

The price of populism

The largesse to MPs is symptomatic of the government's failure to resist political pressures, says Uttam Gupta

WITH another budget session around the corner, the time is ripe for assessing the extent to which the Indian economy has succeeded in attaining the goals targetted by the reform programme. Whether it is meeting goals set by financial sector reforms, the exit policy, restructuring of the public sector or subsidies, no convincing progress has been made so far. Even containment of fiscal deficit, which was the most creditable achievement in the first year of reform, is now turning into a blot with the government's failure to meet the 1992-93 targets and 1993-94 too holding no hopes of India being able to meet IMF expectations. And this despite a reduction in capital investment in real terms for two years in succession.

Right now, there are only two bright spots that are enabling the Indian economy to put up a brave face and prevent a downslide in our credibility in the international market. First, the foreign exchange reserves of over \$10 billion as of January 1994 and, second, the excellent performance on the agriculture front, with foodgrain production likely to touch 185 million tonnes in 1993-94.

The former is predominantly the consequence of the commitment of Dr Manmohan Singh and his team to economic reforms and their forceful articulation in international fora of their determination to work out things in the manner proposed. The latter is a product of, in large measure, an extremely good monsoon for the sixth year in succession, which according to Merrill Lynch will be a crucial factor in determining the success of reforms even during 1994-95.

But, sooner than latter, we will have to give demonstrable evidence that the contemplated changes that enabled us to attract dollars are actually being implemented. In fact, the IMF has already given a veiled threat that the government should act firmly and decisively in the matter of subsidy and exit policy or else the US \$8.9 billion loan under the Extended Fund Facility (EFF), which we need desperately to meet projected exceptional financing requirements, may be in trouble.

That is also a crucial determinant on the question of maintaining the

fiscal deficit within limits.

The economy badly needs a boost by way of an increase in public investment (the proposed increase of just about 10 per cent in central plan outlay in financial terms in the face of an eight per cent rate of inflation may not take us anywhere). Revenues have undoubtedly shown some buoyancy, but have not grown at a pace sufficient to avoid a trade-off between the two. The only way the fiscal deficit can be reduced is by redeeming the pledge to reduce non-plan/non-development expenditure.

This would be an impossible task if

The announcement of a MPs' scheme for rural development seems to have knocked down the very foundation of the fiscal management programme. While the sum of Rs 1 crore for each MP may appear to be little, in the aggregate this will translate to a staggering sum of about Rs 800 crore.

Such a huge allocation is even more absurd when viewed in the light of the prevailing condition where practically all infrastructural industries — power, transport, communication, — are starving for funds.

The government has argued that these constituency-centred alloca-

But, in this case, the funds are proposed to be put at the disposal of the MPs, allowing a predominant role to the discretion of an individual. So ill-thought out is the scheme that, during the rest of the current financial year when no concrete work can be taken up, Rs 5 lakh will made available to each MP.

