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Salvation lies elsewhere

Why does the government need to rope in the private sector to perform tasks of the State, asks Uttam Gupta

THE Prime Minister's recent exhortation to Indian industrialists and businessmen to do something to help filter down the benefits of liberalisation to the poor is an indirect admission that the new economic policy has failed to improve their lot.

For obvious reasons, the Prime Minister has not said so explicitly. The fact remains that liberalisation was aimed at spurring growth for the rich even as the poor had very little or nothing to gain. Decreasing employment, rising prices and increasing income inequalities during the past four years prove this.

What, then, was the substance of Mr P V Narasimha Rao's message to industrialists? Clearly, he expected them to undertake social development work. Social infrastructure includes, amongst others, education, health, drinking water and child care. These are basic necessities and every one, including the majority of the poor, must have access to these at affordable prices.

Consequently, these need to be heavily subsidised. Hence, the involvement of the private sector in a major way is ruled out as industries, by definition, are not in the business of providing subsidies.

The critical question is why should the government at all rope in private sector to carry out functions that are primarily the responsibility of the state? It may argue that, on its own, it is not fully equipped to take care of the social infrastructure. This is untenable.

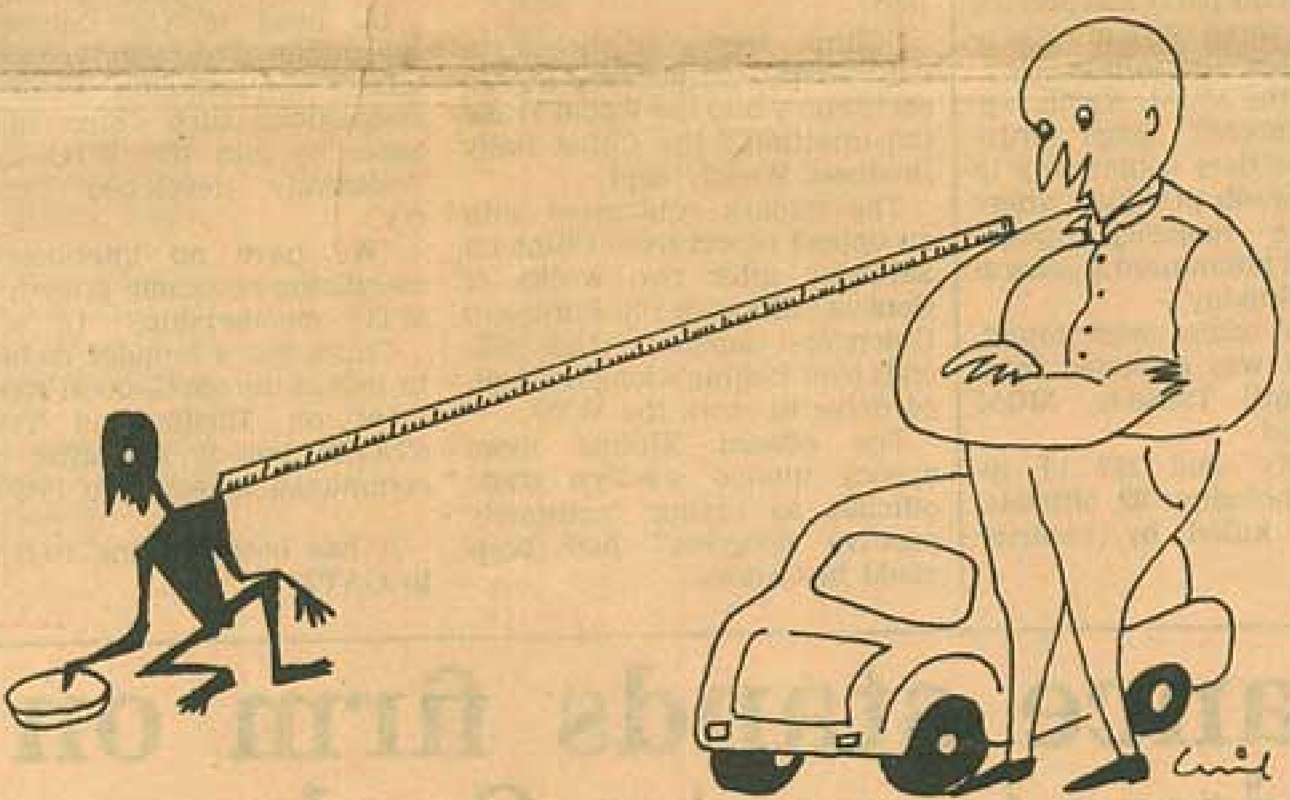
Ideally, revenue from various sources — tax and non-tax — should be used for supporting social needs besides maintaining law and order, spending on defence, etc.

