
Book Reviews

Eight Lectures on India's Economic Reforms, by T.N. Srinivasan, Oxford University Press, New Delhi : 2000

India's structural reforms have been driven as much by the response to the balance of payments crisis of 1990-91 as by an animated and broad based debate that transcended national boundaries. The reforms represented a fundamental revision in the prevalent view regarding India's development strategy. At these cross roads, the political leadership of the day turned to leading economists at home and abroad, to assess this turning point of history, to engage in and generate discussion and thus shed light on the road ahead. Prof. T.N. Srinivasan was one of them. Readers will remember the refreshing flavour of his paper written jointly with Jagdish Bhagwati entitled "India's Economic Reform" in 1993 which became the white paper of the "reform" process. Since then Prof. Srinivasan's involvement with the evolution of the Indian economy has been continuous and intensive. His latest book entitled "Eight Lectures on India's Economic Reform" is a simple and lucid revisit of the reform process undertaken in major sectors of the economy, *viz.*, agriculture, industry, foreign trade, infrastructure, education and health, financial sector and poverty eradication.

The political vicissitudes of the 1990s have clearly lent a sombre tone to the optimism of the 1993 paper. All through the lectures stress the role of enlightened political leadership in ensuring the success of reforms, in mobilising people by convincing them that reforms are in their own interest. A general flagging of hope runs like a common thread through all the eight lectures. Indeed, in this regard, Prof. Srinivasan is unguardedly critical of latest developments – nuclear testing, infrastructural constraints, fiscal deficits. In fact, within an overall sense of gloom, he hopes that the States will take over the reform process from the Centre so that "the realistic possibility of rapid growth

and poverty alleviation is not sacrificed at the alter of jingoistic and myopic politics” – as dangerously close as one could get to making a political statement.

In the context of the industrial sector, Prof. Srinivasan’s view is that the focus for the future should be on industrial sickness, privatisation and the small scale sector. Drastic reform of labour and bankruptcy laws, infusion of competition, unbundling monopolies in vertically integrated public sector enterprises (PSEs), abolition of reservation and establishment of Mahalonobis – type Labour Reserve Service are proposals offered by Prof. Srinivasan for the future. While these areas are generally being accorded priority, one is left wondering why Prof. Srinivasan stays away from areas of reform which involve something more than the vacating of policy interventions and impediments to market forces; in the recent period, the industrial sector has been undergoing structural shifts which are, to an extent, exogenous: organisational change (mergers and acquisitions), the impact of globalisation and import competition, capacity utilisation and business cycles, consumerism and the capital gap. These are problems which reflect more complex forces at work. Obviously, there are no simple answers.

On agriculture, Prof. Srinivasan’s view is that it is the one sector which has largely been kept out of the process of economic liberalisation and reforms. Taking note of the decline in productivity in agriculture, he laments the lack of coordination in agricultural policies which has, in fact, raised the level of dis-protection in the sector. Integrating Indian agriculture with world markets, integrating agricultural markets within the economy, major revamping of irrigation projects, phasing out of input subsidies form part of the vision offered for the future of Indian agriculture, with a specific four – pronged medium-term agenda based on modernisation of technology, taxation of agriculture, crop insurance and agricultural credit reform. In the context of modernisation of agriculture and preparing it for the new millennium, it would also involve establishing a self regulating system in agriculture in preparation for greater commercialisation, overcoming the limits to

growth set by availability of land and irrigated area through technological transformation, promotion of human development and higher capital formation. At the same time, policies for the agriculture sector must contend with the growing exposure of the sector to international trade and to multilateral rules for commerce in agricultural produce.

Poverty alleviation, to Prof. Srinivasan, is the biggest failure of India's development strategy, with more than a third of the population still below the poverty line. Underlying this is the failure to achieve rapid growth, more in terms of quality and character of growth rather than its rate. The essay on poverty alleviation is critical of transfer programmes such as the public distribution system, self employment programmes and special area programmes, on the grounds of overlaps, mal-allocation and cost in-effectiveness rather than the form and content of the programmes *per se*. Cost effectiveness, in particular, needs to be stressed as it is the basis of designing directed programmes; bureaucratisation is the major cost escalator. It is this factor that has adversely affected the case for redistributive policies versus rapid growth. In the final analysis, therefore, Prof. Srinivasan casts his vote in favour of rapid growth as the panacea for poverty alleviation.

On fiscal issues, Prof. Srinivasan's suggestions draw essentially from received and accumulated wisdom. His preference is for reducing debt rather than fiscal deficits and disinvestments is one of the better options for fiscal rectitude. There is a welcome shift in focus from the centre to the States, and a run up against the hard budget constraint facing the States. Tax reforms are suggested along the conventional lines: VAT. An interesting suggestion is the assignment of the task of redistribution across States to the Centre. The scope for reducing fiscal deficits through rationalisation of subsidies and expenditure programmes alone remains considerable.

Policy priority assigned to health and education in India, according to Prof Srinivasan, is merely rhetoric. In reality, he sees a massive failure brought on by the stifling of market incentives,

the preponderance of State control. In his view, the reforms initiated in 1991 have excluded the social sector. In sifting through the evidence of this failure, several suggestions are offered, drawing from analytical and empirical work on the subject and the Chinese experience which has now become a standard comparator for India in the context of the 'right' way to undertake reforms. In contrast, however, there is cautious optimism as regards the halting progress made in carrying forward reforms in the infrastructure sector. Prof Srinivisan is all for removal of remaining quantitative restrictions, easing barriers to entry and exit, toning down of revenue considerations as the sole motive in the regulatory policies for infrastructural industries, and legislative changes. In this area, Prof Srinivasan opines, there is a long way to go. Financing infrastructure somehow escapes notice. Moreover, infrastructure issues do involve overlaps with strategic interests and solutions often have to be political.

The lecture on financial sector appears late in the volume, presumably reflecting the author's priorities as regards the sectoral sequencing of reforms, and perhaps suggesting a veiled re-ordering of reforms in India. Here, the reader will encounter familiar ground being traversed: the ancestry of financial repression and the McKinnon Shaw hypothesis, the evolving role of the financial sector in economic development, all viewed through Indian eyes. The documentation of financial sector reforms is enumerative rather than issue-based, and an aversion for moving ahead on capital account convertibility is reflected in the prescription of pre-conditions. In some of these, the actual outturn has overtaken the narration of events. Nevertheless, the point that is emphasised is vital: there is a complementarity between reforms in the financial and real sectors, and financial sector strategies need to anticipate the requirements of the global market place.

The lecture on international trade and investment narrates the measures of reform undertaken against the background of an inward past. Here, the wishlist for the future is familiar, heard time and again at international fora – remove QRs, lower tariffs, and make policy changes which allow India to absorb a greater

share in private capital flows than before. Living with external openness has not been easy in the 1990s. Visitations of capital flows and reversals have brought forward the imperatives for external debt and international reserve management. Adequacy has taken second place to liquidity and solvency management in the approach to the external sector.

The lectures make for fascinating reading, notwithstanding the descriptive tone and the acknowledged pessimism that courses through them. For the informed reader, they provide an unencumbered, expatriate assessment of an 'insider' of the maturing of India's structural reforms over the decade of the 1990s. Undertaking the overhauling of an economy is never easy. The reformer encounters formidable roadblocks all along the way, most of which are in the mindset. Reforms, as Prof Srinivasan holds, are all about people, convincing them and carrying them along. In this sense, the Eight Lectures make a noteworthy contribution.

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