Economic reforms questioned in India

by Ramtanu Maitra

Indian Prime Minister P.V. Narasimha Rao told the monied influentials gathered at the World Economic Forum at Davos, Switzerland that while India will continue with its economic reforms, it will do so only in a "credible manner." "Laws cannot be changed overnight," Rao said, defending the concept of mixed economy, as formulated by the late Prime Minister Jawaharlal Nehru and practiced in India till now. Further, he said that the collapse of communism and rejection of the command system does not necessarily mean total acceptance of the market economy.

"I am clear in my mind that each society has to find its own 'middle way,' " Rao said, "suited to the genius and circumstances. In the new-found enthusiasm for change, governments should not go overboard and plunge large chunks of their people into mass misery. They have no right to do so. . . . Their schemes must take full note of such contingencies and make allowances for them."

But the Indian prime minister did not allude to backtracking on economic reform even once, and instead, spoke glowingly about the economy as a strong stimulus to global integration. He said India, among a few developing countries, is fortunate in being able to absorb new technologies, "except when our progress itself tends to create some uneasiness in some quarters."

Indignant at the policy of "technological apartheid" coming from the industrialized countries, Rao said that while it was recognized that those who invested in furthering the frontiers of technology expected returns, there should be no other "extraneous" conditions. "We do not necessarily argue against that expectation but we believe that when the price is paid, there should be no other extraneous or unreasonable restraints. In case of an unwarranted insistence on such conditionalities, the challenge would be to develop the necessary peaceful technologies at the national level. We must seek to reaffirm, as a matter of high principle, the spirit of enquiry which is central to human progress."

Pressure at home

Meanwhile, in India, with less than four weeks until the annual budget is presented by the Rao government to Parliament, economic reform is being discussed more than ever. Recently, during a five-hour meeting with trade union leaders, Finance Minister Dr. Manmohan Singh was told that the proposed banking reforms, as suggested by a government-commissioned report, are not acceptable. The unionists argued that the current "sickness" in the banking sector was a result of decisions that had allowed "unconcealed political use of banks and their resources," and that almost three-fourths of the outstanding debts of the banks are directly attributable to the corporate sector. Instead of taking punitive actions against these private industrialists and businessmen, New Delhi is promoting the concept of handing over the banks to the private sector, the union leaders alleged.

The question is also being raised as to whether the economic reforms are aiding in the development of the physical economy. The Finance Ministry reports that in the last 30 months, India's foreign exchange reserves have gone above $10 billion, a sixfold increase since the reform programs got into motion; inflation has come down to 8% from 17%; and exports have grown, bringing the trade imbalance to a mere $1 billion. But a scan of the real economy shows a different picture. Latest data on industrial production show growth of only 1.6% during April-September 1993 over the same period in 1992. The manufacturing sector marked a miserable 0.6% in growth. India's industrial sector is in deep recession.

The Bombay magazine *Business India* reports that since July 1991, fiscal consolidation has resulted in larger cuts in developmental, not non-developmental, expenditures. Even such pro-reform economists as Jagdish Bhagwati and T.N. Srinivasan admit that the reduction in the budget deficit has been brought about "partly by a reduction in developmental expenditure."

Most of the cuts are in infrastructure—roads, irrigation, power. The power sector requires a complete overhaul as well as a large dose of new generation capacity. But the Seventh Five-Year Plan (1985-90) witnessed an addition of 21,400 MW in generating capacity and the construction of requisite transmission and distribution networks—with the target at 22,245 MW. But the Eighth Plan (1990-95), the victim of the economic reforms, had an initial target of 48,000 MW. This was then scaled down to 38,000 MW, and then again to 30,000 MW. The trajectory now is that only 26,241 MW of new capacity may be installed—nearly a 50% cut in need-based capacity. Some believe only 20,000 MW will be completed by 1995. The failure to finance the power sector is itself evidence of the government's inability to generate wealth.

Now the government has hiked the prices of rice, wheat, sugar, cooking gas, gasoline, and kerosene. The ostensible purpose is to mop up about 33 billion rupees from the market before March 31, the end of the fiscal year. However, the price hikes will severely affect the poor, on whose behalf the economic reforms were supposedly launched, and the hike in gasoline prices will affect everybody.

With the infrastructure sector's performance going from bad to worse, interest rates being kept at 15%, and a rise in gasoline prices when oil prices internationally are doing down, the economic reforms comfort no one in India.