Most of the assistance from abroad — multilateral institutions and bilateral donors — is meant for this purpose only. This includes funds received from the International Development Association (IDA), the soft lending affiliate of the World Bank, which, during the 90s, has almost touched US $1 billion per annum.

True, budgetary outlays may not be adequate in relation to needs, but the fact remains that of total available funds, the predominating share is spent on social services, including spending on employment-oriented poverty alleviation schemes year after year.

In fact, in recent years, when compulsions of reducing the fiscal deficit required drastic curtailment in overall expenditure, investment activity alone bore the brunt, leaving social spending untouched.

During the current year, there has been acceleration in spending. To facilitate this, budgetary support to central undertakings has been drastically cut. In fact, in key sectors like natural gas, oil, power and telecommunications, budgetary support is nil. More recently, the government has even directed central undertakings not to initiate any fresh projects.



There has been large-scale diversion of funds to a host of social assistance schemes announced by the Prime Minister in August. In the emerging situation, even the projects already being implemented may come to a standstill.

The irony is that despite getting disproportionate financial allocations, even at the cost of jeopardising productive investment, social services remain in a deplorable state. Similar is the situation in regard to employment, housing and poverty, notwithstanding schemes like the Prime Minister's Rozgar Yojana, Indira Awas Yojana and a host of other employment and poverty oriented programmes that have swallowed thousands of crores of public money.

Despite this, the government is not tired of spending more and more for social services. But spending for whom? Where does the money go? How much do the intended beneficiaries gain?

Much of the inertia originates from the conviction that spending more will automatically improve the situation. Even in the rare cases where an internal review reveals disappointing results, the emphasis is not on corrective action but on suppression of facts.

Further, the government announces a host of new social assistance schemes, very often outside the Union budget, but funded by it. This aggravates the vicious circle in which stagnating/declining investment coexists with continued large scale poverty and acute lack of basic amenities.

Money meant for social assistance schemes is generated through deficit financing. This can be inflationary even when the money is well spent, adds to the stock of assets and increases the supply of goods and services.

If, however, it is not properly spent, the inflationary pressures are devastating and hit the poor the most. Thus, far from helping the poor, the schemes end up making their life even more miserable.

The new economic policy and the manner in which the government is seeking to help the poor has the potential of pushing the country towards a socio-economic catastrophe. While the economic policy is primarily benefiting MNCs, big industrial houses and a section of the middle class, at the cost of SSIs and employment, the social assistance programmes are indirectly aggravating inflationary pressures and contributing to stagnating/declining investment.

The entire approach to social development is seriously flawed. The government should concentrate only on providing social services — education, health, drinking water and child care — besides investing in basic infrastructure — railways, roads, etc. Instead of asking industries to contribute funds for social services, the focus should be on better collection of taxes and imposts from them.

Proper management of budgetary resources and external assistance would facilitate effective discharge of these functions. However, the government should not utilise the resources of central undertakings for social services.

The objectives of employment-creation, income enhancement and poverty removal have so far been addressed through government sponsored schemes/programmes. This practice needs to be discouraged as it fails to account for ground realities and is prone to widespread misuse and leakages.

Instead, the government should activate decentralised mechanisms to facilitate growth of labour intensive/small scale industries and growth of agriculture.

The emphasis should be on providing the right policy environment and effective administrative support. For instance, the policy on the SSI sector should be enforced in its true spirit and encroachment by MNCs and domestic industrial houses prevented.

Scrapping populist schemes will save resources which could be used for building roads, particularly in rural areas, augmenting irrigation, digging tubewells and other rural infrastructure. All this will go a long way in expanding agricultural activity, setting up of SSI units and making them viable.

The impact of such support will be much wider and deeper unlike the present dispensation in which even the target group does not fully benefit.