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*Economic Policies,*

*Development and Social Justice*



# ***Economic Policies, Development and Social Justice***

***(Proceedings of the AITUC Workshop, Delhi)  
March 22-24, 1995***

**AITUC Publication**

*July - 1995*

*Price : Rs. 100/-*

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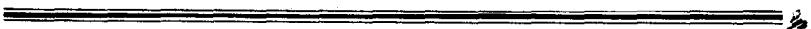
**Printed and Published by B.D.Joshi for All India Trade Union Congress, 24 Canning Lane, New Delhi 110 001, Tel 3387320/3386427, Composed by Aanklan Softwares, Printed at New Age Printing Press, 5-E Rani Jhansi Road, New Delhi - 55**

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## *Preface*

Development with social justice, and economic policies that can lead up to this goal, are and will continue to be subject matter of intense debate and discussion. The struggle against poverty and unemployment, and for social justice, is the main issue before our people. The World Summit held at Copenhagen has stressed the global dimensions of this struggle.

Naturally it is at the centre of all activities of the AITUC and other trade unions, as also of other mass organisations. But there has to be clarity about all the policies involved, particularly so at a time when the powerful media wielded by the ruling classes has the capacity to confuse issues, mix up values and distort judgements. It even dictates the language of discourse.

In March this year, the AITUC organised a Workshop, with the help and cooperation of the ILO, to clear up certain ideas about 'Economic Policies, Development and Social Justice'. We were fortunate in getting eminent planners, economists, journalists, parliamentarians, industrialists and trade unionists, as well as former high officials with several decades of experience behind them, to come and speak at the

Workshop. The participants were themselves leading cadres of the AITUC. Acting as moderators and discussants were such veterans of the movement as Coms. Indrajit Gupta, Chaturanjan Mishra, B.D. Joshi, Parduman Singh, K.L. Mahendra, Yellamanda Reddy, Kamalapati Roy, Gurudas Dasgupta, Kamal Mitra Chinoy, and several others.

The aim was to give a deeper and all-sided look into the economic policies and analyse their impact on development with social justice. Everyone agreed at the end of the Workshop, that it was a useful and intellectually stimulating exercise. It linked theoretical propositions with the practical experience of the movement, and examined claims on the touchstone of unfolding reality.

It was agreed that the contributions made should be published, as far as possible verbatim, in the form of a book. Here then is the result, though we owe an apology for the three and a half months' delay in bringing it out.

Four or five contributors took the trouble to give us their presentations in writing after the Workshop was over. For the rest, we had to rely on transcriptions from original tapes. There were portions where the text as recorded and then transcribed, was garbled and obscure. We had to use a little bit of editorial discretion to extract meaning out of the garbled text, or to omit the portion altogether. However, we hope no injustice has been done to the contributors in this process. We have shortened the presentations somewhat to bring them within the compass of the book. This liberty taken will, we hope, be excused.

Several questions were asked and comments made by the participants after each presentation. It would have been useful to reproduce all this. But for reasons of space, we had to cut out the questions, and only give summaries of the replies in some cases.



It goes without saying that the views expressed here are those of the contributors themselves. They range from support to the present policies to one of total opposition. How could there be identity of views when the contributors were from such widely different sections as planners and bureaucrats (present and past), industrialists and trade unionists, academics and activists?

The AITUC has its own views and outlook on most of these issues, expressed from time to time through resolutions and reports. But it is always useful to listen with attention and respect to different shades of opinion and analysis, in order to enrich one's own understanding, to revise where such revision is called for, and to fill in several voids. Issues are complex and with each day they are becoming more so. It is never good or correct to have a simplistic understanding about complex matters. Between the two colours, black and white, there are several shades of grey and other colours besides.

