

Liberalisation and democracy

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The Intelligent Person's Guide to Liberalization, by Amit Bhaduri and Deepak Nayyar, Penguin Books India, 1996, New Delhi, Pages xiii+194, Rs. 150.

IT may appear that with the change in the government at the Centre, the debate on "liberalisation" can be (or should be) put aside, since liberalisation was a programme of the previous Government. In fact, however, that debate is continuing for at least two reasons and should be continued not only in respect of this country but in respect of all national economies. The first reason is that the state and the market play significant roles in all national economies, although the nature of those roles is an empirical issue and varies with specific social contexts. This may be considered the internal dimension of liberalisation. Secondly, no national economy today can completely isolate itself from influences that come from the rest of the world.

Each national economy must determine, from time to time, how much and in what manner it must be influenced by the global economy. This is the external component of liberalisation. A balance is required internally between the state and market and also between the domestic economy and the rest of the world. Working out this balance or these balances is the central problem of economic policy in every national economy, be it the Indian economy, the Russian economy, the Chinese economy or the Japanese economy. Even in national economies as divergent as those of the United States and Cuba – the former large, primarily market-oriented and substantially "open", and the latter small, state-directed and largely "closed" – the question of balance is crucial.

It is not difficult to see that in such situations attention can easily be diverted from the problem of balance to a propagandist, ideological thrust in favour of the extremes. In recent history the best illustrations of such shifts were in the 1980s in the U.S. under President Ronald Reagan and in the United Kingdom under Prime Minister Margaret Thatcher. These ideological positions, both of which

emphasised a magic role for markets in national economies, came to be known as "Reaganomics" and "Thatcherism". Consequently, in the 1980s and the early 1990s, liberalisation came to be identified in most parts of the world with the glorification of the market in economic affairs. The powerful support that the World Bank and the International Monetary Fund (IMF) gave to that approach on theoretical grounds gave it considerable intellectual respectability as well.

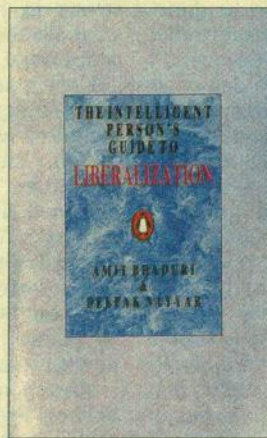
One of the most unfortunate aspects of the thrust of liberalisation that the previous Government in our country gave was its reliance on this propagandist orientation – represented, for instance, by the attempt to project an Indian "Manmohonomics" corresponding to the U.S. "Reaganomics" (ironically after the latter was rejected and discredited in its home ground). This was unfortunate because it deflected attention from the basic issues that were being posed, that is, whether the Indian economy should open itself to international influences more than it had since Independence and whether the role of the state in economic affairs, especially those of the bureaucracy and of the public sector enterprises, should be re-examined.

These are not simple questions. There may be some political advantage, though of a short-term nature, in converting them into simple propositions such as "so far we had centralised planning; now let us leave it to the market" or "so far the Indian economy was closed; now let us open it up". However, such attempted simplifications make the issues only more confused especially for non-professionals who find it difficult to believe that the market was not active in the Indian economy or that the Indian economy so far was completely immune to influences from outside.

What are the real issues in the debate on liberalisation in India today? How are they to be approached and decided upon? For those who are interested in these questions but not

sure whether they have the professional competence to handle them, I strongly recommend Amit Bhaduri's and Deepak Nayyar's *Guide to Liberalization*. It is written in simple conversational style with appropriate examples that throw light on problems and arguments. The authors are distinguished economists alive to broader social issues including the unavoidable interaction between economics and politics in matters of public policy. Deepak Nayyar served for some time as Chief Economic Advisor to the Government of India and Secretary in the Ministry of Finance.

The exposition is informed by two underlying principles. The first is that economic and social policies derive essentially from iterative experiments. This means that "we may know, at best, the broad directions in which we wish to proceed by iteration, but we do not know for certain the ultimate outcome". Secondly, democratic institutions with the prerequisite of transparency and accountability are required to provide the ability to change when an iterative experiment goes



wrong.

On this basis, the authors lay down the basics of liberalisation. On the internal dimension of liberalisation, they point out that a sensible compromise must be reached between the economic directions that the market sets on the basis of purchasing power and the priorities that our political system sets on the basis of the electoral process. A corollary of this condition is that "the pace of liberalisation must slow down precisely when it has little political support from ordinary people". At the same time, they insist that "an unbridled economic role for the government in the name of social justice is often a recipe for economic disaster in the long run".

The background to the crisis of 1991 is traced in some detail with a critique of the kind of response that came from the Government of India. Its authors point out that the basic error of the World Bank-type structural adjustment that was accepted is the almost exclusive concern with the

supply side, overlooking the possibility that the demand squeeze may have an adverse effect on the supply response. Similarly, there is nothing to say that deregulation by itself will reduce the degree of monopoly and increase the degree of competition among firms. On the contrary, as experience in the country showed, acquisitions, mergers and takeovers by firms can generate new elements of uncontrolled economic power. Liberalisation on the external front may move the economy from a situation of too much protection to a situation of too little protection, resulting in de-industrialisation. Granted that the old-fashioned autonomy of the nation-state is being eroded by the multinational corporations everywhere, the right thing to do would be to show the economic determination to negotiate, and not to surrender or to give concessions without reciprocity.

Turning to what needs to be done, the authors state categorically that "our priority must be development", meaning solving the "day to day crisis of existence" of the vast majority of people. Specifically, this means reducing poverty and increasing employment, in order to achieve which the highest priority should be given to agriculture and the rural sector. The development of human resources through education and provision of facilities for health care is equally important. "The bottom line is simple enough," say the authors. "If liberalisation cannot give drinking water, irrigation and electricity to the villages of India, primary education and basic health care to the people, or employment to the unemployed and the poor, it will not be taken seriously irrespective of the technical mumbo-jumbo."

None of this will be achieved through the operation of the market alone. At the same time, it is important to re-examine the role of the state. That role need not be one of intervention as has been done so far or even of promotion. The state must correct standard market failures, it must set the rules of the game for players in the market and guide the market towards the achievement of social policies laid down through democratic processes. In these matters what is significant is not mainly the role of the state as the prime social agency. The emphasis must be on the democratic process itself which recognises that people are at the centre of social and economic policies as the main actors, not merely as ultimate beneficiaries. The basis of genuine liberalisation, then, is a democratic political order whose institutions are transparent and accountable. ■