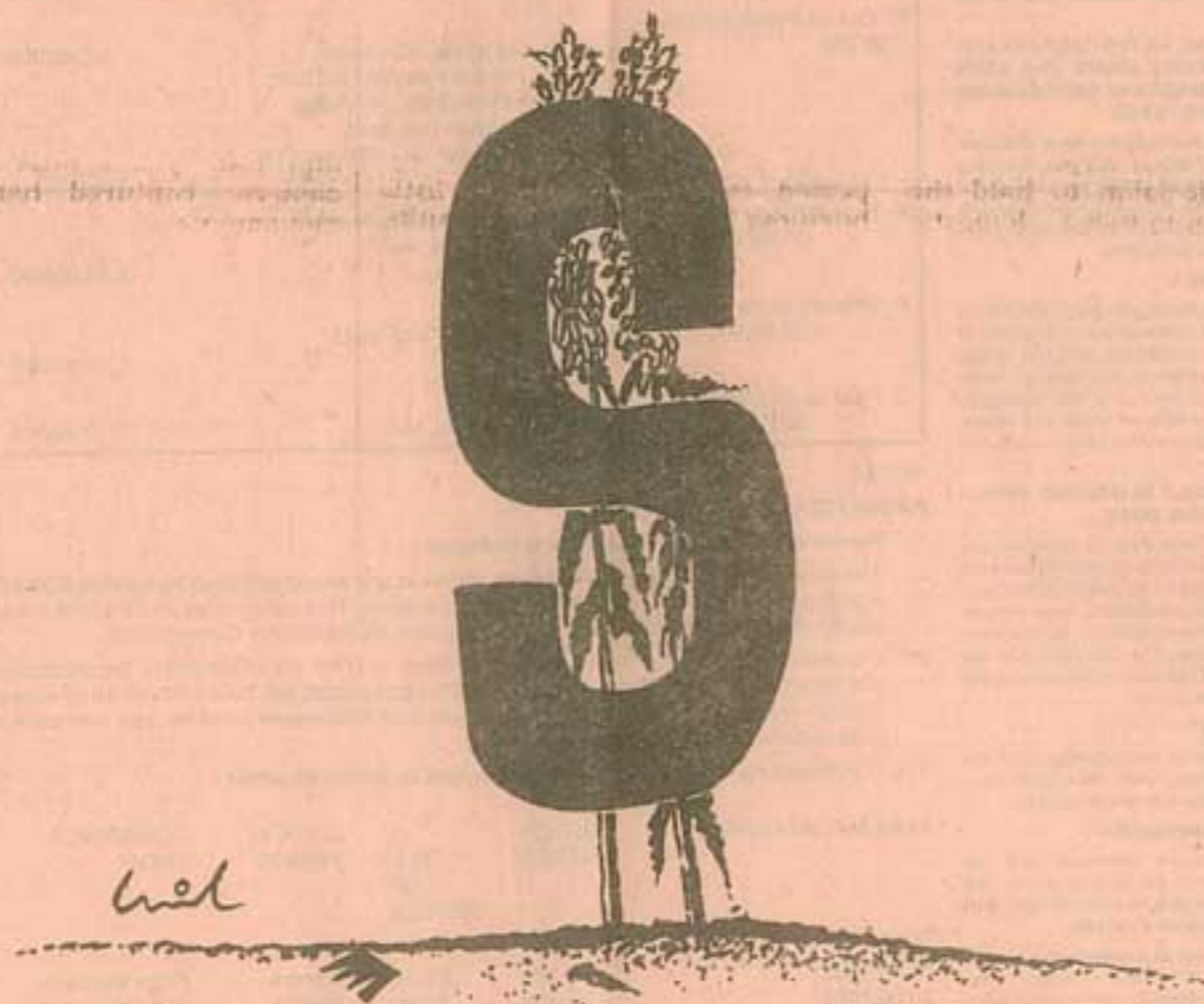
While development of one's constituency is a good objective, the same can be achieved by effective implementation and monitoring of existing programmes. There are plenty of programmes which seek to attain the same goals as the MPs' scheme. Take for instance, the Integrated Rural Development Programme (IRDP), the Rural Employment Guarantee Programme (REGP), the Jawahar Rozgar Yojana and a variety of area-specific programmes.

Under IRDP alone, during 1993-94, a sum of Rs 1093 crore was sanctioned to cover 2.6 million families. The predominant focus of these programmes are creation of permanent assets, generation of employment, among others. They are, in fact, serving the same objectives that are now being contemplated in terms of the MPs' rural development fund.

We should ensure maximum effectiveness of the existing programmes to get optimum results instead of seeking to create new mechanisms and infrastructure. If some of the backward areas have been left uncovered, that can be taken care of by changing the focus or broadening the scope of existing programmes.

Recently, in Delhi Assembly, the chief minister stated that almost 50 per cent of the funds allocated for slum development during the current year remain unutilised. Such instances are not uncommon. Indeed this fact has been vividly brought out by the World Bank which has warned the government time and again on its inability to fully utilise international aid.

The need of the hour is to extend to Dr Manmohan Singh necessary political and institutional support by way of concrete actions. And, that would happen only when the political leadership rises above partisan considerations and populism and starts seriously addressing the vital issues of reducing non-development expenditure, implementing financial sector reforms, framing and adopting a workable exit policy and reforming the public sector enterprises.



the political leadership fails to support the need for cutting down this category of expenditure.

However, that is precisely what appears to be lacking. In the prevalent wave of populism and continued pandering to votebanks, politicians seem to be averse to even considering the finance minister's compulsions.

Dr Manmohan Singh has made a frontal attack on the fiscal deficit by virtually abolishing export subsidy and taking important decisions that would reduce substantially the subsidy on fertilisers. On the question of restoring ad hoc subsidy on decontrolled fertilisers during the current year, he stood like a rock for a considerable period of time before finally giving in to political pressures.

tions will be used for creation of assets. The list of activities that a district collector can undertake on the direction of the parliamentarian whose constituency it is, is patently arbitrary, lacks focus and by itself is a reflection on the seriousness or otherwise of the intentions behind it.

Further, considering that the scheme may not be strictly based on any socio-economic criteria, there is scope for questioning its utility.

When an entrepreneur, big or small, approaches banks or financial institutions for a loan, the concerned project/scheme is subject to thorough scrutiny on techno-economic grounds. The same is expected to be true of the projects/schemes implemented by the government in the normal course.