**Is there a general consensus today on the present economic policies of liberalisation, globalisation, privatisation and so forth?** Prime Minister Narasimha Rao and Finance Minister Manmohansingh are repeatedly asserting this, both here and abroad, to create an impression that there really is no opposition to their policies, and that everybody is in fact falling in line. This is one of the cleverest piece of 'disinformation' (if not downright misinformation), to confuse public opinion and deflect criticism. How can they say so, when the working class, peasantry, agricultural workers, students and youth, significant sections of intellectuals and so on, have been attacking these policies not merely in words, but in action? Is it possible to turn a blind eye to the several massive demonstrations, strikes, satyagrahas, and bandhs by one or the other section of the masses, and sometimes all together, ever since the new policies were formally announced? This was not opposition

for opposition's sake. What was brought out and highlighted in all these actions was the anti-people and anti-worker character of these policies, and which in many respects were harmful from the point of view of national dignity, interests, sovereignty and so forth. It is therefore clear that there is no consensus on these policies. Rather, there is doubt, opposition and a demand for reversing the essentials of this policy. The struggle continues today with increasing intensity. People are giving their credit in elections.

**But does it mean that we are against all 'reforms' properly so called?** By no means. We cannot oppose all and every reform, for that would mean we are 'status quoists', 'conservatives' and 'no-changers', and people who want the old policies (before the 'new' were promulgated to continue unchanged. It is well known we were opposed to the earlier policies of capitalist growth which did not solve our problems of poverty, unemployment, disease and illiteracy, which allowed monopolists to fatten at the expense of the rest, perpetuated regional imbalances and arrested development after a time. But there was one essential aspect of the old policies, and that was to overcome the legacy of colonial-feudal backwardness through planned development, intervention of the state, and creation of a public sector in major infrastructure and basic industries. These were looked upon as the vehicle of economic growth and self-reliant development. It is precisely this which the new policies wish to throw overboard while giving free rein to market forces and opening the door wide to multinationals in the name of globalisation. One cannot lose sight of the world scene today after the collapse of the Soviet Union, in which these **neoliberal policies** are being pushed through in our country by the votaries of the new economic policies.

But if in the course of four decades of centralised planning, a 'license - permit raj, has developed, manned by a huge

bureaucratic machine and miles of red tape, which has turned into a hindrance for further growth, a source of discrimination and bias against many states and regions, and a hotbed of corruption, then why should we not support that 'reform' which seeks to dismantle or change this?

There has to be planning and there is a vital role for the Planning Commission in our country. There has to be state intervention in developing the social and physical infrastructure, without which the basic problems of poverty, disease and illiteracy cannot be solved, nor the basis laid for development with justice. But all this has to be debureaucratised and democratically-oriented.

**We defend the public sector, because these public assets which have been built up over the years have laid the foundation of our future development.** They serve as the bed-rock of self-reliance and plays a vital role in our economy, while at the same time fulfilling social obligations in a developing country like ours. Most of them are running well, making substantial contributions to our economy, and also helping in the growth of the private sector. It is a slander to say they are a drain on our resources. Anyway, the cure for many of the ills from which they suffer, lies within the framework of the public sector itself, and not in privatisation. What they call for is debureaucratisation, autonomy in their functioning, professionalism in management, and democratic participation of workers and officers in their management and working.

When we say defend the public sector, we do not however mean that each and every unit, non-viable, non-essential, and without any possibility of new life being breathed into the chronically sick ones, should also be defended as a matter of dogma. That would be vulgarising a correct slogan and weakening our struggle in the case of the overwhelming

majority of genuine and essential ones. But even in the case of the non-viable and non-essential cases from the point of view of the economy, we have to see that the workers' interests are protected. We cannot therefore accept a policy by which vital public sector units are deliberately made 'sick' or emasculated, by denying them orders, such as in case of BHEL, JESSOP etc.) or by giving away their most valuable assets (such as in case if Bailadilla), or inviting MNCs to virtually take over (such as in power and telecom), or by disinvesting them, and so forth. It is sickening to hear ministers like Salve and Chidambaram hold forth as if they are the spokesmen of the MNCs, rather than being the ministers of this country's government.

