

Liberalisation cross-examined

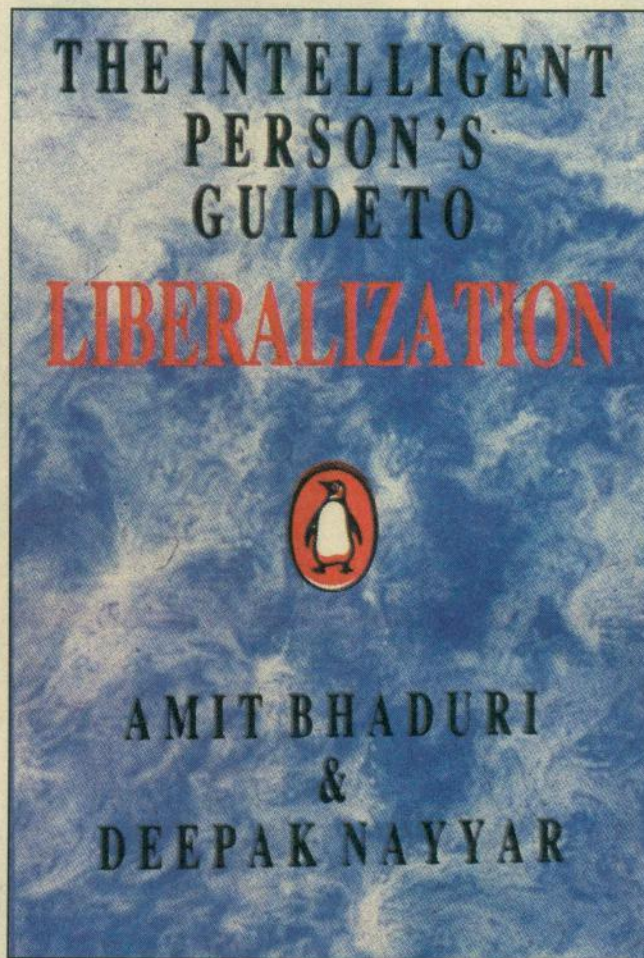
THIS is an unusual book on the logic, record and the future of economic liberalisation in India. It succeeds where others have failed in presenting to a larger audience a critical evaluation of liberalisation. It does so largely without resorting to economic jargon and without the stridency of the "pro" or "anti" liberalisation camps. This does not mean that there is no perspective or that there is only a wishy-washy one. On the contrary, the authors, both academic economists, have definite views.

Amit Bhaduri and Deepak Nayyar express a fundamental disagreement with liberalisation as it has been formulated in India. But there is no harking back to the era of central planning or an inward-looking economy. Instead, this slim book contains the outlines of an alternative to both mindless liberalisation and self-defeating controls, an alternative that is rooted in a democratic framework and tries to marry sensible economics with feasible politics.

There are three broad strands in the book. One strand looks at how and why the liberalisation programme was adopted, the influence of the World Bank and the International Monetary Fund on economic policy, how a particular variant of liberalisation came to be the dominant paradigm (within the government and in the media) and an examination of the claimed achievements over five years.

The second strand looks afresh at certain policies which have come to acquire the status of a dogma. Bhaduri and Nayyar explain, for instance, why the fiscal deficit – the focus of much of the Central Government's attention between 1991 and 1996 – is not by definition harmful and how under certain conditions this deficit can be used to finance large investments in social and physical infrastructure. Similarly on foreign investment, the authors also cogently argue that an indiscriminate wooing of external resources (a) will not contribute much to the resources required for development (b) will not by itself aid the development of technological capability and (c) will not in any case result in large inflows of foreign investment unless the social and physical infrastructure in the economy is built up. The focus here is not on sterile lines like the debate on Kentucky Fried Chicken, but on how, under what conditions and how far foreign investment can contribute to economic advancement.

There is also a detailed discussion of the relative importance of the State and the market in development, a discussion which goes beyond the other sterile debate of the State versus the market. The thrust of the argument is that the State and the market cannot be opposites as suggested by the new dogma. History has shown that the two complement each other and that the relationship between the two is a changing one. In essence, "The real question is no longer about the size of the State (how big?) or the degree of State intervention (how much?). The question is now about the nature of State intervention (what sort?) and the quality of State intervention (how good?)." The authors endorse the need for competitive markets but make it clear that a complete



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withdrawal by the State is no option.

Underlying much of the discussion in the monograph are two basic concerns. One is the extent to which liberalisation has addressed people's economic priorities. The second is whether or not the liberalisation programme has been consistent with a long-term objective of development. When an evaluation of liberalisation is framed in this manner, the inherent limitations of the economic programmes of the past five years become apparent. In a book that was written well before the recent Lok Sabha polls, there is this prescient observation: "If the economic future looks uncertain, the architects of liberalisation have only themselves to blame for the disrespect they have shown towards building the minimum of an economic consensus through transparency, information and debate. They forget that our poor and populous democracy is also remarkably alive."

Despite the obfuscation that is currently being attempted to show that liberalisation was not an issue in the recent elections, what the people feel is clear enough. If there are intrinsic problems with the Indian variant of liberalisation, what is the alternative? It is in its answer to this question that this book on liberalisation is most distinctive.

The third strand of the discussion by Bhaduri and Nayyar revolves around outlining the

conditions for what they say can be "sensible economics and feasible politics." This in essence means taking measures that will improve the living conditions of a majority of Indians through means that are consistent with democracy. This does not imply give-aways before the polls. On the contrary, it will immediately involve a massive investment by the State in improving the social and physical infrastructure: in supply of drinking water, primary education, housing, transport and communications. Such a focus, it is suggested, will also build a social consensus in favour of economic policies. The authors reject the argument about a paucity of resources with the Government and demonstrate that with effective mobilisation and expenditure policies and with a restructuring of the public sector (as distinct from disinvestment), the required resources can be found. A build-up of such social and physical infrastructure will improve the quality of life, which will impart greater stability to Indian society, which in turn will make India an attractive place for foreign investors.

Something more is necessary to build a long-term commitment to economic development. Economic priorities of people need to be reflected in the political agenda of parties and, unlike now, political parties will have to be held to their promises. This will happen only if there is more transparency and accountability in both government and political

parties. Transparency and accountability will together give the self-correcting mechanism that is essential to make decision-makers stick to policies on which a consensus has been reached. The implication is that if political parties openly debate the economic agenda, there will also be a stability in long-term policy. Differences between political parties will no doubt remain. Changes in government will then be part of the self-correction mechanism.

A valid criticism at this point is that Bhaduri and Nayyar have a rather optimistic view of the current state of Indian polity. But their ideas are not romantic notions. The least that can be said is that this monograph is a refreshing change from the propaganda and the cacophony that have surrounded five years of debate on liberalisation. The authors have not entirely succeeded in making the issues easily accessible to an interested person who has not been exposed to economic theory. But the parts that require effort are not many. One can also complain that not all aspects of the liberalisation process have been discussed in detail. That, however, belongs to the domain of academic treatises.

One objective of the book is to break what is called "the dialogue of the deaf" between the supporters and critics of liberalisation. In this Amit Bhaduri and Deepak Nayyar have succeeded. ■

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The Intelligent Person's Guide to Liberalisation, Amit Bhaduri and Deepak Nayyar, Penguin, Rs. 150.