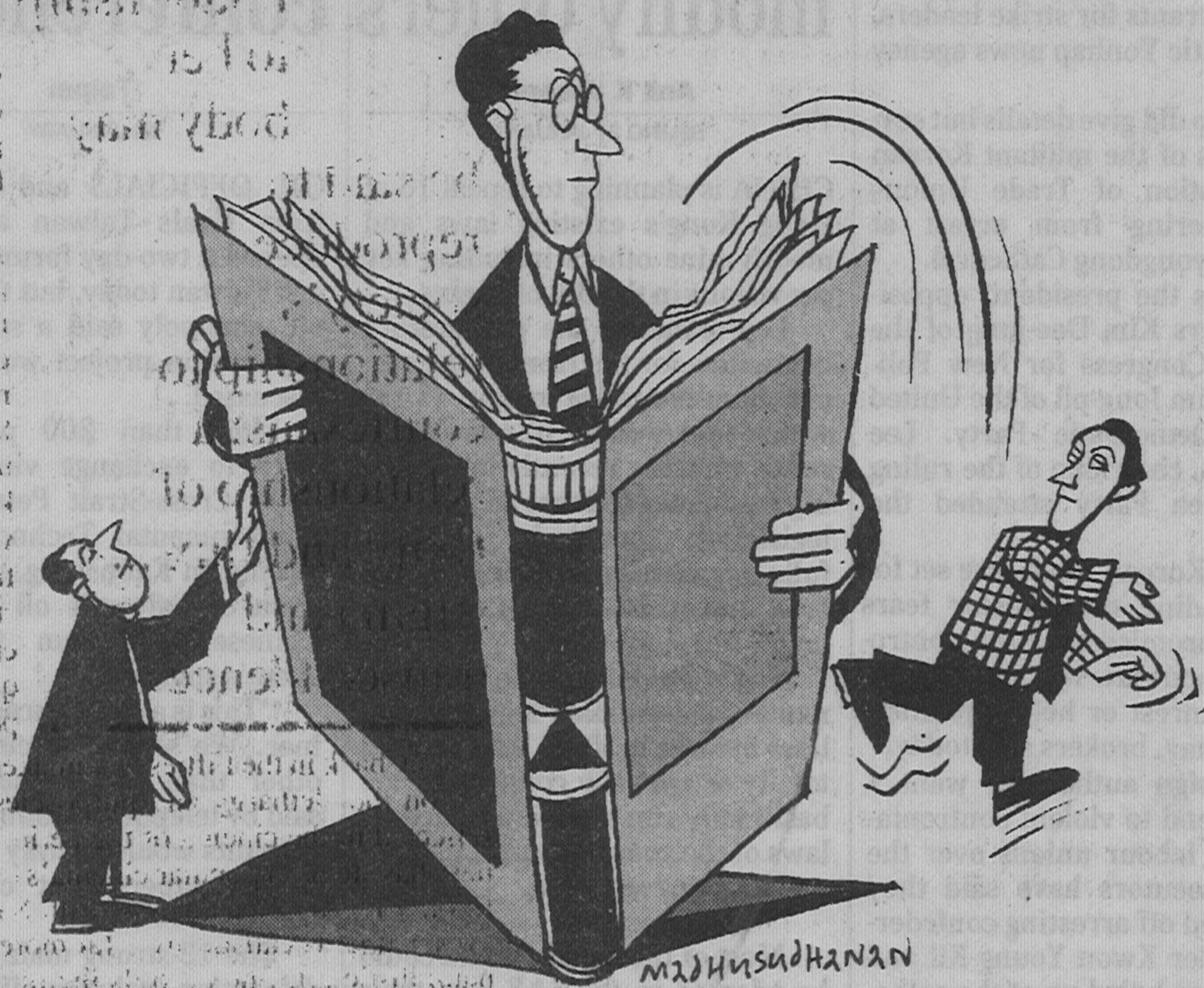
Bhaduri and Nayyar do not claim to belong to either the Left or the Right. Their scepticism about liberalisation comes through in a proverb they cite "the key to the gate of heaven is also the key which could open the gate to hell". They feel that danger and opportunity are intricately intermingled in the liberalisation of India's economy and that the journey to the promised land of a well-functioning market economy could, indeed, turn into a hellish nightmare of poverty and widening inequality.

Mr Deepak Nayyar had a ringside view of the crisis of '91, besides his earlier experience in government. The authors who avoid the soft option of accusing GOI of having sold out to the multilaterals in the '91 crisis was justified. However, they argue that the authorities confused the management of the crisis with a long-term policy. As a result, while the script was Washington's, the voice was that of India.

