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Evaluating Indian economic reforms

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Evaluating Indian economic reforms – I

Kalim Siddiqui

It is often said that the Indian economy is booming. In fact, growth is sustained by the demand of the affluent section within India and excessive external borrowings boosted growth for a short period. India's total external debt is more than $90 billion and debt service payment was $8.08 billion in 1993. The major achievement of the government has essentially been with respect to the foreign exchange reserves to gain confidence of the multi-lateral financial agencies. The increase in foreign exchange reserves is not due to large flow of foreign investment or exports but largely due to loans from the international financial agencies. Does the present policy help the poor? The question is not whether some are able to watch satellite TV, import cars, spend their vacations abroad and buy luxury goods, but what is happening to the income and employment of the poor people who constitute nearly 40 per cent of India's total population.

The Indian government's new economic programme adheres to an orthodox pattern associated with the IMF/World Bank. Its adoption of a comprehensive set of policies is aimed at limiting the role of government in a number of different areas, and enhancing the export-orientation of the Indian economy. Broadly speaking the orthodox viewpoint, i.e., neo-liberal, is that economic crises in India emanate from two fundamental imbalances: fiscal where governments spend more than they earn; and trade imbalances, which result from an import-substituting pattern of industrialisation. To correct these imbalances, the Structural Adjustment Programme (SAP) typically involves government spending under control, increased export-orientation and the introduction of various measures of deregulation of the private sector to improve productivity. IMF/World Bank-led SAPs are usually painful, when government spending shrinks and the increased competition among the private entrepreneurs removes weaker competitors, resulting in a recession. The cut in government subsidies adversely affects the poor sections who also suffer from increased inflation and unemployment, while the free entry of TNCs removes small domestic enterprises. Actually the burden of the SAP ought to be borne by the creditor countries with substantial debt relief and reduction in interest rates, instead the adjustment is designed to provide maximum benefits to the Western financial institutions and TNCs.

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Rajiv's programme to modernise India in the mid-1980s with liberalisation of imports and Western technology increased imports to new levels and further, during the Gulf war and rise in interest rates, drastically reduced foreign exchange reserves, which was followed by the loss of

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Soviet and East European markets for Indian exports. Finally, borrowing from the World Bank/IMF was the only option that remained open for India. The TNCs and World Bank have been waiting for this occasion for the last four decades. In this design of theirs, they were ably supported by the neo-compradore class in the ruling oligarchy, including the bureaucracy. It was at the behest of the Indian bureaucracy that loans from the World Bank were also taken in 1991 for rural development, irrigation projects, etc., where no foreign exchange or technology is required.

Good performance of agriculture due to several years of favourable monsoons kept inflation down. But it is apparent that inflation is by no means under control and current rates of price increase, at 11 per cent per year, are substantially above those of earlier decades. Furthermore, the rise in prices of food and other essentials has hurt the poor sections. Thus, agricultural wages, which were observed to be increasing in real terms over the 1980s, have shown declines since the SAP package has been officially implemented. Between 1990-1992, agricultural wages show declines in every state. The poor, especially urban, have been affected also by the reduced spread of the Public Distribution System for food which has been noticed in many towns.

Perhaps for the first time, the current industrial stagnation in major industrial sectors has accompanied a period of good agricultural performance. Although agricultural growth has been the primary element imparting some stability to the economy, even in this sector there is evidence of a deceleration. Between 1990 and 1993, the agricultural output is estimated to have grown at a compound rate of only 1.5 per cent per year, which is below the average rate of 3 per cent observed prior to 1990. Thus, good monsoons in themselves do not appear to have been sufficient to overcome other long-term problems stemming from declining real investment rates, limits to extension of cultivation through more intensive cropping, excessive reliance on modern inputs like chemical fertilisers, pesticides and degradation of soil, etc. The government seems to have no solid plan to deal with these problems other than relying solely on relative prices and freeing the markets. Since the agricultural investments have continued to fall despite terms of trade improvement, it seems such strategy is likely to be inadequate.

