The Economy

PUTTING THE PIECES BACK TOGETHER

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Our economy is in a terrible mess. Industry stagnates, drought has taken a heavy toll of agricultural production, and we are fast eating up our reserves of food. Even the common necessities of life like cooking oil, kerosene and onions are scarce or beyond the pockets of the poor. Who is responsible for this state of affairs? What measures will Indira Gandhi's government take to pull us out of the morass?

The 'poverty line' is assumed to be consumption of Rs 65 per capita per month in rural areas and Rs 75 in urban areas at 1977-78 prices. On this basis in 1977-78, 306 million people in India were living below the 'poverty line', of whom 249 million were in rural areas and 57 million in urban areas.
—Revised Draft, Sixth Five Year Plan

INDIA is a land of stark statistics, but most of us are only dimly aware of what terms like 'national economy', 'per capita income', 'gross national product', 'inflation', 'recession', and 'fiscal measures' mean. Every succeeding year, we are ground slowly between the millstones of what our invisible helmsmen call 'progress'. Our incomes shrink as rapidly as the prices of milk, kerosene, sugar, onions and cooking oil rise. Life is a never-ending queue.

Most of us despair and suffer silently. Some put their cunning to good use and enroll in what is called the 'parallel economy', that shadowy community of black-marketeers, hoarders, smugglers, and shysters of every hue. As the economy develops more and more cracks, public morale and law and order both take steep nosedives.

1979 was a bleak year. After three years of good rainfall and booming agricultural production, we were hit by the worst drought since 1896. Added to the already heavy burden on the central exchequer was drought assistance to the states, amounting (until November 15, 1979) to Rs 141.6 crore. Although we will be producing around 120 million tonnes of foodgrains during 1979-80, and our foodgrain stocks stood at 21.4 million tonnes in June 1979, the drought-hit states will draw heavily on these reserves.

Drought was not the only thorn in our flesh. By December 1979, inflation had touched an alarming high of 20.7 per cent. Between April and August 1979, industrial growth was negative. Between January and June 1979, 22.47 million mandays were lost due to strike and lockouts in our factories (the corresponding figure for 1978 was 14.92 million mandays). While blue-collar and white-collar employees watched with dismay their take-home rupees shrivel in actual buying power, money supply rose sharply by 21 per cent till July 1979, further fuelling inflation.

The onion vote

What had contributed to such a depressing situation? During the election campaign, we were treated to many allegations and counter-allegations about the mess our economy is in. The Congress(I) promised stability, mainly economic stability. Posters comparing prices during the Congress and Janata regimes went up, onions topping the list. The vote for the Congress(I) was in large measure an economic vote, on the basis that in two and a half years of Janata rule the country had been laid waste. The Congress(I) had come to the rescue.

Was this strictly true? Our memories are proverbially short, and we rarely comprehend the truism that in India, however efficient or inefficient a government may be, economic stability is at the mercy of extraneous factors like rain, drought, and the price of petrol. In 1971, Mrs Indira Gandhi's party was returned with a majority similar to that of this year's. But her stewardship could not prevent the influx of millions of refugees from Bangladesh and falling agricultural production caused by widespread drought. By September 1974, inflation had galloped to a rate of 31.9 per cent. Economic chaos was followed by political and moral disintegration. It needed the Emergency to lock up smugglers and control the 'parallel economy', to maintain a draconian grip on prices, and to curb labour unrest.

Some economists feel that the Janata victory in 1977 was merely a manifestation of the economic backlash that had been building up against Mrs Gandhi's government since the early '70s and had been held in abeyance by the Emergency. Others point out that we pass through perceptible 'cycles' of penury and plenty, and that there is a six- or seven-year gap between droughts. In January 1980, therefore, it was another economic backlash that brought Mrs Gandhi in.

