A shift in perspective

The focus of the reform process should shift to health, education and rural infrastructure, says *Bharat Ramaswami*

Illustration by R PRASAD

It's quite a safe bet that, on February evenings, the Finance Minister and his team of bureaucrats are not home to watch television. Instead, they are intensely occupied in producing a major television event themselves. It takes some reminding that budgets used to be dull annual rituals for imposing new taxes and hiking various prices. Most people took the precaution of filling petrol tanks on budget eve. Dealers in refrigerators, television and ceiling fans understood the "end of February" effect and planned their stocks and marketing strategy. All of this seems distant history. The credit for the transformation of a dreary event to a glitzy media occasion goes largely to Dr Manmohan Singh. After all, budgets have not changed character. They remain tedious documents of projections of revenues and expenditures. What has changed are the contents of budget speeches. The finance minister has used the opportunity to announce changes in economic policy, which, relative to our immediate history, have been unprecedented. The process of economic reforms in India has proceeded essentially via a sequence of budget speeches. It follows that, on a certain day in March, yet to be announced, many of us will be glued to the budget special on Doordarshan. Besides the odd Urdu couplet, what else could we hope to hear from the Finance Minister?

It is nearly four years since Dr Singh presented his first budget. The new government hurried to take measures to successfully pull back the economy from the verge of bankruptcy. Control of macro magnitudes like the fiscal deficit, money supply and inflation were the immediate tasks. Two years later it seemed that these objectives had been accomplished. It must seem a bit cruel to the Finance Minister that inflation and runaway government expenditures now threaten once again to destabilise the macro-economic environment. At the time of the last budget, the FM made a virtue of easing controls on the fiscal deficit. His point was that with excess capacity in industry and the cushion of foreign exchange reserves and grain stocks, a demand stimulus would increase output without the risk of inflation. For a time, the Finance Minister seemed remarkably prescient until the inflation rate started climbing back towards the dreaded double digit level. If the government's lack of success in keeping inflation down continues, it may jeopardise the growth of exports and may call for difficult decisions about devaluation.

Of course, the Reserve Bank of India continues to sit upon an impressive and growing pile of foreign exchange. However, the Mexican experience, cannot be too far away from the minds of the policy makers. The dangers of inflation, both politically as well as in macro-economic management are so well known that it is inconceivable that the budget could willfully disregard it. On the other hand, it is conventional wisdom that this year's budget, for obvious reasons, would have to concede more to politics than in previous years. How Dr Manmohan Singh strikes a balance between these contrasting and equally compelling imperatives remains to be seen. Since realised fiscal deficits often turn out to be quite different from projected numbers, what is at issue is also the Finance ministry's autonomy in sticking to its numbers in the course of the year.

Broadly speaking, the successes in economic policy of the present government have been in the areas of industry policy, trade policy and exchange rate management. As we have seen, macro stability is yet to be ensured. Other items which have been on the reform agenda but have not been grand successes are public sector reforms including privatisation, infrastructure policy on roads, power and telecommunication and the restructuring of the nationalised banking system. Sectional interests have stymied rapid progress in any of these areas. It is hard to imagine what new initiatives Mr Singh could announce with regard to these. Tax reform is another set of barely initiated changes. One can expect the finance minister to continue the rationalisation of excise and customs duties as well as lowering of the average level of tariffs. Agricultural policy has been on the periphery of the reform agenda. Changes that have occurred have been piecemeal and have been mainly concerned at loosening government controls on agricultural trade. However, there has been no systematic review of the gamut of market interventions in agriculture. There seems to be enough scope for reducing the costs of market interventions but the government does not seem to be seriously considering reforms in this sector.

So where can one expect dramatic announcements? Poor results in state elections have been interpreted by some as a vote against the "anti-poor" economic policies of the Centre. Newspapers speak of the pressure on the finance minister, from Congress MPs, for "pro-poor" policies. Increasing the allocations to the public distribution system and to specific anti-poverty programmes seem a predictable if tried response to these demands. It is true that the PDS is the only element of an otherwise non-existent social safety net. It is also undoubtedly true that the PDS needs to expand its reach to all the rural areas and to the genuinely poor. Yet, for various reasons, the value of the PDS in making a significant dent on poverty has been severely limited.

Experience has shown that the most reliable safety net for the poor is a growing economy. The importance of income growth, particularly in rural areas, in reducing poverty has now been sufficiently documented. Although, it is well understood that rural income growth is the engine that drives the Indian economy, the current process of economic reforms has not directly addressed the issue of getting this engine to move faster. Income growth and the quality of life in rural areas is severely constrained by pitiful levels of public investment in rural infrastructure, education and health.

It is not that the policy makers have been unaware of these basic realities. Budgetary allocation to rural development and education have risen, and particularly so in the last two years. Yet, with the dismal situation of central government finances, the extent to which central allocations to these areas can be increased is necessarily limited. However, health, education and rural infrastructure are sectors where investments contribute to growth as well as provide immediate tangible benefits to the quality of life of the poor. If the focus of economic reforms were to shift to these areas, it would be less contentious as well. Dr Manmohan Singh could announce, for instance, that all proceeds out of disinvestment in public sector enterprises would be invested in primary schools and health centres. Not only would it embarrass the sectional interests obstructing privatisation, it could also create a powerful lobby for change. Of course, in health, education and rural infrastructure, progress depends as much if not more on the state governments. The reforms process at the level of the states now deserves as much emphasis as policies at the Centre.

The prime minister, as well as Dr Singh have made the point that the State must get out of the business of running industries and increase its presence in the badly neglected areas of health, education and infrastructure. It is time that the government made such a reallocation of resources explicit and claim political virtue for it. For the last four years, the policy debates have been dominated by such issues as foreign investment, exchange rates, capital markets and privatisation. By and large, policies in these areas have moved in the right direction, even if not in sufficient pace. Clearly, much remains to be done, while these issues must remain on Dr. Manmohan Singh's agenda, one also wishes that issues of health, education and rural infrastructure move to the top of the government's agenda.

Just as the initial phase of reforms was motivated by the recognition of the negative influence of government controls, the gains of this phase most be consolidated by carving out a positive role for state institutions in health, education and rural infrastructure. These policies not only have the potential to transform the economic landscape of the country; they also will have powerful positive impacts on the quality of life of the majority of the population and could thereby unify the worlds of politics and economics.