

Case for attitudinal reforms

Hard decisions can no longer be deferred if reforms are to be taken forward, says Uttam Gupta

RECENTLY, Dr Manmohan Singh touched upon a very vital aspect of economic reforms while inaugurating an international conference on financial management and accountability in the public sector. He had observed, "We have to strengthen and reorient our institutional framework to enable the market economy to serve our basic, social and economic objective of speedy removal of mass poverty."

The observation clearly recognises that, in a fundamental sense, there is no contradiction between market economy and the equity objective. The crucial determinant of the fate of the national objectives are the legislative, administrative and judicial institutions, and the people who man them. In fact, much of the problem in terms of both the macro-economic goals and the inequalities owe their existence to the inability of institutions to respond to the needs.

Excessive controls and over-regulation of the economy during the last four decades or so that were sought to be justified in terms of the equity objective, have only aggravated this bottleneck. During the last about three years, the economy has moved a significant step forward in terms of liberating controls on trade, industry, exchange rates etc. But commensurate results are not forthcoming and indeed, there are reversals in some of the macro target variables. Fiscal deficit which was well under control in 1991-92, is now placed at over 7 per cent of the GDP which is the 1990-91 level. Inflation which at one point dipped below 8 per cent, is now hovering around 8.5 per cent and is likely to slip into double digit figures. This is further reinforced by our inability to control the growth in money supply.

There have been gains as well. The current account deficit as a percentage of the GDP has decreased to 0.5 per cent as against 3.3 per cent in 1990-91. Foreign exchange reserves (excluding gold and SDR) have already crossed \$13 billion. Another redeeming feature is the record \$2.8-billion foreign investment (1.1 portfolio and 1.7 FDI) during April-November, 1993. For the whole year, it is likely to be about \$3 billion. The inflow could be even more but for the inability of our institutional infrastructure to cope with it.

Achievements are clearly discernible in areas that are directly affected by the policy-oriented impulses. These are primarily in the field of foreign exchange reserves, foreign investment, stability of the rupee and BoP. It must, however, be cautioned that these achievements too may prove to be shortlived in the absence of the dynamic changes in the institutional infrastructure. Even the unprecedented foreign exchange reserves may turn into a bubble if we do not change our systems.

Areas in which policy impulses can impact i.e., fiscal deficit, inflation,

industrial growth etc., have on the contrary, been disappointing. In agriculture, too, 1993-94 has not shown any remarkable improvement. Besides, no clear-cut reform policy has been formulated for this sector. Moreover, as the extremely poor record of implementing land reforms would show, the administrative and institutional bottlenecks on this front would be even more daunting.

Budget deficit has increased primarily because of the steep shortfall in revenue realisation on one hand and expenditure exceeding the targets on the other. The finance minister had reduced the customs and excise duties on the premise that more revenue would come on an increased base resulting from higher industrial

growth, better compliance and reduced evasion. This required the support of the tax collection machinery as also overall monitoring surveillance and strict enforcement of the law of the land. Substantial shortfall in the tax collections demonstrates that our institutions did not rise up to the occasion.

Government expenditure is rising to abnormally high levels contrary to expectations. Revised estimate of food subsidy during 1993-94 has been placed at Rs 5,200 crore as against a budgetted figure of Rs 3,000 crore. The actual may be even higher at about Rs 6,000

