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A window to the Left

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THE maximum rumblings in the United (?) Front concern the content of economic liberalisation in the Common Minimum Programme. The Left, in particular, seems uncomfortable with liberalisation. There has been no systematic attempt to interpret the stance of the Left on liberalisation and find a meeting ground between it and the Right.

A recent best-seller *The Intelligent Person's Guide to Liberalisation*, by Mr. Deepak Nayyar and Mr. Amit Bhaduri, offers interesting insights. It blends academic excellence with practical experience.

Mr. Deepak Nayyar as the then chief economic adviser to the Finance Ministry, had a ringside view of the 1991 crisis. While the authors abjure the easy and tempting path of accusing the Government of having sold out totally, they make a valid point that the economic reform of 1991 was very much a child of trauma. As a result, the voice was India's, but the script was Washington's — they seem to say.

The book represents an intelligent and balanced effort to interpret both the Left and the Right, although it tilts towards the Left. It does not, however, spare the Left. It points out the flaws in the orthodox Leftist attack on liberalisation.

Command economies lacked the feedback, which only an open society and the democratic system can ensure. The authors do not place the market at the centre of reforms. They offer a blend of state intervention and market freedom.

While fear of default in 1991 did send India scurrying to the multilaterals, it was not as though the Government was totally unaware of the looming crisis. In fact, even in 1987-88, the problem of a likely strain on the balance of payment (BoP) had been frequently highlighted.

The International Monetary Fund (IMF) had offered as a safety-net facility a standby credit of around $1-2 billions to tide over the anticipated forex squeeze. The then IMF managing director, Mr. Michel Camdessus, had been persuaded to accept the reforms already carried out as satisfactory and prior fulfilment of conditions for the standby.

Fear of the big bad wolf, the IMF, had, however, prevented the acceptance of the prophylactic offer. Political reactions of the then leadership were, understandably, to postpone the unpleasant and tough decisions till after the general elections — a normal reaction of politicians. India had been forewarned, although not forearmed.

As the authors point out, the course of events in 1991 would not have been very different even with a different set of parties in power.

In their view, the policy-markers in Delhi in 1991-92 converted a case of crisis management into one of formulation of long-term policy.

I do not fully agree with this view. For instance, even when Mr. V. P. Singh was Prime Minister, Mr. Montek Singh Ahluwalia, then Special Secretary to the Prime Minister, had put forward a paper incorporating many elements of the final reforms package of 1991.

In the same period, the Industry Minister had advanced a similar proposal for industrial reforms. The Congress(I), under Rajiv Gandhi, also put together a manifesto which incorporated many of the same elements. The message of the Washington Consensus, therefore, fell on receptive ears.

Dr. Manmohan Singh, who had come fresh from the labours of the South-South Commission and its staunch stance against the domination by the First World, did agonise a great deal before he put his imprimatur to changes of policy. To say that trauma alone forced a long-term policy change on a shell-shocked Government may not, therefore, be fully true.

Mr. Bhaduri and Mr. Nayyar are, however, right when they point out that the pressure of IMF and the World Bank speeded up some of the changes without too much of a second look.

The crying need for "exceptional financing" and the various trigger points in the agreement for its release incorporated in the letters of policy exchanged between the IMF and the Government put the latter under time pressure.

It is, therefore, appropriate that with our comfortable reserves today, we can afford to rethink some of the postulates of liberalisation.

The Bhaduri-Nayyar book offers a number of useful comments on different aspects of liberalisation. On industrial policy, the authors criticise the current tendency of liberalisers to throw India's industry to the multinational wolves.

Some of today's "liberalisation" hawks take a perverse delight in pointing out how much more efficient the multinationals are compared to India's industries.

