

DURING 1980-81 when the Government of India was seeking a loan from the International Monetary Fund, several economists got together to record their opposition to the move in a letter to the Press. At a cocktail party I was identified as one of the signatories and cornered. Tell us why it is such a bad move, they demanded. Well, I said, consider the case of a weak character, a spendthrift and an occasional gambler whose good intentions have short lives. If one finds this person trying to raise a large loan what is one's first reaction? Borrowing is not bad in itself; a serious young man trying to expand an already thriving business would have our support for his attempts to borrow money. A spot of caution re: the small print, but O.K. in principle. Now, ladies and gentlemen, you know our Government: What do you think?

Even though the first IMF loan did not lead to immediate disaster it did nothing to reform the profligate. In 1991 the balance of payments position plus the depletion of our foreign exchange reserves forced the Government to approach the IMF once again. This time the dimensions of the crisis left no other choice. However, it was necessary to give an undertaking to institute a throughgoing reform programme virtually dictated by the creditors. Apart from devaluation of the rupee, our Government had to promise fiscal and monetary discipline to contain inflation. But this was merely symptomatic treatment; the disease itself called for the Structural Adjustment Pro-

gramme (SAP) of the World Bank. In July 1991 the Government started on the course to make major changes in economic policy in line with the "Washington consensus", but claimed that the resultant process of liberalization was its own deliberate choice.

This book by Amit Bhaduri and Deepak Nayyar is meant for the intelligent person whose interest in the matter and intellectual stamina far exceed those of people making casual inquiries at cocktails. It does an excellent job in clearly showing that liberalization was a crisis-driven response undertaken without serious debate within the country. "The correct thing to do would have been to separate the objectives of such crisis-management from the long-term development priorities which concern the ordinary people of India. Instead, the architects of economic liberalization pretended that these reforms induced by the needs of the immediate crisis-management are also the reforms needed for development".

Bhaduri and Nayyar question the IMF stabilization design which works through the reduction of aggregate demand. "The reduced demand may simply lead to lower production as the size of the market shrinks. The result would be lower output and falling employment without any sustainable improvement in the balance of payments or on the prices front. It is also important to recall that reducing the size of the deficits alone cannot suffice in the longer run. It is the productive use in relation to the cost of borrowing (for financing the deficits) that matters".

But Bhaduri and Nayyar are even more sceptical of the benefits of the SAP. This is supposed to lead us away from the stagnation of the past to a bright future in which India will take its rightful position as an important player in the global economic game. We have to pro-

duce more exportables rather than cling to old ways of import-substitution. The cheaper rupee should help. Our producers in the private sector require some incentives, but what they need more urgently is the removal of shackles. Deregulation by the Government follows logically, as does the abandonment of most of our public sector units which embody the worst of the Government's meddling into productive activity. Again, if we have to engage in the continuing battle to increase our exports we need to have easy access to the best inputs and the latest techniques. Hence the course of external trade must not have hurdles for our producers. For the price mechanism to work, even in our international dealings the over-priced rupee must go and the "natural" level must prevail in the foreign exchange market. But, if imports cost more in rupees how is that going to help with our balance of payments? The "natural" level for the rupee plus full convertibility will attract foreign investment, thus at once solving our external balance problems in the short run and the problem of re-tooling the economy for high-tech production in the long run. We must also reform the financial sector so that the chariot of economic progress has its axles

greased properly at all times.