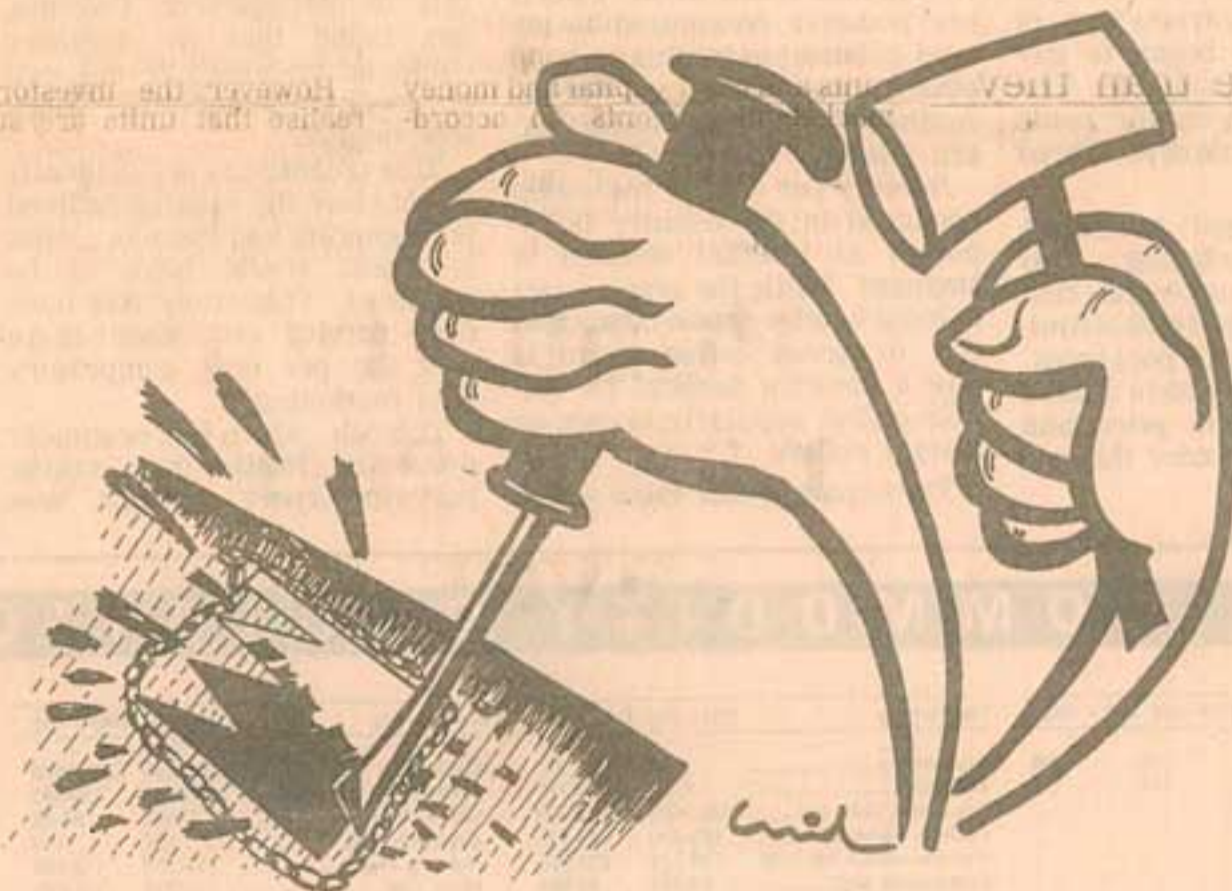
working style of our institutions.

The insensitivity to change and inability to respond to the demands of fiscal discipline is also evident in the ballooning non-plan expenditure, failure to divest the staff rendered redundant consequent to liberalisation as also check the increasing demand for more perks and facilities by the political establishment. Incidentally, in connection with the last item, the constituency development scheme earlier announced for the MPs is now proposed to be extended even to members of the legislative assemblies.

Speedy action on restructuring the PSUs is also stalled because of the institutional rigidities and lack of necessary political will. All cases for either rehabilitation of the sick units or their winding up, are being invariably delayed at the level of BIFR. Of late, one more dimension has been added with labour ministry insisting on all cases being discussed at the Tripartite Committee involving representatives from the government, managements of the PSUs and the labour unions. Continuation of the sick/loss making enterprises is in nobody's interest, not even in the interest of the workers. And, still the change is resisted because of lethargy at all levels and vested interests working in collusion with their political benefactors.

Institutional bottlenecks are also evident in other impact areas of trade liberalisation. Consequent to our opening up, there have been several cases of dumping by international suppliers at prices much below even their cost of production. Remedy is available under the anti-dumping legislation. But weak and sluggish enforcement has deprived domestic industry of effective relief. In this context, the relevant recommendations of the Chelliah committee to speed up the process still remain to be implemented.

There is no magic wand that can work the kind of economic transformation that we are looking forward to. The existing institutions have to be reoriented and restructured to translate the objectives of economic reforms into reality. If that does not happen, there is the risk of losing the incipient international confidence. In that situation, it would be a frivolous exercise to blame the new economic policies for the ills of the economy and the society at large.



crore as per reports sometime back. The difference cannot be justified in terms of the increase in the procurement prices announced in the middle of 1993-94.

Earlier increases during 1992-93 had already been fully neutralised by commensurate increases in the issue prices from the PDS notified in January 1993. The revised estimate for fertiliser subsidy at Rs 4,400 crore is also higher than the budget estimate of Rs 3,500 crore. The actual demand may be even higher at about Rs 5,000 crore. This again is puzzling considering the fact that only nitrogenous fertilisers which constitute half the industry were under the pricing and subsidy scheme during 1993-94. Here again, the problem is due to the