Can Mrs Gandhi's government undo all the mistakes committed, not only since March 1977 but even earlier ? Here, a fundamental debate is currently raging—are our planning methods sound ? Our system of five-year plans began in 1952 ; in the mid-60s, drought, the war with Pakistan, and general economic instability necessitated a 'plan holiday'—between 1967 and 1969, the Planning Commission took recourse to Annual Plans. The Janata government decided to 'foreclose' the Fifth Plan (1974-79), and its Sixth Plan (1978-83) was finally revised and approved late in 1979. In any case, our five-year plans, as well as our annual budgets, both in the states and at the centre, have never proved to be accurate or capable of foreseeing situations that might arise during their duration. India's planning is based on the Soviet pattern.

A GOVERNMENT DESERVES THE INFLATION IT INHERITS.

There, seven successive five-year plans have made a tremendous impact on the economy. What we overlook is that Russia's plans were initially implemented under Stalin's ruthless 'diktat', and only agricultural collectivisation and total State monopoly over industry proved 'effective'.

A workable framework

This brings us to two disturbing questions : can economic planning yield results in India's peculiar democratic system ? And can the combination of the Westminster model of democracy and Soviet-inspired planning deliver the goods ? Clearly, poised as we are on the brink of the '80s, pushed by faceless World Bank analysts into the 'Fourth-World', fast-improverishing bracket, we will very soon have to locate across-the-board solutions.

Younger people get irritated when their elders reminisce about the 'good old days', when the land, according to them, used to flow with milk and honey. Today, we find it increasingly difficult to buy the necessities of life. On the one hand are the seductive charms of a better standard of living. On the other are the crippling burdens added in each year's Budget. Charan Singh's first (and only) budget in 1979 outdid the previous ones in hitting the common men below the belt. His supporters claim that he only marginally altered the budget, which had been drafted by his predecessor, H.M. Patel. These 'marginal' alterations were enough to push the country over the cliff-edge on which it had been teetering : enhanced taxes on items of everyday consumption, huge subsidies for fertilisers, and vastly enhanced outlays on agriculture and irrigation.

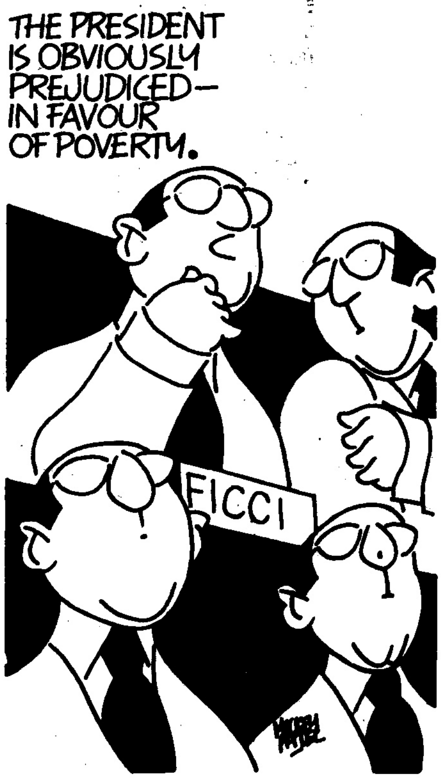
Most of our economic pundits, tied as they are to the apron-strings of the establishment, tend to take an optimistic view. They point out that between 1970-71 and 1972-73 our agricultural production dropped from 108.4 million tonnes to 100 million tonnes. In December 1971, our foodgrain stocks amounted only to 7.9 million tonnes. By 1979, our agricultural production had risen to 131 million tonnes, and our foodgrain stocks had almost trebled. Our foreign exchange reserves in March 1976 totalled Rs 1,492 crore, but by March 1979 they had touched an all-time high of Rs 5,476.5 crore. But just as one crore has seven zeros in it, there are many vacuums in our structure.

Our economy is heavily dependent on credit. At the end of September 1978, sick industrial units—which had drawn 15.5 per cent of total credit advanced to medium and large units by commercial banks—with credit limits of Rs 1 crore and above, increased from 270 to 334. Credit to these units went from Rs 774 crore to Rs 983 crore. Unless these sick units are nursed back to health, either by governmental takeover or by infusion of competent management, and unless our banks impose rigid limits on their lending, the situation that may result in the '80s is too scary to be articulated.

