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| **“**[**Time to dig deeper**](http://www.telegraphindia.com/1121224/jsp/opinion/story_16332540.jsp) |
| The necessary reforms will hurt vested interests” |

BY S L Rao

The decline of the economies of Europe, USA and Japan robs us of markets but provide opportunities. Commodity prices will fall, technology imports cheaper and cheap investment funds more easy. But India must overcome the crisis by paralysis in government. Superficial reforms are not the answer. We need basic changes, more difficult than the ones of 1991. In thirty years we have twice introduced dramatic reforms.

Indira Gandhi was hailed as “Durga” after the victory over Pakistan in 1971 and the creation of Bangladesh. But the euphoria disappeared soon with the oil “price shock” of October 1973. Arab countries were “punishing” the United States for supporting Israel after Syria attacked it.

Over the next three years, crop failures, ideological resistance to food imports, growing current account deficit, extravagant government expenditures, rising fiscal deficits, and consequent inflation (double digit from 1972 to 1974), created an economic crisis. The oil embargo by oil producing Arab countries (finally removed in March 1974) added to our woes. Those years also saw student strikes in many places, and a threatened national railway strike by 2 million which could have destabilized the country. Jayaprakash Narayan started a movement against the government which gathered wide support. The economic crisis compelled Mrs Gandhi to introduce a vicious economic package. Government expenditures were slashed, taxes raised, wage increases frozen, and dividends capped. These measures quickly brought down double-digit inflation to normal prices.

The 1991 crisis saw fiscal deterioration, (deficits, current account deficits, rising foreign borrowings), foreign exchange reserves covering only two weeks of imports, and double digit inflation, following oil price increases after Iraq invaded Kuwait. A substantial external borrower, downgrading of India’s credit rating made overseas borrowing difficult. But it was the macroeconomic policies of earlier years that created the crisis.

Narasimha Rao made fundamental changes in policy directions. Principally, the fiscal deficit was contained; the economy was opened up and liberalized. Industrial licensing was removed, as was import licensing, income taxes and import tariffs were reduced considerably and rationalized, tax administration was computerized and made efficient, restrictions on technology imports were removed, new sectors like information technology and electronics were allowed to grow, and other obvious restrictions on the economy were removed.

In subsequent years Congress, BJP, and regional parties, discovered that populist programmes bought rural votes. (They also helped politicians and bureaucrats to make money). The Kelkar report asking elimination of administered prices for petroleum products was shelved. Politicians held back price increases for diesel, petrol and kerosene despite rises in crude prices. Government had to recognize oil company losses as subsidies in Union Budgets. Fertilizer subsidies, free electricity to farmers for pump sets, heavily subsidized rice or wheat in some states, write-offs of farmer debts, the badly administered rural employment guarantee scheme, and other social schemes added to government deficits at centre and states. Huge government expenditures on social welfare schemes, are spent inefficiently, wastefully, with considerable theft.

Today’s governments will not cut even waste and theft in social programmes and in subsidies. Instead they take superficial measures. Reforms in agriculture, administration, bureaucratic procedures, and transparency in government decision-making, are not on the agenda. Infrastructure and exploiting natural resources are bogged in opaque allotments of spectrum, coal mines, iron ore mining, etc. Huge losses to the Exchequer of potential revenues are denied. Land legislation to protect land rights and permit easier land acquisition, transparency in sale of natural resources, removing restrictions on foreign investment are haphazard with continuing time-consuming procedures. On-off approach to exports of sugar, cotton, etc, continue.

Incentives for financial institutional investment facilities (the “Mauritius route” and participatory notes that enable money laundering), continue. Simplifying procedures to allow speedy foreign direct investment are not introduced. Laws to make criminal offences of white collar crimes and corruption, with severe penalties are not considered. The judiciary is constrained in numbers, status and remuneration.

Agricultural productivity in every crop is significantly lower than many Asian nations. Environmental issues like salinity, water logging, leaching of soil, and contamination of rivers receive *insufficient* funds. Agricultural pricing and markets are severely distorted, not providing ‘signals’ through agricultural prices. Little investment to improve the agricultural supply chain to urban markets has resulted in considerable wastage. Commission agents and wholesalers take away a large share of consumer prices and farmers are left with low prices. Free or below cost power has led to ground water depletion and salinity of land due to shift to water intensive crops. Coordinated policies for agriculture must cut across different Ministries.

Power generation remains behind plan. Coal is inefficiently mined, with severe shortfalls in production. Captive mines opaquely given to private sector have not helped. Gas based power plants suffer because gas supplies have dwindled. The regulatory mechanism for power has allowed state electricity boards to lose substantial money. Neither coal nor gas production are transparently regulated for production and prices.

The public sector commands key sectors-principally, power, coal, oil and gas, steel, aluminum, railways, road construction, food procurement and distribution. All are highly inefficient, ineffective planning, vast thefts by politicians, bureaucrats and others, and poor quality and availability.

Administration is lacking in transparency and individual accountability and experiences rampant corruption. Cities and towns are poorly governed and planned. Sanitations, drinking water, housing, are neglected. A bureaucracy not designed to execute vast schemes for huge expenditures is expected to do so efficiently and honestly. Drastic reform of all administrative and police services is a vital necessity.

India is rated among the worst countries to do business in. The primary reason is the time taken over getting innumerable government permissions. Simplified procedures are a must be for attracting foreign investment. Domestic investment is also looking for overseas pastures for the same reason. Annual reviews of corruption in different countries rate India among the most corrupt. Corruption should be a criminal offence. The judicial system while reasonably effective is short on numbers of judges, with poor remuneration.

Reforms now have to correct our institutional structures, systems and procedures. Haphazard superficial changes ar not enough. Direct cash transfers by themselves will do little. The Aadhar project is ambitious and unique. It will take time for the country to be covered. There must be foolproof identification of desired beneficiaries. For reducing waste and theft in subsidies and help to the poor, an easily accessible ATM-type bank network must be in place. Village power hierarchies of caste and community must not come in the way. Social audits must be by trained people with immediate resultant actions.

Political parties must immediately agree on these basic reforms. For a start, slash government expenditures to reduce government deficits permanently. Administrative reform (including police) must ensure individual accountability and transparency in decisions. Constitutional and statutory regulatory bodies must be staffed with qualified people, not merely retired bureaucrats. They must be respected, not interfered with. The public sector must either be truly autonomous or be fully privatized, especially coal, gas, power. Procedures for all purposes must be simplified and transparent. Judiciary must be expanded and subjected to time discipline.

This government has no concept of reform. In past crises it acted in a coordinated fashion and speedily. In 1991 reforms removed obvious barriers. The reforms today have to dig deeper. They face vested interests in government. But they are unavoidable. (1226)