It all sounds so easy. And it does have a strong appeal for the ordinary citizen whose experience in dealing with the Government (at every level) is that of harassment. Reducing the powers of the state strikes a responsive chord in almost every heart even when people go on complaining about the failure of the Government to provide this or that facility that they urgently need. There is no contradiction here: the functionaries of the state are downright offensive in their dealings with the ordinary citizen; they are also inefficient, obstructive, malicious and dishonest. At the same time the provision of social and economic infrastructure is the responsibility of the state, and the condition of the infrastructure which exists "simply cannot provide the population with facilities that would be a bare minimum elsewhere. The roads are full of potholes. Rural roads are even worse, for they are submerged or washed away in the monsoons. Public transport on the roads is unreliable, unsafe and inadequate. There is not enough room in the trains and reservations must be made months in advance". The supply of electricity, the telephone system, the postal services all are

unable to meet the requirements. Sanitation, housing, drinking water, health care — think of anything, and it is generally unavailable. Surely, the state must earn its marbles by providing a decent level of all these facilities before its minions can look the ordinary citizen in the eye. Down with state regulation of our lives and up with liberalization!

THE problem with this view — and my own gut reactions are similar — is that for liberalization to work, deregulation is never enough. Without a decent level of infrastructure new industries cannot grow; the old find expansion prohibitively expensive. Without social infrastructure the quality of the labour force never attains the minimum levels needed for adaptation to new modes of production. And not only the question of inadequate infrastructures; the state must also help an industrializing economy make a transition from import of technology to diffusion and innovation. "For this purpose, it is necessary to formulate a policy regime for the import of technology, allocate resources for R&D and evolve government procurement policies". What is

STATESMAN, 29.11.96

A plea for transparency

By DIPAK BANERJEE

more, there should be protection against dumping at least in the early stages. What we want is not a minimalist state, but a state whose actions are complementary to the productive forces released by liberalization. Also, the benefits of liberalization depend crucially on competition, on observing the rules of the game. A vigilant state is essential for this, not only as an observer, but often as the framer of appropriate rules.

That I have been quoting Bhaduri and Nayyar copiously shows clearly enough that I think highly not only of their analysis but also of the clarity of their exposition. It is all well written, but I like best their Chapter 5, "The State and the Market: The Name of the Game". There they make out a case for state intervention for three different reasons. *Functional intervention* seeks to correct market failures. *Institutional intervention* seeks to govern the market by setting the rules of the game for the players in the market. *Strategic intervention* seeks to guide the market. I recommend the interested young person to read the entire book very carefully, paying special attention to the arguments in Chapter 5.

Does this mean that I agree to every proposition in the volume? By no means. I have small reservations throughout. Manmohan Singh's abject surrender was bad enough; his subsequent preening about as an apostle of *laissez-faire* was even harder to stomach. However, one can ask: "How much real choice did he have?" The mess was not of his making, but he was entrusted with the job of cleaning it up. He had no political base, his party did not have a majority in the Lok Sabha. How much bargaining power *vis a vis* the IMF/World Bank duo did he have?

On another note, the income-expenditure model does indeed offer unfavourable prognosis about the

efficacy of tight public finance, tight money policies. But how much success did such models achieve in stagflation regimes? Structural macroeconomics might work in some economies for a while but how sound are its foundations? A longer period is likely to shift the structural parameters. Which way? I did not find any definite conclusion in this regard in the structuralist literature.

Bhaduri and Nayyar are committed to democracy which allows correction of errors; indeed often forces such correction. A market mechanism has a similar characteristic: self-correction of imbalances. Big players without scruples can play hell with the price mechanism. Similarly placed politicians can and do get away with murder or worse. Bhaduri and Nayyar plead for transparency both in economic policy and in political decision-making as a precondition for sensible policy. They are right in this, but how and where do we look for powerful politicians who neither collaborate with criminals nor are criminals themselves? The recent spate of scams of all descriptions do not permit easy optimism!

Finally, Bhaduri and Nayyar refer to the recent experiences of Japan, Korea and Singapore. The state and the private sector worked in tandem in all these success stories. I would have appreciated a reference to Friedrich List who questioned the appropriateness of the *laissez-faire* approach for early 19th century Germany. List is the father of the infant industry argument; he saw the role of the state as the promotion of industrial growth, acting as a protector in the initial stage. It is instructive to note that List was greatly concerned with the problem of "pauperism" — large numbers of people who could not find a living in agriculture, nor employment in the budding industrial sector.