Chapter 10

Conclusions and suggestions
10 Conclusions and suggestions

In the context of the future of the Indian Economy we may recall what poet Shelley said namely that "we look before and after and pine for what is not". The imperative now is not to pine but try fine tune the economy think and implement vigorously an effective plan for the development of the country - Statesmen should think and act that they are trustees for the future not merely for the present or for themselves.

The economic reforms in the mould of macro-economic stabilisation and structural adjustment programme of IMF and World Bank have essentially a pro-rich bias. herever they were implemented, they have worsened the situation of the masses of poor people in absolute as well as relative terms. Some contrary data to this general observation (say, of the east Asian countries) are rather attributed to the departures from the standard blueprint given by the Bretton Wood institutions The Indian reforms were essentially 'crisis driven' and not 'strategy driven' when they were adopted. There have since been changes in the formation and key persona. The new government for instance has imparted them a form of 'strategy' through their Common Minimum Programme. However, there has not yet been any evidence of this strategy being any different from the course followed by the NDA government. The complete discourse of Reforms appears to be either grossly off the mark of Indian reality or to assume out its momentous features.

The broad Indian reality is that India has too many poor. As per the Human development Report, 1996, there are 229 million income poor but more than twice as many, 554 million are capability poor. In terms of capability poverty, its 61.5 % population is poor. Its rank according to descending poverty among the 174 countries of the world, is 135. Even today India is predominantly an agrarian economy, with over 70 per cent of its population living in villages. No statistics moreover can adequately capture the heinous socio-cultural inequality that is an abiding part of Indian reality. It has acute inequalities not only in economic terms but in the socio-cultural terms.

The free market oriented reforms ought to take this grave Indian reality into consideration. Unless there is a wide spread purchasing power in the economy the market can never be free and
sustainable. The reform strategy thus should embody sustainable economic empowerment of rural masses; investments to enhance their capability and effective measures for accelerated development of the disadvantaged sections like rurals. The pre-requisite to reforms therefore could be the radical land reforms, massive investments in rural areas into agriculture-related infrastructural projects, universalisation of primary education, primary health care system and reinforcement of positive discrimination. The devil of casteism could be tamed only by freeing general masses of people from the anxieties and uncertainties about basic survival. The general condition of deprivation has rendered them vulnerable to be the preys to the frequent machinations of the vested interests that make them see the enemy within their own class. The relative equality thus can be the bedrock for launching the socio-cultural offensive in the form of mass-education programmes. But this all may still not be enough. They need to be reframed and simplified for effective implementation. Unlike the current provisions, this may be stopped once their representation comes on par with the general population. The specific reform package can be formulated in terms of the conditions existing then.

During the UPA's four years at the centre, the Indian economy has been coasting along—minus few blips here and there. India is among the three fastest growing economies, investment both domestic and foreign is pouring in pointing towards a sustained boom; income is rising and government is collecting more revenue to earmark for its schemes.

On the flip side, rising prices are a worry. And despite the government's best efforts, bankers expect interest rates to go up, if not across the board then certainly in pockets like housing and personal loans. This could be a party—poorer since expansion to meet growing demand can slow down. There are short term concerns which are not difficult to tide over. Interest rates and prices increase and decrease and the industry has learnt to adjust to these situations. We need to address the structural problems of better-quality education at all levels. It is believed that the high growth during so many months of UPA rule was partly due to steps initiated by the predecessor NDA as well as the global boom. But things may get tougher with signs of a slowdown in the US. Reforms in labour laws and infrastructure upgradation.

The right route to improving infrastructure is yet to be found out. First, it was felt the private sector would be the panacea. But given the experience with power (big international players anchored on Indian shores and then quickly left) the buzzword now is public-private partnership.
But even this model—being tried across sectors, from roads and ports to railways—is only in the early stages and is already facing criticism. The Delhi-Gurgaon expressway, for instance, has taken years and the completion is nowhere in sight. There is not much to write home about when it comes to reforms in labour or pensions. With little flexibility to adjust to market needs, companies may be saddled with excess manpower in a downturn and getting out of such a situation could be difficult. Agriculture too remains a weak spot, susceptible to the vagaries of monsoon.