While defending the public sector, we are for the simultaneous development of the private, the joint, the cooperative, the selfemployed, the individual peasant farming sector and so on, each contributing towards the growth of productive forces in our country and taking it forward. The state, as we said before, has to play a major role in investment for infrastructure development, both social (education, health, job creation) and physical (power, roads and communication, telecom etc). To abdicate this role, or to withdraw from it, is to leave the common man to his fate, and to rely on the market which is no respecter of human rights and needs. While it is true that without growth there is no development, yet growth by itself is not development unless it has social dimensions, which include the right to education, right to work, right to housing and so on.

That brings us to the question of foreign investment as against the talk of 'Swadeshi' from certain quarters. First of all, it would be wrong to equate the swadeshi movement of the pre-independence era and the 'swadeshi' movement that is talked about now by some sections. The distinction that was made between soap manufactured by Godrej and that

manufactured by LUX fell through, in the face of the collaboration agreements struck by Indian monopolists and the MNCs. The question thus boils down to one of entry of foreign goods and capital, particularly MNCs and what attitude we take towards it.

We have to recognise that for development, foreign investment and import and induction of technology is necessary in certain spheres. There is nothing wrong if our governments (centre and states) make serious efforts in this direction. But it is not the same thing as throwing the door wide open for entry of MNCs in all spheres, wooing them with all sorts of concessions, guarantees and counter-guarantees, and allowing them a free run in all spheres. If we need them for certain purposes, they too need our markets especially when they are faced with recession in their domestic spheres. There is enough ground for mutuality and hard bargaining in this arrangement. We cannot accept the argument that they are the 'givers' and we are the helpless 'takers', that they have a so-called 'investment preference' and if we ask too many questions or impose restrictions they will shy away, leave us high and dry and go to China or any other country instead. We are not exactly beggars, and there is no need for working up such a fear psychosis.

We cannot allow a situation where they enter like the Arab's camel and then take over the entire tent. We should not allow them to grab our industries and financial institutions, and then dominate our own domestic market for their produce. They cannot be allowed entry in vital and sensitive sectors. Foreign investment and technology cannot become a substitute for mobilising our own internal resources, for developing our own R&D, and widening our market both internal and external. We must have a blue print of economic development based on our vast resources in raw material and human resources, which takes into account our national

interests and the imperative of social justice. Foreign investment or entry of MNCs have to fit into this blue print. Instead today, we have the rather undignified picture of prime minister, chief ministers of states, and several ministers rushing to America, England, or the other G-7 countries and competing in wooing MNCs and the rest of them, during lunch and breakfast encounters.

There is a view that we should go in for foreign investments rather than for loans from international institutions. The posure is incorrect in its simplified form. In some Latin American countries there was a move to convert foreign loans into foreign- held equity. The consequences were disastrous. The two have to be looked at separately, and limits of each have to be defined. We have to cap our loans so as not to get into a debt trap. We have also to see that foreign investors do not barge in, unrestrained and uncontrolled.

The question of West Bengal industrial policy was naturally raised and discussed in the Workshop. It is a hot theme today. Is the W.B. policy identical or at any rate, essentially similar to the Rao-Manmohan economic policy?

West Bengal Left Front has not given a call for all round privatisation, the case of Great Eastern Hotel notwithstanding. It is fighting for defending the public sector units as they exist in that state viz. IISCO, JESSOP, Braithwaite and so on. It is not handing over industries or units to the MNCs holding 100% equity. It is not, and cannot as a Left Front, abandon the workers to their fate. It is committed to defending their interests. It has given priority to land reforms, development of agriculture, small and cottage industries.

