

Manmohanomics revisited

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IF, like most decent human beings, you know nothing of economics, dislike economists, are mystified by the jargon of their trade — and yet wish to understand the Indian economy, you can do no better than invest Rs 150 in *The Intelligent Person's Guide to Liberalisation* by Amit Bhaduri and Deepak Nayyar (Penguin, 1996). In 181 pages, everything you always wanted to know about Manmohanomics but were afraid to ask is so lucidly told that anyone can get the hang of it. Even Congressmen going out of line at CPP executive committee meetings.

Bhaduri and Nayyar's book is an excellent example of transparent exposition for the layman — but it is hopelessly wrong in the development of its argument. The argument starts going wrong in its first and most fundamental assertion — that our economic reforms were not strategy-based but crisis-driven. Sorry, our reforms crisis-driven *but* strategy-based. The crisis was not brought on by the government "profligacy" in the Eighties but when incompetent management in 1990-91 brought on a crisis that could have been staved off, as all such crises had been effectively staved off under the two previous governments of Indira and Rajiv Gandhi and as it was, in fact, staved off under the successor government of P. V. Narasimha Rao.

After all, it is Bhaduri and Nayyar who describe the oil price rise of the Gulf crisis of August 1990-February 1991 as "a minor ripple". It was a minor ripple that drowned an entire economy notwithstanding the presence in that government of not only Deepak Nayyar, as Chief Economic Adviser but also Manmohan Singh himself as resident guru in Chandra Shekhar's PMO. Nayyar, like Tiresias in Eliot's *Waste Land*, had "foreseen it all and foretold the rest"; Manmohan proved within a month of Chandra Shekhar's departure that the crisis could be overcome

with one wave of his Merlin's wand. If the wand could not be waved under the aegis of Chandra Shekhar and Yashwant Sinha, the reason is to be found not in the "profligacy" of the previous decade but in the chance presence of a Prime Minister and a Finance Minister both over-promoted beyond their due station in life.

Yes, there was a crisis as we entered the last decade of this century. But no, it was not inevitable. When Indira Gandhi found on her Second Coming in 1980 that even after pushing up savings rates to beyond a fifth of the nation's income, adequate investment was not forthcoming to raise the rate of growth above the level of the previous two decades — 3.5 per cent, the rate which Prof. Raj Krishna had derisively but famously dismissed as the "Hindu rate of growth" — it became clear to her that jumping to a five per cent growth path would necessarily involve heavy borrowing from abroad. Such borrowing could not be sustained unless it were matched by an improvement in domestic productivity and a jump in exports. She got going the

process of securing substantial additional investible funds from international financial institutions but her assassination in 1984 placed on her son the burden of servicing the debt by better utilisation of funds at home and an exponential increase in exports (the Bhaduri/Nayyar prescription).

Rajiv Gandhi had some modest success with domestic productivity and spectacular success on the export front. The rate of growth of GDP moved up to five per cent. But it remained precariously perched be-

cause, without structural reforms, it was difficult to reconcile faster growth with the imperatives of balance-of-payments management and acceptable fiscal deficits. The needed structural changes were readied for a programme of what Bhaduri/Nayyar would call "strategy-based" reform. It was, however, put on hold because the Rajiv government had done such an effective job of sustaining growth despite three successive years of drought that the party asked: why change if we are doing so well? A crisis was needed to drive the strategy to take off. Rajiv Gandhi, alas, could not provide the crisis; we had to await V. P. Singh and Chandra Shekhar to give us the crisis which ignited the take-off.

The new strategy had, as Bhaduri and Nayyar admit, "a surprisingly smooth sail". Which, of course, is the root cause of their grouse. Their book has been expressly designed to give the reform process as rough a sailing as possible. The technique the authors have adopted is to startlingly sketch all the things that could go wrong if the

process of reform is pursued without regard to the pitfalls. But the pitfalls are either well known or caricatures that only incompetence would drop us into. We avoided most of the pitfalls under Manmohan. That is why confidence in his day was so high. Incompetence is now driving us simultaneously into almost all of the pitfalls. Which is why confidence has collapsed. The general consensus is that Gowda is the most clueless PM we have had since Chandra Shekhar — and Chidambaram the most at sea since Yash-

want Sinha drowned in a "ripple"!

What was wrong with Manmohanomics was its politics. Indira Gandhi dominated two decades of our politics because although her achievement on growth rates was risible, she brought monetisation, modernisation and the market to the doorstep of the rural poor. The Rajiv strategy was built on unburdening the State of the primary responsibility for the market sector to free budgetary resources for deployment to the poor through radical new mechanisms of delivery — constitutionally-protected, duly elected panchayats and nagarpalikas. The Rao regime picked up the readymade Rajiv strategy but made the crucial mistake of selling it as a *prayaschit* for past mistakes. It also addressed itself to the gnomes of Davos, not the poor of India. It put the reform of the panchayats on the backburner, the better to receive plaudits for the "new" policy from Wall Street. The humungous funds released by Rao-Manmohan for poverty alleviation and rural development were, therefore, pocketed by State Governments and diverted to their own purposes.

Bhaduri, Nayyar and I are all unreconstructed socialists who became socialists when it was *a la mode* to do so. Fashions have changed. It is our ilk that is now lurking in closets. In revealing our identity, indeed in revelling in it, we should not be making a voodoo doll of Manmohanism to puncture it with idle pinpricks; we should be reminding Manmohan and his political masters that Manmohanomics had two components — structural reforms for the 200 million middle-class Indians in the market, and systemic reforms for the 700 million Indians on the fringes of the market. It is towards the activation of the second component that we socialists should be directing our ire.

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