When the authors assert that our reforms were born in the trauma of '91 and that fear of default had sent us to the multilaterals, they are both right and wrong. It was not as if the crisis burst on an unsuspecting GOI in '91. Much earlier, in 1987-88, the economic experts of GOI had cautioned the then government that India was living dangerously and a crisis was around the corner. The multilateral institutions, both IBRD and IMF, had also warned us. Indeed, Mr Michel Camdessus, MD, IMF, had visited India in 1988 and offered a safety-net of nearly \$1.5 billion to tide us over the hump. He had even agreed to treat the already implemented reforms as satisfactory fulfilment of conditions. The feeling that going to IMF would have invited criticism and led to unpopular measures made Rajiv Gandhi defer the decision. Politically, he may have, indeed, been right. Fear of the possible response of the electorate to IMF style austerity had led to our turning away the professed prophylactic of aid. One speculates as to what would have been the effects of a decision to the contrary. My purpose in pointing this out is only to stress that the reform process did not suddenly dawn.

The present finance secretary, Mr Montek Singh Ahluwalia, then in the PM's office, had produced a paper on economic reforms. The industries ministry also put

The Indian economy needs to be freed from the thrall of left, market and monetarist dogmas, says S Venkitaramanan



forward a proposal for reform. Indeed, the election manifesto of the Indian National Congress had also many of the lineaments of reforms. To argue, therefore, that crisis management was confused with the evolution of a long-term plan in 1991 may not be quite correct. Dr Manmohan Singh, who had come from his labours at the South South Commission, was also keenly aware of the downside risks of the Washington Consensus. These who know his staunch stance against domination by the First World, would realise that he did not put his imprimatur lightly to the reform package. I know for a fact that he agonised deeply over the pros and cons.

There is, of course, force in the authors' assertion that the agreements with the IMF and the IBRD put GOI under time pressure. Such time pressure could not always encourage sober consideration of various options.

Bhaduri and Nayyar's suggestions for a review of policy are, however, born out of fear that we may be now going in the wrong direction. They present a cogent, albeit critical, alternative policy frame. I offer my comments on a few of their suggestions.

On industrial policy, they emphasise the role of continuing state intervention,

which did play an important part in the growth of the newly industrialising economies. They tear apart the fiction that the private sector is always perfect. They condemn the tendency of our pro-market liberalisers to throw India's entrepreneurs to the multinational wolves. Today's liberalisers take a perverse pride in running down India's industries. They fail to realise that the handicap race run by businessmen of India is of the government's making — such as high interest rates, costly capital goods, restricted access to technology, un-economic sizes. The liberalisers are indulging in a pipe-dream if they think that multinationals will come to India, except on "murderous" terms. The experience of many states competing with each other to cede away state revenues to attract multinationals shows that this is a real danger.

Turning to trade and tariffs Bhaduri and Nayyar warn against the dangers of the rapid a reduction of barriers and tariffs. Especially, they caution that uniform low tariffs reduce our bargaining strength when we negotiate with multinationals. The wrong sequence of our trade reform arises from the fact that we have not put in place an anti-dumping machinery.

Bhaduri and Nayyar castigate the pre-

sent regime of high interest rates, which, they feel, will lead to a slow-down of the economy. Large government spending will, in their view, be absolutely essential if government has to face and discharge its responsibilities. While the authors are not in favour of laxity, they still believe that "Blanket austerity on government finance, IMF style, which is in favour with the powers that be, does not have any intellectual validity in terms of economic theory". The problem in their perception is not to reduce government spending, including deficit spending, but to hold the government responsible for spending properly.

In the authors' view, "there is no virtue in eliminating (altogether) low cost borrowing from RBI in the (mistaken) belief that the associated monetary expansion would cause inflation or in raising (significantly) the interest rates on government securities in the belief that borrowing at market rates would make the government more responsible". A succinct statement of the case for rescuing the economy of India from thralldom to monetarist dogma! The authors' plea for a recast of economic policy is timely.

There is much in the *Intelligent Person's Guide to Liberalisation* with which one can agree. The general impression of expertise of IBRD and IMF may be exaggerated. But, it is another matter to argue that "both these institutions are endowed with a cadre of economists of rather mediocre abilities, handicapped further by their lack of knowledge, let alone understanding of the countries they advise". Economists of the eminence of Jacob Frenkel, Michel Mussa, Laurence Summers and Joseph Stiglitz have adorned these institutions from time to time. Extreme statements do not fit in with the otherwise logical presentation of Bhaduri and Nayyar.

Nor is it fair to review the reform process as a crime to be traced to a bunch of ex-World Bankers and IMF-ers in power. The authors lambast the present practice of a revolving door between IBRD/IMF and GOI, as a result of which many World Bankers work in GOI and vice versa. They remark that "one does not know who is on leave from where". Perhaps, this is unavoidable considering that we ourselves encourage interchange of personnel between GOI and Bretton Woods.

Labels, such as Left and Right, should not concern us as much as what is right for Indian economy. The role of both the State and market must be redefined without blind faith in either. "The scope and the direction of genuine economic liberalisation relevant for India will emerge only from such a redefinition, and not from the ideological glorification of either". One cannot but agree that rethinking of these issues must start here and now.