Year 2006 has been the year of the global Indian takeover. In the first nine months of the year alone, Indian companies have leverage $7.6 billion, using global financing options, to acquire foreign companies. Global Indians have made even bigger global acquisitions—of both physical assets and mindspace. Lakshmi Mittal's take over of Arcelor is now the stuff of corporate folklore as in Indra Nooyi's stepping into Pepsico's corner room as CEO, while state owned oil giant ONGC has made the largest purchases of the year-oil interests in Brazil, Colombia, Sudan, Angola and Syria—The Tata's have over the years, made significant acquisitions around the globe. Tata steel has acquired National steel of Singapore and Millennium Steel of Thailand. It is now in talks to take over Anglo-Dutch steelmaker Corus. In the past Tata Tea acquired Tetley Tea (UK) and eight o'clock coffee (US). Recently it also acquired specialty waters company Glaceou (US). The Ambani's, Birla's, Mahindra's and Dhoots have all made global acquisitions. So have India's emerging pharma giants: Dr Reddy's Labs, Ranbaxy and workhard. Even our software smarties- Subex systems and Sasken Tech—have picked up global assets this year. It is now time that Indian Companies set themselves to occupying the global intellectual space, not only through acquisitions in information technology but also popular mass media, just as they have increasingly been occupying the global manufacturing space, so that the essence of Indianness permeates the world.

Following are the suggestions for the next generation reforms. And if these reforms are implemented I am sure India would benefit from them and emerge as the world power.
THE NEXT GENERATION OF REFORMS (Suggestions)

The following are ten recommended areas of special focus in the second generation of economic reforms:

Political Reforms for Good Governance

Political reforms are urgently required in concert with economic reforms. Both are essential to ensure good governance. A paradigm shift is required in the prevailing system of governance. Serving the people and putting their interests above the interests of the ruling elite must be the prime motivating force driving the reformed system of governance. Good governance can be ensured through the provision of an adequate quantity of public services and by improving their quality. Indian politicians need to become fully aware of the costs and benefits of economic reforms. Ruling politicians with limited terms in office are often guided by narrow and short-term motivations while formulating policies in the national interest. The Indian public at large also needs to be thoroughly educated on the inevitable need to bear short-term pain in order to reap the somewhat uncertain longer-term gains from economic reforms. Economic reforms in the future must be more people-centered. They must be given a human face so as to continuously enhance the social empowerments of the poorer and most vulnerable sections of the society. They must be gender-sensitive to improve the status of women and girls. The burden of adjustment to structural reforms must be more heavily borne by the richer sections of the society. Appropriate electoral reforms, including state funding of elections, will help to reduce the lobbying power of the entrenched vested interests.

Re-Engineering the Role of the Government

Reforms must be aimed at ‘right-sizing’ (often involving downsizing) the government. Governments must specialize in performing roles that they can perform better than free-market private enterprise. The government must expand its role in areas such as the provision of public goods, especially primary health, primary education and the creation of social infrastructures. The role of the Planning Commission must be changed to that of a strategic think tank. The mindset of the politicians and the administrators needs to be
changed to accept the re-engineered role of government in the context of market-oriented economic reforms. The intensification of economic reforms at the state level needs to be given a higher priority in the future since most social services and infrastructural activities are primarily the responsibility of the state governments.

Administrative and Legal Reforms
No matter how good the design and intent of economic reforms, their success ultimately depends on efficient and speedy implementation through sensitive and responsive administrative and legal systems. Transparency and accountability must be guiding principles for the formulation and implementation of policies and procedures. Improved administrative systems should be devised to ensure that merit subsidies directly benefit the targeted (generally the underprivileged) sections of society. Legal support services should be made available with more public funding and must be strengthened to provide justice to genuinely aggrieved sections of society more quickly and affordably. Second-generation economic reforms also must focus on changing the mindset of administrators (especially at the grass-roots level) and of the judiciary (especially at the lower level) to support administrative and legal reforms that synergize with economic reforms for maximizing social welfare.