There is a negligible growth in per capita consumption expenditure. The decline in aggregate investment rates is a result of tendencies in both agriculture and industry, where investment has been going down in important areas. In industry, this reflects the recession which has been present since 1991-92, and has been severally aggravated by the government's sharp contraction in investment expenditure. Indeed, the government expenditure pattern, with its rapid increase in financial sector, has essentially contributed to the furthering of rentier interests in the economy rather than encouragement of productive investment. The recent claims of recovery refer only to few sectors, and to a very limited extent. Production in investment-related capital goods industries and mass consumption goods has continued to decline. Planning Commision data reveals that during the last three years, the absolute number of poor people living below the official poverty line would increase to about 45 million, 25 million of them directly as a result of the SAP.

Many Indian economists point out the decline in the growth of manufacturing output reduction in employment in manufacturing, erosion in metal-based capital goods, and engineering industries in general have been cited as indicators of industrial decline. The liberal imports of modern Western consumer goods will only

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cater to the rich and worsen the problems of poverty. The increased free hand given to the Indian big monopoly houses will encourage further corporate mergers. What is striking about these post-liberalisation mergers is not the obvious consequence of a quantum leap in the degree of monopoly in the relevant product markets or growth of concentration of economic power. What is far more significant is the evidence of crumbling of even the modicum of independence Indian entrepreneurship had displayed hitherto.

The SAP-led recovery through increased exports depends on a large number of factors that are inherently difficult to predict. This will depend upon: the extent to which the current recession in OECD countries continues, foreign policy compromises made by the government for the sake of improving trade prospects, infrastructural investments, particularly in electricity, transport, communication, inflow of direct foreign investments, etc. Some of these factors are beyond the control of the Indian government.

(to be concluded)

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Evaluating Indian economic reforms – II

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Structural Adjustment fails to include environmental protection and sound natural resource management as an objective of structural reform. The failure to take these vital areas into account may lead in many cases to unsustainable rates of natural resource exploitation. Today it is well-known that India's poverty is closely linked to unequal distribution of land and with the increasing degradation of natural resources. Out of the 329 million hectares of land, nearly 179 million hectares is considered degraded, about 90 million hectares are actually degraded mainly due to loss of tree cover and top soil, leading to severe droughts and floods. Furthermore, the annual rate of deforestation is 150,000 hectares. The large scale deforestation in recent years has rendered the sensitive areas in Himalayas and river valley systems vulnerable to soil erosion.

The increasing exports and international competition produces greater pressure to exploit natural resources. The majority of industrial output comes from biomass based industries such as textiles, paper, wood, rubber, sugar, etc. India has abolished industrial licensing for all the above-mentioned industries including cement, irrespective of levels of investment. This implies that indiscriminate use of resources without any checks would be carried out. These industries force people to leave their land and forests. And also these industries discharging their wastes into rivers has increased dramatically. In India, water pollution control and waste treatment works have been neglected to a criminal extent. The majority of industries do not have treatment plants.

Recently, the Indian government's new agricultural policy aimed to export agricultural products. But in order to earn foreign exchange for debt repayment, export cash crops will replace food crops, there would be increased dependence on foreign markets.

private sector employment over the 1980s has been known, but this trend has intensified even in the public sector as it has reduced its role as additional employer. The pattern of SAP so far is one that has taken a particularly heavy toll of small scale enterprises that are the largest employers. Further, a recent study on the number of employees in the 38 major private firms reveals that the number of people hired by them declined from 96,249 in 1990 to 96,093 in 1993. The bulk of the so-called new employment that had occurred after 1990 was as contract and other forms of non-regularly employment, the share of which in total employment had gradually risen to one-third by 1993 and the regularly employment fell by 3.3 per cent in 1993 even as the value of fixed assets of these 38 firms rose by about 27 per cent.

Even in the agricultural sector that still employs the bulk of the labour force, and which experienced a significant increase in output in the 1980s, the growth rate in agriculture employment declined from 2.3 per cent in the 1970s to 1.2 per cent in the 1980s and to a lower level of 0.6 per cent in 1990-92. *The Human Development Report* (UNDP, 1993) refers to certain aspects which are relevant to India. "In both industrial and developing countries, the composition of the labour force has been changing significantly. Enterprises have been reducing their reliance on a permanent labour force, engaging instead a highly skilled group of workers surrounded by a periphery of temporary workers. Some of these peripheral workers will be engaged under short-term contracts as part-time, temporary casual workers." A main reason for the casualisation of the workforce is the changing pattern of the organisation of production – the splitting of the production process into different components and their subcontracting to enterprises, often in different parts of the world. This is now a standard practice for

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environment will be damaged through increased use of pesticides and chemical fertilisers and cutting down forests. It would be a vicious circle. More incentives for cash crops would mean neglecting food crops, which would further mean India having to import food to feed its people, while it will export what it will produce.