Our trade balance has almost always been in deficit. Only in 1972-73 did we achieve, for the first time since Independence, a trade surplus of Rs 164.2 crore. The hikes in petroleum prices, begun by OPEC in 1973 and continued thereafter, have ensured that our import bills are always higher than our export earnings. An additional burden of Rs 1,150 crore was placed on the exchequer in 1979 by petroleum price hikes, and our current annual bill for petroleum is likely to exceed Rs 5,000 crore. Between April and October 1979, our trade deficit soared to Rs 1,024.8 crore, against a deficit of Rs 641.40 crore during the corresponding period in 1978.

Battered and bruised

Mr Pranab Mukherjee, the new commerce minister, had said that his



main thrust will be to turn our trade deficit into a surplus. What Mr Mukherjee does not mention is that the percentage of excise and other local taxes per litre of petrol in India is 70 (that is, 70 per cent of the price you pay for a litre of petrol is composed of such levies)—the highest such surcharge in the world. Corresponding figures are 56 per cent in Pakistan, 61 per cent in France, 54 per cent in the UK, 44 per cent in Canada, and only 21 per cent in the United States.

The common man is therefore battered and bruised. He is asked to pay more for everything, and his frustration compels him to demand more for his labour. As the government, in many cases prompted only by political considerations, concedes such demands, the consumer's earning and spending both spiral upwards. Side by side, the government, too, is spending much more, domestically as well as internationally. A classic inflation situation: price-wise, Indian cities, for instance, are among the ten most expensive in the world.

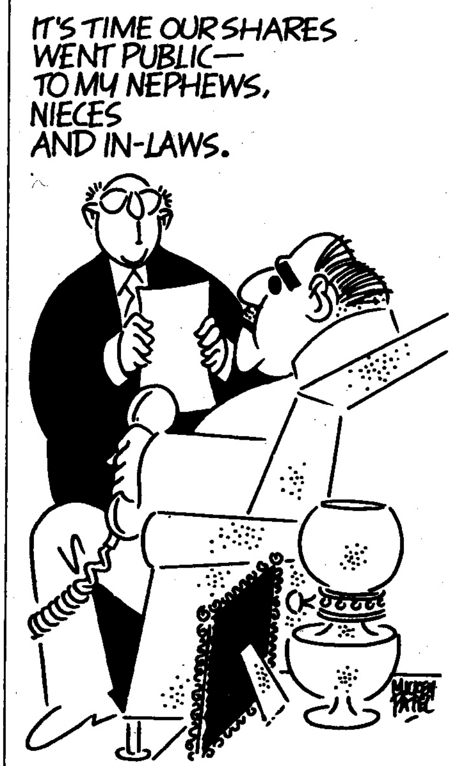
On November 13, 1979, the caretaker government announced a productivity-linked bonus for 1979-80, a thinly-disguised capitulation to the demands of 1.7 million railway employees. Until March 1980, the government is now committed to paying a total of Rs 35 crore, and by October 1980, a further amount of Rs 62 crore as 'bonus'. 700,000 post and telegraphs employees, and 250,000 defence ordnance employees have also been promised a similar bonus. All public-sector marine employees have been granted wage increase of 10 per cent effective from January 1980 (an additional expenditure of Rs 2.5 crore), and 500,000 employees of commercial banks have been granted wage increase totalling Rs 7 crore—which is in addition to wage increase totalling Rs 33 crore granted after the nationwide bank employees' strike in 1978. All these recent concessions were made in the same week in November. Clearly, the Charan Singh government by then did not expect to return to power, and this was a good opportunity to embarrass Mrs Gandhi. Hadn't she put down the railway strike on the bonus issue in 1974? Now, her government is faced with a ticklish situation—it will have to adhere to the November decisions, or rescind them and risk incurring the wrath of public-sector employees.

