

AN INTELLIGENT PERSON'S
GUIDE TO LIBERALISATION

by A. Bhaduri and D. Nayyar
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Urbane Critique

AMIT BHADURI and Deepak Nayyar have done nothing less than write the best book to be found anywhere so far on India's New Economic Policy (NEP). It systematically analyses the theoretical underpinnings of the NEP; the context and reasons for its introduction; its performance record to date, and why the NEP is deeply flawed; what can and should be done.

"Their views deserve a sober and judicious response from the bureaucrats, journalists and economists who have defended and promoted Manmohanomics and the IMF/WB-anointed dogma of neo-liberalism. But what the authors should prepare for getting is casual denigration, dismissal and silence. The book, though urbane in tone and accessible (for the most part) to its designated audience, the intelligent layperson, wounds too deeply because it is honest about the profession and discipline of economics.

Economists are often decisively influenced by extra-disciplinary factors like the 'existing reward system' for EC (not to be confused with PC), namely Economic Correctness! Moreover, successful economic development is so complex an issue that it is never a simple function of 'good economics' alone. And 'good economics' is much more than 'textbook neo-classical truths' about the virtues of the market.

The debate about the relationship between neo-classical economics and development through use of free market and free trade policies (though not referred to at all in this book) is by no means settled.

Neo-liberals accept the neo-classical framework and believe this must mean advocacy of unrestricted free market and free trade policies: our NEP acolytes. Others reject neo-classical economics altogether and therefore free market, free trade policies: the Marxists. A third group quali-



IN TOO DEEP: The book wounds proponents of Manmohanomics

fiedly accepts the value of neo-classical economics for development purposes but questions the capacity of the free market — free trade policies alone or unqualifiedly, to bring about an optimum allocation of resources, let alone a proper vision of development itself. Amartya Sen and the authors of this book basically fall into this category.

Finally, there are those who believe neo-classical economics is not a proper framework for coping with the problems of development but for reasons other than neo-liberal dogma advocate free market; free trade policies: some development economists.

No brief review can hope to do justice to this short (180 pages) but immensely rich study I can only exhort the interested to buy and read it. But let me end by presenting

some summary conclusions of the authors regarding the four broad issues outlined earlier.

There can be no fixed dogma of state versus market or market plus minimal state. We always need both state intervention and market forces. The state's role is functional i.e. to correct market failures institutional to govern the market and strategic to guide the market. The relative weight of emphasis changes over time.

India's record up to the early eighties was a mix of the good, bad and indifferent. The shift in policy in this period (a precursor of the full-fledged NEP of 1991) caused a wholly avoidable external debt crisis which was foreseen and warned against by many within and without the government. When this acute but essentially 'short-term crisis'

emerged, an unnecessary 'long-term solution' was proposed and imposed. Instead of a 'strategy-driven' reform programme, we got a 'crisis-driven' one, which is always worse and less likely to succeed.

Regarding the 'stabilisation' aspect of the NEP, the specific ends desired are good in many ways but the means used (and their rationale) are too simplistic i.e. dogmatic, to be fully or properly effective. The record here so far is not as good as is made out. Indeed, there are some serious dangers both on the 'revenue deficit' and the 'hot money inflows' fronts.

Regarding the 'structural adjustment' aspect of the NEP, it is too early to give a definitive verdict either way. But the signs are not good, especially regarding the all-important issue of enhancing the quantity and quality of productive investment through sensible policy reforms in the technology, investment, public, and financial sectors.

What can and should be done is

To reprioritise our goals to meet not the 'abstract needs of the economy' such as fiscal deficit, unthinking privatisation, NRI investor confidence, etc. but the basic needs of people such as water, education, health, cheap basic foods, employment, etc.

Recognise that sensible policies mean that no dogmas of the right or left about states or markets will do. Moreover, recognise that our political democracy is a powerful self-correcting mechanism which provides signals about what economic policies are actually doing, as well as forms of checks and balances. Use them to set up a certain pattern or dynamic of economic behaviour: try - learn - correct - adjust - try - learn - correct - adjust

This is an eminently sensible perspective in the times we live in when, as the authors say, "little is left of the traditional view of the 'left', and the 'right' to longer knows what is right!" But then, did it ever? ■