Strategic Management of the Economy
Macroeconomic management must be dovetailed with a well-formulated strategic national vision for the economy for the year 2020 (and beyond). Clarity, transparency and accountability (through identifiable responsibility centers) with properly designed incentive (and disincentive) systems should be the guiding principles governing strategic management of the economy. An appropriate code of conduct should be evolved and observed by economic actors under a new managerial system of governance. The strategic management of the Indian economy in the twenty-first century must focus on human resource development to promote knowledge-based and skill-intensive economic activities in line with India’s dynamic competitive advantage.
Fiscal Prudence
The fiscal deficit (especially the revenue deficit) needs to be quickly reduced. India must sincerely implement the Fiscal Responsibility and Budget Management Act. Simultaneous action is required at both central and state levels to raise the tax-to-GDP ratio by expanding the tax base (for example, by taxing services and rich agriculturists) and improving tax administration (for example, through computerization). The revenue deficit must be brought to zero within five years.

Agricultural Sector Reforms
While some agricultural reforms have already been carried out, these are highly inadequate. Primacy must be given to the agriculture sector in all future reforms since many more jobs can be created in the agricultural sector, broadly defined, including activities related to rural industrialization and overall rural development. Both on-farm and off-farm employment potential must be fully exploited. This will raise incomes of farmers and rural labor on a sustainable basis and provide a much-needed boost to demand for industrial products and services, thus spurring all-around economic growth.

There is an urgent need to raise public investment in agriculture substantially. Areas needing investment include: irrigation; watershed development; rural infrastructure; drinking water; housing and sanitation. This will help raise the productivity of Indian agriculture to international levels and help in promoting rural (and interlinked urban) prosperity in India. Second-generation reforms must reduce the perennial anti-agricultural bias by permitting free® exports of all primary products. This will provide a major boost to India's exports consistent with the rules set by the World Trade Organization. Simultaneously, India must improve its marketing infrastructure. Agricultural reform will unleash high growth rates in agriculture, on which nearly sixty percent of India's population is still dependent for employment. Agricultural prosperity will help to markedly reduce endemic rural poverty.
Industrial Restructuring

Industrial reforms must be geared to explicitly improve the productivity and international competitiveness of Indian industry by focusing on niche products and niche markets. Economic policy in this respect must facilitate mergers and acquisitions and the winding up of terminally ill enterprises in both the public and private sectors by restructuring bankruptcy laws. Massive restructuring is required of Public Sector Units. Most non-performing public sector units should be quickly sold through a privatization process that also safeguards the interests of workers through fair compensation for loss of jobs.

Public sector enterprises should be governed by a commercial culture in which government holdings are no more than 26 percent of equity and are retained only to preserve strategic control. It is of the utmost importance that micro-level reforms must supplement macro-level reforms in the future to achieve synergy. The private sector in India needs to become more international in its outlook to become more competitive and to increase its overseas presence through outward FDI.

Labor Reforms

A properly formulated labor policy must form the core of second-generation reforms. This will require viable alternative social safety nets and effective retraining and re-employment opportunities. Once satisfactory safety nets are in place, more intensive competition should be injected into the labor market by allowing 'hire and fire' policies unambiguously linked to the productivity and profitability of micro-enterprises. The government should start by exempting units in the newly created Special Economic Zones from the rigors of labor laws. These measures would be of great help in redressing inefficiency of workers in public enterprises and public services (such as health care in rural areas).