Meanwhile, the balance of payments crisis has been aggravated by increased costs of debt payments and by luxury imports for a wealthy minority who have benefited from lower tax and other government measures. On the other hand, for the rest of the population, purchasing power has been squeezed by price rises and unemployment. This together with free entry of foreign capital is pushing domestic producers into bankruptcy. The World Bank/IMF-led SAP denies India the possibility of an independent development, the reforms have the firm backing of India's largest business houses in a fragile alliance with the upper caste landlord lobby. The Indian monopoly business such as Tata, Birla, Dalmia, etc. increasingly identify with foreign capital and global market economy rather than national interest. Indian big business families in partnership with foreign capital are rapidly entering into a variety of areas previously reserved for small scale industry.

The rationalisation of industry is carried out with the aid of the "exit policy", which is designed to remove inefficient industries. Now it would be easier for the employer to lay off workers. In textile industry, for example, about one-third of the workers would be laid off. In all, an estimated 4 to 8 million public and private sector workers (out of total organised labour force of 26 million) will be laid off over the next three years. The director of a firm views the exit policy as, "an opportunity to change the labour laws and to get rid of surplus workers. For us it is more profitable to sub-contract with small factories which employ casual and un-organised labour".

In India, nearly 70 per cent of the rural households are small and marginal farmers or landless labourers, accounting for over 400 million people. In Irrigated areas, agricultural labourers are employeed for 200 days a year, and in unirrigated regions for about 120 days. The phasing out of fertiliser subsidies on behalf of IMF and an increase in farm inputs is pushing a large number of small and medium sized farmers into bankruptcy. Further, the proposed liberalisation of banking, involving the reduction of subsidised loans for rural sectors and abolition of farmer credit cooperatives, will strengthen the position of village money-lenders.

IN fact, the inability to provide increased employment for a growing labour force has been a major failure of the SAP. The stagnation in major Transnational Corporations (TNCs).

The other major point made by the UN's *Human Development Report* is regarding the employment pattern of TNCs. One of the claims made about 'globalisation' and emerging global capitalism is that its agents, the TNCs, are taking capital, technology and jobs to the remote corners of the world, if only politicians do not prevent them from carrying out this global mission. The UN report points out there were some 35,000 TNCs with more than 150,000 foreign affiliates. Of the 22 million people they employ outside their home country, around 7 million are directly employed in the Third World countries – less than 1 per cent of their economically active population. Thus, TNCs-created employment in most of the Third World countries is insignificant. Furthermore, the evidence is that the proportion of the world's economically active population employed by TNCs appears to be falling along with the increased use of automatic technology. If the capital under their control is increasing, and their total economic activities are also growing, they too must be considered as generating "jobless growth". All these raise questions for the future. What should be the goal of economic policy? It is becoming more clear to the people of India that Western promises are unreliable and are in fact prescriptions for their continuing subordination, for maintenance of wealth and power where these are now concentrated, and have little to do with lifting the mass of suffering of the poor out of hunger and despair.

Had India any options? Of course, India would have rescheduled debts to restructure its foreign trade and drastically curtailed imports, including arms and luxury goods. To Mobilisation local resources could be done through taxing the rich and carrying out land reforms, increased emphasis on education and rural small scale industries, which would have required no foreign capital or technology, but instead would have created many more jobs for growing rural population. Further, India would then have been forced to develop technologies based on domestic resources and experience. Instead of super thermal power projects, the country would have gone with small thermal stations. Similarly, mini-hydel projects have an advantage also over larger river hydel projects which, apart from being dependent on imported capital goods, contribute to human misery in terms of huge dislocation of population and environmental degradation by submersion of land and forest. To make such a policy effective, the existing centralised ruling oligarchy in India must be replaced by the grass-roots level democratic institutions and the bureaucracy assigned a reduced role.

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