Most depressing of all was the Reserve Bank of India report on currency and finance for 1978-79. Glumly, the RBI noted that real national income during 1978-79 had decreased by 4.5 per cent, that the Gross National Product would probably not grow at all during 1979-80, and that it could not foresee "material improvement in agricultural production and industrial output due to deterioration in availability of power, transport and labour unrest". Improvement in the economic situation, said the report, would require "considerable skill in management of limited supplies of both agricultural and industrial commodities, improvement in power and transport nexus, increased efficiency in public and private distribution of machinery".

One would have expected the new government to acknowledge these facts and to take early action. Instead, the new Finance Minister, Mr R. Venkatraman, castigated the RBI governor, Mr I.G. Patel, for the overly 'pessimistic' report. Any insider in finance will agree that the government rarely pulls up its central bank. And the very choice of Mr Venkatraman as Finance Minister has come in for criticism. 70 years old, his only major qualification, apart from the fact that he was shadow finance minister when Mrs Gandhi was in the opposition and once the Finance Minister of (the then) Madras State, is that he is from Tamil Nadu, a state which stood by Mrs Gandhi. Financial circles had expected a younger and more dynamic man to be given this key portfolio. Mr Venkatraman is also known to be over-cautious and conservative. Hardly the kind of physician who will prescribe quick cures for a long-ailing patient.

Industrial decline

It is not entirely fair to blame our personnel when our infra-structures are in need of drastic overhauling. Coordination between key economic sectors like power, railways, coal, steel and heavy industry is almost non-existent, and capacity utilisation in the public sector is abysmally low. Steel and cement production dropped by 8 and 2 per cent between



April and August 1979, and there was overall a negative industrial growth rate. But the Central Statistical Organisation had estimated a 2 per cent rise in the Industrial Production Index for the period. Once again, the planners and the doers had not kept pace with each other.

Of 101 corporate giants in India, half belong to the public sector, and another three to the joint sector. 80 per cent of total assets are accounted for by the public sector, as well as 70 per cent of net sales. Coupled with this is the fact that the profitability of the private sector touched the lowest point in the last six years in 1977-78. Yet, during the Janata regime, there have been repeated assaults on the private sector, initially spearheaded by George Fernandes. At some point, the government will have to reconcile the roles of the public and private sectors. Late last year, at a meeting of the Maharashtra Chambers of Commerce and Industry, the Tatas led a spirited attack on the government's patent hypocrisy—industry is reviled for its 'wealth complex' and at the same time asked to contribute to the funds of political parties.

How else can one explain the amount of money that was spent by candidates during this election? When donations by business houses to political parties had been banned, where did the Rs 30-35 lakhs spent in each constituency come from? And both the Congress(I) and the Janata were repeatedly complaining that their coffers were empty!

The rural hell

One important section of our society for which something will have to be done immediately is the rural poor. 20 per cent of rural households, each having less than Rs 1,000 of assets, account for less than 1 per cent of all such assets nationally, while the top 4 per cent of the population, with asset values of Rs 50,000 or more, own over 30 per cent of total assets. The rich-poor hiatus is put this way by the Planning Commission: "An unduly large share of resources is... absorbed in production which relates directly or indirectly to maintaining or improving living standards of the higher-income groups. The demand of this relatively small class, not only for a few visible items of conspicuous consumption but for outlays on high-quality housing and urban amenities, aviation and superior travel facilities, telephone services etc., sustains a large part of the existing industrial structure. This means that further expansion of industry is limited by the narrowness of the market."

Not only is the market narrow, measures like abolition of money-lending and bonded labour have hardly made any difference to the conditions of the rural poor. A number of studies show that a farm labourer gets from 50 paise to Rs 5 a day as wages. He is employed for less than 200 days a year. One-fifth of the country's population (which was 660 million at last count) consists of scheduled castes and tribes residing in rural areas. And these sections comprise a substantial proportion of the population below the poverty line.

