

People Power

Doing Better, and Feeling Worse

Reviewing the health care in the United States twenty-five years ago, the prestigious 'Daedalus' magazine coined the expression "Doing better, and feeling worse". That description certainly fits our economic scene.

The economic reform process started in 1991 certainly yielded good dividends. Growth rate went up. In a country used to the Hindu rate of growth of about 3%, 5 – 6% growth rate now is widely regarded as unsatisfactory. Consumer goods are better and cheaper now, and there is greater choice on offer. Investment has gone up, and exports boomed for a decade. Contrary to fears, opening up of the economy did not lead to a deluge of foreign goods. The Indian consumer proved to be very discerning, seeking good value for money. Nor did neocolonialism or economic imperialism threaten India's freedom. The percentage of poor people is showing decline, and population is reaching replacement level in the South and the West. Removal of foreign exchange controls did not lead to flight of dollars; reserves actually went up. Reductions of tax rates led to higher revenues, and not lower. Many new enterprises came up, and the young people are more ready than ever before to find jobs outside government. India saw a revolution in telecom and information sectors. Organized workers who had enjoyed immense protection for long, now realize that their future is linked to the health of their enterprises. The person-days lost an account of industrial strife fell dramatically. The *doomsdayers* who prophesied disaster with liberalization proved to be wide off the mark. Most people are actually better off today than they were a decade ago. By all standards, the reform process has yielded good results.

And yet, most Indians share a sense of unease and disquiet. Our potential remains unfulfilled even today. Impressive as they are by global standards, our growth rates are insufficient to make a significant dent in poverty, or to absorb the millions of youngsters joining the workforce. Fiscal deficits stubbornly remain at the 10% GDP level.

Government continues to be wasteful, inefficient and corrupt. How is such a paradox possible? How can we do better, and feel worse at the same time?

The initial, exciting reform years accomplished an important task. The dam of controls, licenses and permits, which held back our productive potential and entrepreneurial energy, was successfully breached. As the hitherto untapped reservoir of growth potential flowed down, the level downstream rose rapidly. That was the growth rate we witnessed for about a decade. But as the reservoir is now emptied, mere breaching of the dam will not do. We need to undertake the more difficult task of catchment treatment to ensure fresh inflows into the reservoir. That is why our growth rate is tapering off, and our excitement is slowly giving way to forebodings.

We obviously have to work hard to build the infrastructure to encourage investment and promote the skills to enhance productivity. Industrialization of a vast, underdeveloped country seeking to emerge from agrarian economy is a gigantic and complex enterprise. Mere capital market manipulations and budgetary quick fixes will not do the trick. The US, with its \$10 trillion economy can easily afford a \$500 billion bubble created by 'irrational exuberance'. But India, with its \$500 billion economy can ill afford such euphoria without the solid foundations of an industrial economy in the modern era.

The first step is to get the extortionary bureaucracy off the backs of the entrepreneurs. The draconian powers and shameless plunder of the revenue-earning departments continue unchecked. One only has to see the massive corruption and harassment in central excise and customs. The entrepreneur is denied both dignity and justice. Any resistance to the predatory officials invites massive retribution and unending humiliation. Many small and medium enterprises are forced to close down, unable to withstand external competition and face the extortionary demands simultaneously.

Where the government really stepped aside, corruption certainly came down. But the inexhaustible appetite of our political system for ill-gotten funds remains unchecked. As a result, corruption has merely shifted from the areas of economic decision making to

sovereign spheres of state activity. There is mounting evidence of this shift in the last decade. Increasing nexus between crime and politics, partisan interference in crime investigation, administration of rough and ready justice through brute methods for a price, abductions by politically well-connected gangs for a ransom — all have become more common.

What does all this indicate? Obviously economic reforms are necessary, but are not sufficient. We need to restructure our governance process to make it supportive of a productive, competitive market economy. Political and electoral reforms, decentralization of power, measures to enforce rule of law, and instruments of accountability – these are the vital tasks ahead. We already lost precious time, and any further prevarication will be costly. It is high time we recognised that good politics, good economics and stable and peaceful society go together. One cannot exist without the others.

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