Foreign Trade and Outward Investment Policies

No economic reforms can succeed in India without ensuring adequate growth of exports of goods and services to ensure longer-term viability of its balance of payments. While anti-dumping
measures need to be strengthened to protect Indian industry from unfair import competition, the longer-term reforms must continue to lower import duties to levels comparable to those in leading Southeast Asian countries. Simultaneously, measures should be taken by the government to replace quantitative restrictions wherever they still remain in place) through appropriately determined tariffs. The second generation of economic reforms must facilitate the growth of India's own Multi-National Corporations (MNCs). The government must further liberalize outward foreign investment to allow potentially competitive Indian MNCs to establish production bases abroad and trade internationally. Finally, industry and government must make cooperative efforts to prepare Indian industry to meet the new and ever-emerging challenges posed by the new world trade order and the new world investment order being evolved under the World Trade Organization.

**Financial Sector Reforms**

India must heed the lessons of the East Asian economic crisis and recovery, and attached the utmost urgency the next phase of financial-sector reforms. The high level of Non-Performing Assets plaguing long-term Development Financing Institutions and commercial banks must be dramatically reduced. To summarize, greater competition in the financial sector with an appropriate exit policy to reduce overstaffing together, along with sound macro-economic policies, will help to lower the real rate of interest and spur investment and efficiency, thereby raising growth rates and benefitting consumers.

Regulatory bodies should be very efficient and effective to ensure that no scams (unlike Harshad Mehta and Satyam) should occur. In order to create confidence in the minds of the small investors, coupled with the current regime of falling interest rates, greater competition in the financial sector in general and among the commercial banks in particular will help to increase the rate of investment in the economy. Simultaneously, foreign insurance and pension funds should be allowed to operate with fewer restrictions to make more resources available to finance the modernizing of India's infrastructure. Further policy and procedural reforms (especially in the power sector) will help to attract substantially higher investment in India's infrastructural sectors. Finally, credible policy measures that protect investors, especially individual investors with small savings must be adopted. These measures, if effectively implemented, will help to revive growth in India's capital and stock markets. It must be remembered at all times that the
be-all and end-all of all economic activities is the consumer. Future economic reforms must aim to directly benefit Indian consumers through cost reductions, enhanced quality of goods and services, and by expanding customer choice through competition.

Within the constraints of democratic politics and the relatively ‘soft’ nature of the economic reforms implemented since 1991, the Indian economy has reaped several welcome rewards from its reforms. These have strengthened the conviction that the broad direction of the reforms is right and, in that sense, made the reform process irreversible. However, India needs to launch a ‘second generation’ of economic reforms, with a more human face, if it is to reap their full potential. Politicians and administrators need to display greater pragmatism while designing and implementing future economic reforms. The reforms must be based on the long-term vision of transforming India into a global economic power in the next twenty to twenty-five years. It will be of the utmost importance that all sections of society are educated as to the long-term benefits of reform in order to mobilize public support. These reforms, therefore, will have to be drastically redesigned and politically ‘marketed’. Future economic reforms must be seen and experienced as not only good economics but also good politics. Two paradigm shifts in the reforms, backed up by the effective fulfillment of the promises made, will help to garner the support of the Indian people. First, these reforms must aim to raise the productivity of Indian labor and improve the work culture and, over time, provide significant rewards to the people of India by spurring growth, providing a higher level of real wages, and generating wider avenues for employment and re-employment. Growth with employment is the most effective strategy for eliminating poverty and improving the quality of life of the people. Second, the reforms must aim to directly benefit Indian consumers. Over a reasonable time span, the reforms must reduce prices of goods and services (including public goods), improve their quality, and allow much more freedom of choice by maximizing the benefits of healthy competition. This will further expand the size of the market—both domestic and international—and provide incentives to entrepreneurs to raise their investment, output, and employment. A combination of more productive labor and pro-consumer economic reforms will be a win-win, proving to be both good economics and good politics. Visionary political statesmanship will be required for this. It should not be slogan-oriented but more result-oriented since it will likely be perceived and experienced as ‘pro-people’.
Though recession is the global phenomenon and almost all the countries are feeling the heat of the current meltdown but India is definitely better placed in comparison to many developed countries over the world.