Of the total unemployment of 19.5 million person-years in 1978, 80 per cent was accounted for by rural areas. The total national labour force was 273 million in 1978). Faced by such impossible odds, migration to the cities becomes a straw-clutching option, further contributing to urban unmanageability.

What will Mrs Gandhi's government do about all this? Where will it start? Nobody seems to know for sure. There are only a few signs. In an interview in September 1979, Mrs Gandhi had said that if she was voted into power, there was a 'strong likelihood' of reduction in taxation rates. This could help, since her previous exercise in reducing the maximum level of taxation to 67 per cent had actually brought in extra revenues to the government. It is also possible that worker-participation 'at all levels' will be encouraged and disputes resolved multilaterally.

Budget-wise, the presentation of the 1980-81 Budget has been slightly postponed to March or April. And again, no one seems certain about what this augurs. Strong measures will definitely have to be taken to control inflation: some economists even recommend wage and price freezes as an immediate step. Governmental expenditure, too, will have to be severely curbed—from an outlay of Rs 5,978 crore in 1975-76, it shot up to an outlay of Rs 11,396 crore in 1979-80. And in fighting inflation, all sectors of the economy will have to accept major restrictions—the militancy of the public sector in regard to wage demands, for instance, and wage outlays by the private sector will also have to be controlled.

Possibilities

There are many ways in which industry can be stimulated—input sectors like power, coal, railways and

steel could somehow be brought closer together. One estimate says that production losses due to power shortages alone will exceed Rs 500 crores during 1979. Research and development, and the induction of qualified managerial personnel into the public sector has always paid rich dividends.

The picture becomes foggier because key portfolios like industry, defence, petroleum and chemicals, heavy engineering, labour, and steel, coal and mines have not been allocated at the time of writing this. But judging by the initial Cabinet appointees, the Congress(I) government may be one that works—whether it will deliver is the question that haunts people. Apparently, a think-tank of economists close to Mrs Gandhi has been at work since before the elections in order to suggest measures to curb inflation. Restricting credit-speculative areas, detecting sources of black money (and controlling them possibly by strong use of the preventive-detention laws) ending transport bottlenecks, and disciplining wholesale and retail trade are some of the measures being suggested.

The government will undoubtedly have to be careful in its decisions. As has been noted before, factors like drought, natural calamities, and international pressures like oil-price rises are not foreseeable. If the shortage-plenty cycle theory is to be believed the early '80s should see another period of agricultural prosperity.

Sources close to the new government are pushing for a total change in India's political system. It will not do, they say, for room to exist within which a government can reverse patterns, as for instance Charan Singh's pro-peasant administration, which took an anti-heavy industry bias. The agricultural lobby will have to be carefully handled, more so because the Lok Dal has emerged as the second-largest party These sources insist that India should have a persidential system of government, with concurrently-serving governors in the states. This would enable the induction of professionals into government, and vastly improve administration.

Another issue hanging fire is the splitting of large states like Uttar Pradesh, Bihar and Madhya Pradesh into smaller and more manageable entities. All these are important constitutional questions, and one cannot totally rule out the possibility that with a two-thirds majority, Mrs Gandhi might be tempted to resolve them once and for all.

A change in the planning system may also be contemplated by the new government. Political and economic questions are more often than not at loggerheads. And the Indian economic situation cannot be looked at in isolation—all over the world, inflation and recession are together bedevilling governments. By any yardstick, the '80s promise to be extremely difficult. How India puts its pieces back together, and how the poor are enabled to live a humane existence, will determine the economic and political fate of our country during this decade and even, probably, during the rest of this century. We have been fed with platitudes and jargon for far too long, and statistics will not fill a hungry man's stomach. Even if Mrs Gandhi's government takes strong and decisive measures on the economic front, it will take its entire term to bring the country to the turn-around point. Otherwise, 1984 might turn out to be both an Orwellian as well as a Malthusian nightmare, instead of being, as was fondly hoped in 1977, a Gandhian paradise.

Cartoons by Mickey Patel