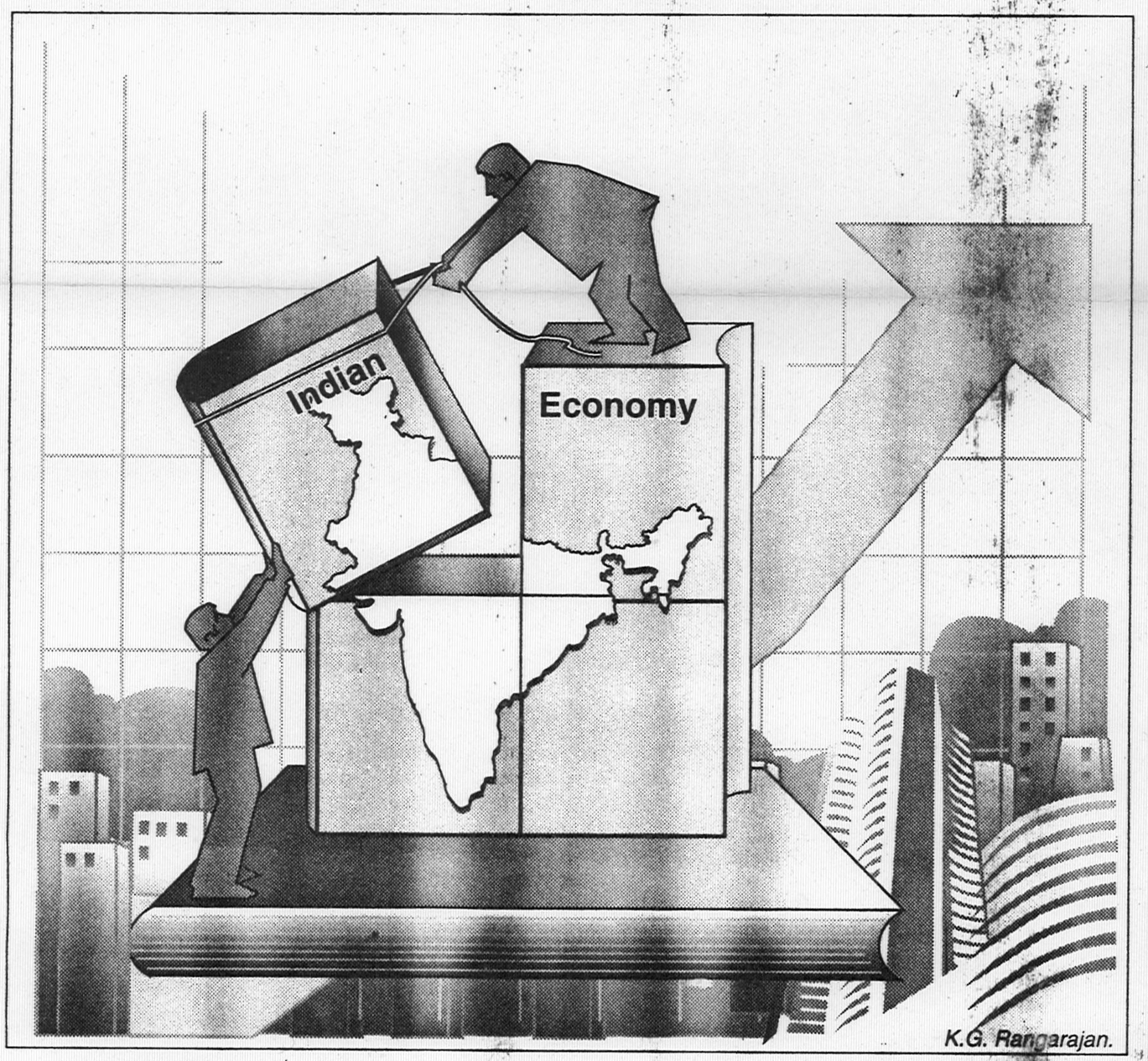
True, but they ignore the multiple handicaps forced on India's entrepreneurs such as high interest rates, costly capital goods and limited access to credit and technology.

The great "levellers" of liberalisation who invite multinational investors to help out in transforming India's industrialists must realise that. The *mantra* of the market will not by itself work wonders.

To realise these pipe-dreams, India will have to offer "murderous" terms to induce multinationals to invest.

On trade and tariff policy, Mr. Bhaduri and Mr. Nayyar clearly warn against the dangers of too rapid a reduction of tariffs, and lower import barriers.

They feel that even for the purpose of successful negotiations with multinationals, the present policy of uniform and low tariff is wrong. Our trade and tariff reforms are in the wrong sequence as we have not put in place the required anti-dumping machinery.



K.G. Rangarajan.

Today, the global majors can come and have a field day in India, converting India's industrial scene into a wasteland.

Turning to the financial sector, Mr. Bhaduri and Mr. Nayyar are critical of the current policy of the increased resort to the market for governmental borrowing.

They focus on the urgent need to ensure that "real" interest rates do not remain as high as they are today. Their remarks in this context are instructive.

"Large government spending will be absolutely essential in India if the Government has to face and to discharge its responsibilities." In their view, "the Government must not shy away from deficit spending when it is genuinely needed for development.

Blanket austerity on government finance, IMF style, which is in favour with the powers that be does not have intellectual validity in terms of economic theory.

The problem is not to reduce government spending, including deficit spending, but to hold the government accountable for spending productively. Government spending is sustainable so long as it is sufficiently productive". They emphasise the need for shaking off monetarist orthodoxy.

"There is no virtue in eliminating (altogether) low-cost borrowing from the Reserve Bank of India in the belief that the associated monetary expansion would cause inflation, or in raising (significantly) the interest rates on government securities in the belief that borrowing at market prices would make the Government more responsible."

A recast of current policy is urgently needed since high interest rates crush investment intentions and simultaneously lead to a higher fiscal deficit..

However, the authors seem to treat the whole reform process as a whodunit for which they have succeeded in finding the villain in the domestic lobby of ex-World Bankers and their associates.

The authors argue that people believe in the Washington Consensus because it pays them to do so. The authors condemn the present system of a revolving door between the World Bank and the Government. So much so, "it becomes impossible to discern who is on leave from where".

Messiahs who champion the cause of the "market" against the state get promoted in the developing countries because of links with the World Bank. "The technocracy of these market fundamentalists depends only on their ability to use the same jargon as the IBRD."

Rather strong criticism, which detracts from a generally persuasive and extremely logical tone of the authors.

Nor is it fair to say that "IBRD/IMF are endowed with a cadre of economists of rather mediocre abilities, handicapped further by their lack of knowledge, let alone understanding of the country they advise".

Whatever their other faults, these institutions have had eminent economists, such as Hollis Cheney, Lawrence Summers, Stanley Fischer, Wolf Ladjensky and recently Joseph Stiglitz. About Mr. Joseph Stiglitz, Dr. Partha Dasgupta recently wrote: "He is one of the most significant social thinkers of our time."

This said, the Nayyar-Bhaduri book offers a coherent, albeit arguable alternative view of the process of economic liberalisation. Its views deserve to be discussed widely. Labels, such as Left and Right, should not concern us so much as what is right for the Indian economy.

The authors call for a re-examination of our policies. It is necessary that the role of both the state and the market be redefined without blind faith in either. "The scope and the direction of genuine economic liberalisation relevant for India will emerge only from such a redefinition, and not from the ideological glorification of either."

One cannot but agree that rethinking must start here and now.