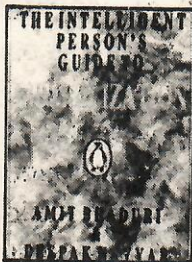


B O O K

OF THE WEEK

Misguided economy

Bhaduri and Nayar point out where the Rao regime's economic policy went wrong



The Buddhist proverb "the key to the gate of heaven is also the key which could open the gate to hell," possibly, best sums up the crux of the *Guide* which Nayar and Bhaduri have put together on the process of transformation the country has been undergoing ever since the Congress changed its economic creed from one of diluted Nehruvian socialism to hard-core structured Mahmothanomics.

If economic liberalisation can prove to be a boon for a developing nation it can also prove to be a bane if mishandled. In other words, the liberalisation sword is a double-edged weapon. Somewhere along the line someone had to underline this warning for the Monteks and Acharyas of this world. (From the Congress Party's point of view, this perhaps

should have come far earlier.) But if it is not correct to mindlessly stumble along the path of structural adjustments, shouting out aloud what a wonderful thing the reform business is, nor is it fair to dismiss the process outright, as theocratic leftists have done, as a threat to the sovereignty of the country.

The "litmus test" for any process of transformation obviously is whether it benefits the people it seeks to help. That is the straightforward question the *Guide* poses. Is food cheaper, are there more jobs, more schools, better roads, electricity? If no, liberalisation has failed. If yes, it has succeeded.

Unfortunately, for the Rao government, the numbers of the poor increased, food became costlier as the government hiked procurement prices, the promised jobs did not keep pace with the number of people joining the ranks of the unemployed and worst of all, reforms remained limited to urban, industrial India.

Rural, agricultural India did not exist in the vision planned for the 21st century. Public investment in agriculture declined and fertiliser prices rose, leading to an overall decline in farm productivity and fall in incomes throughout rural India.

Obviously this is in some ways an insider's report on what went wrong and where. Nayar, as chief economic advisor to the government, sat on most of the initial meetings at North Block which

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put together India's version of the perestroika. But dreams have a way of turning sour. And Nayyar fell out with his colleagues on the direction reforms should take and resigned his job to become a bitter critic of the new 'movement'.

Though Nayyar and Bhaduri do not say this (possibly because they wrote the book before the polls) the consequence of "flawed reforms" was the verdict the electorate eventually gave. It did not reject reforms, it simply said it has not helped them.

The polls did not favour the anti-reforms leftists either. Possibly because, as the two economists point out, the leftist

EXCERPT

Liberalisation would be tested not in terms of some abstract principles, but in terms of tangible results it yields

governments have performed as badly when it came to addressing these same concrete issues of daily existence. "They (the leftist governments) now try to differentiate their product for electoral purposes. In effect, however, they have also come to rely on investment by multinationals as the saviour. They seem incapable of implementing any other strategy of development. It would appear that we are living in a land of the eyeless where the 'left' and the

'right' no longer give directions to economic policy."

But the *Guide* — and here it is different from the many books on liberalisation — tries to go beyond the shortcomings of the reforms to suggest fresh reforms to "correct" the Manmohanic reform process. To start with, a heavy dose of public investment by the government is suggested ("We have no right to reject the IMF-style austerity programmes from consumption to investment"). The trick would be to channel this money into infrastructure building — power, roads, communications, — areas where private investment, whether domestic or external, is still scanty.

The second phase, suggests the *Guide*, would be to increase social consumption. Money needs to be spent on basic health care which includes clean drinking water, preventive health and hygiene and family planning.

Obviously, money is needed to fund any expenditure programme. The only way a government earns money is through taxes. This is where Nayyar and Bhaduri slip back to conventional thinking. More money for schemes translate to more taxes, for them.

Good, simple thinking, but will those who are taxed agree and will politicians be willing to mortgage tomorrow's votes (and the money which buy votes) today after tomorrow's prosperity? •

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The Intelligent Person's Guide To Liberalisation by Amit Bhaduri and Deepak Nayyar. Published by Penguin India. Price: Rs 150.