Need to improve economic management

There is an urgent need to change our mindset on GATT. The opposition would do well to enlighten the public on issues like double-digit inflation, galloping fiscal deficit and unbridled growth in money supply, while the government should concentrate on how to put economic reforms back on the rails, says Uttam Gupta.

THE world trade pact finalised at the conclusion of the Uruguay Round of negotiations under the auspices of GATT does not infringe on our economic sovereignty; it does not take away our right to give agricultural subsidies, to maintain and manage the public distribution system (PDS), to protect farmers' right to use good quality and improved variety of seeds; and we are under no obligation to import foodgrains — this has been the refrain of the government in various pronouncements both in Parliament and outside.

In contrast, the opposition has left no stone unturned to lambast the government for what it calls abject surrender of the country's macro-economic policy to the new international economic rules that would be monitored and enforced by the proposed World Trade Organisation (WTO).

The debate on GATT has taken little cognisance of the agreement that has been signed. Among other things, the 120-odd nations have agreed to cut tariffs including those resulting from tarrification. Industrial nations will cut tariffs by 37 per cent over six years, developing nations by 24 per cent over 10 years. Minimum cuts of 15 per cent and 10 per cent respectively are required on individual tariff lines. Talks on further cuts will begin in the fifth year. Industrial nations have also agreed to cut export subsidies by 36 per cent and subsidised export volumes by 21 per cent over six years. Developing nations will cut them by 24 per cent and 14 per cent respectively over ten years.

However, these facts have had little prominence in parliamentary debate. Between the two extreme positions adopted by the government and the opposition, something very crucial that is being neglected is the need for improving our own style of economic management which has so far only undermined our economic interest.

On agricultural subsidies, we are being told that already we are well within the overall aggregate limit of 10 per cent of the value of production. Recently, the agriculture minister even went to the extent of saying that in terms of the pact, we could even provide a whopping subsidy of about Rs 20,000 crore. But then, we will not hesitate from reducing even the existing much lower level of subsidies as this is purportedly considered necessary in the context of promoting fiscal stabilisation.

Having decided to do it, there is no point in crying wolf over the existence or otherwise, of a possible threat from the GATT on this score. The fact that the subsidy elimination process, which was ill-conceived and implemented suddenly, has produced serious adverse effects, does not seem to bother us.

Fiscal stabilisation has indeed taken a back seat. This is clearly evidenced by the revised numbers of fiscal deficit for 1993-94 and the potentially high gap left uncovered during 1994-95. Had we achieved at least this goal, it would have perhaps lent some credibility to the attempted moves towards reduction of agricultural subsidies. Food subsidy during 1993-94 was Rs 2,200 crore more than in 1992-93. Fertiliser subsidy too is not low if we consider the ad hoc subsidy which in the budget documents is camouflaged as expenditure for fertiliser promotion. What is even worse is that the farmers are paying much more for the inputs than they paid before the initiation of economic reforms. The same is true for the consumers.

That brings us to the management of the PDS. The PDS is expected to make available to the poor cheap foodgrains, and in desired quantities. On both these counts we seem to have failed miserably. In a ration shop, one has to pay about Rs 4 per kg for wheat and about Rs 5 per kg for ordinary variety of rice. The steep decline in offtake by the state governments from the central pool during 1993-94 clearly shows that the PDS is not poor-friendly. It also proves that the stocks in the pool are increasing at the cost of the poor and that the hefty increase in food subsidy reflects predominantly the high cost of handling, procurement and storage which is nothing short of mismanagement of our food economy.

Against this backdrop, whether the management of PDS gets covered by provisions of the GATT or not, the fact remains that we are far from serving effectively the concerns of the poor in this country. Consequently, even though our negotiators at the GATT may have succeeded in seeking exemption for procurement and management of the PDS, the ultimate objective for which they worked remains unfulfilled. By improving the productivity of the system, eliminating inefficiencies and plugging various loop-holes and, in the process, generating necessary savings, we could have provided foodgrains at cheaper prices, and without increasing the subsidy burden on the exchequer. But, we don't seem to be having time to even debate this issue.

Our parliamentarians, including some of those belonging to the treasury benches, seem to be worried over the patenting of the seeds which farmers will have to buy henceforth from the MNCs at exorbitant prices. However, no one appears to be concerned over the serious problems the farmers would face to produce more food consequent to sudden dislocation in the supply of fertilisers, steep increases in the selling prices and the fast-eroding production base within the country. That apprehension is by itself unfounded considering that the farmers will still be free to use the seeds retained from the previous crop or procure the same through the traditional exchange route. And, that indeed fulfils almost the whole of their requirements.

Following sudden decontrol in August 1992 and decanalisation of imported DAP at zero customs duty, majority of the domestic industries have become unviable. Of late, even the imports are not coming as the states' de facto controls on selling prices at unrealistically low levels have discouraged importers due to steep hike in C&F landed, handling and distribution cost of imported material.

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Recently, even the International Wheat Council (IWC) projected that India may turn into a net importer of wheat. Such a possibility is also reinforced by the shift in cultivated area to non-food crops in predominantly food-growing belts like Punjab and Western UP. In this situation, whether or not we shall be under an obligation to import the specified percentage of domestic consumption of agricultural goods also becomes totally irrelevant.

On drug and pharmaceuticals, the fears from the GATT seem to be misplaced as about 80 per cent of the drugs will be outside the patentable category and for the rest, adequate safeguards — the compulsory licensing route or the Drug Price Control Orders — are available. However, on this front also, not much attention has been paid to the rather unusual phenomenon of most of the essential drugs going beyond the reach of the common man. What impact the contemplated amendment in the Indian Patent Act, 1970, will have on the availability and the price situation can not be ascertained at this stage. Probably, much of the consequential increases in the prices of the drugs would be ascribed to the MNCs which would be having a field day due to their monopoly in product patents. But, who is to be held responsible for the steep increase in prices, notwithstanding the existence of the administrative machinery and the sweeping powers available to the concerned authorities to enforce checks on prices?

In the financial sector, the internal mismanagement has been responsible for the economic ills more than the likely dangers originating from the GATT. One might say that companies are mobilising funds from abroad either as equity or borrowings at much lower interest rates. To that extent, lending by our commercial banks and financial institutions have been affected. But the companies have also been collecting lot of money from the public, which no longer prefer to keep their savings in the banks.

Besides, the government has not so far permitted the foreign banks/FIs on any significant scale and yet the Indian banks have been loosing business on the deposit as well as lending side.

All this has to do primarily with the high cost of intermediation by the banks/FIs and their inability to provide efficient and quality services to the clients. We do not seem to be making any progress in reforming this. On the contrary, by providing them budgetary support for covering their losses, the government is only signalling that they need not improve their working. Clearly the threat is from within than outside.

There is an urgent need to change the mindset. This applies as much to the opposition as to the treasury benches. While the former would do well to enlighten the public on issues like double-digit inflation, galloping fiscal deficit and unbridled growth in money supply, the latter need to concentrate on how to put the economic reforms back on the rails. Let us not commit the folly of analysing our economic prospects only within the scope of DFA as ultimately it is our style of economic management that will matter.