At the time of Independence, West Bengal was among the top industrial states in India. Due to several reasons, there has been a process of 'deindustrialisation' in the state over the

last few decades. This process has to be reversed. The alternative is not merely small industries and agro-industries in which it has made some progress, nor just 'industrial cooperatives', but also building of large industries, for which all the objective conditions exist. The state has to work within the parameters set by the centre, and find the necessary resources and technology etc. It cannot lay down entirely new parameters, though it can try and manouvre for space within them. Taken, all in all, there are vital differences between its policy approach and the policies of the Centre.

This does not mean that several wrong things are not being said or done. It does not mean that we should not sharply criticise them. In fact such informed and just criticism will put the Left Front on guard against pitfalls. But this cannot be done by taking a superficial view and saying that both, the W. Bengal policy and the Centre's policy, are one and the same. It only blunts the opposition to the Centre's policy, without in any way helping West Bengal to correct any aberration or mistakes.

There are several other aspects on which we can go on expressing our views. I think that the contributions made in the Workshop and published in this book, will provide ample food for thought to our activists, as well as to others in the movement on many other aspects. It is with this hope that we are offering this book.

I should like to thank the two coordinators of this workshop, -my colleagues in the AITUC Secretariat, Coms. T.A. Francis and D.L. Sachdev, who worked hard for its success, and also Com. H. Mahadevan, who took pains to edit the several transcriptions. Once again, my thanks to the ILO.

AITUC Office  
Delhi, July 15, 1995

A.B. Bardhan,  
General Secretary, AITUC





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## ***Inaugural Address***

◆ *Ms. Josephine Karavasil*

I consider it a privilege to be able to address today's workshop and AITUC is to be congratulated on choosing a theme which highlights the social dimension of development.. After all, a fundamental tenet of the ILO since 1919 has been that "Universal and lasting peace can be established only if it is based upon social justice. This workshop is all the more timely; coming as it does just after the World Summit on Social Development in Copenhagen which drew together the greatest number of Heads of State ever to attend an international meeting. It is essential that social justice is not put to one side in this period of globalization of the economy.

The ILO itself is concentrating its attention on this issue. The report of the Director-General " Defending Values, Promoting Change, Social Justice in a Global Economy: An ILO Agenda", prepared on the occasion of the 75th anniversary of the Organization provoked considerable debate during the International Labour Conference of 1994. At the end of the Conference, while replying to the debate, the Director-General drew attention to the validity of the mandate of the ILO and of its objectives in a changing world. Here are some highlights of his reply.

The ILO has to take up three main challenges. The first one, directed at our constituents, concerns the relevance and

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effectiveness of our tripartite structure. The Conference Resolution concerning the 75th Anniversary of the ILO and its future orientation makes a renewed appeal for the promotion of the fundamental values of the organization, the first of which is tripartism. The dramatic political changes which have recently taken place in the world and the consolidation of democratic principles which accompanied them should give fresh impetus to tripartism. When put into practice at all levels and in all aspects of social policy, tripartism is not only an essential guarantee of social justice but also a guarantee of the effectiveness of those policies.

The second challenge concerns mainly the secretariat and relates to the capacity of the International Labour Office to reorient its programmes of activity. The creation of productive and freely chosen employment is most certainly a priority objective and must be at the very heart of the ILO's activities. Healthy macroeconomic conditions constitute the framework for job creation and therefore the preparation of an employment policy. The future of employment and growth lies in the liberalization of markets. Labour market flexibility is not without ambiguity: there are forms of flexibility which exploit and debase the workers and others which liberate and make work more humane. Employment policies presuppose very solid partners in the employment market and consultations between the various social actors is an essential prerequisite for the success of these policies. The importance of the role of ministers of labour and the need to involve them more closely in the decision-making process, both at the national and international level should be emphasized.

The third challenge is addressed to the international community as a whole and deals with its ability to reorganize itself, and to tackle the economic and social stakes at play in accelerated trade globalization. The task of the ILO is not only to try to attain social justice but also to bring about economic progress which generates employment and to make sure that the benefits of international trade are fairly and equitably distributed amongst all those who have contributed to the creation of this wealth. Central to this theme is the question of how to reconcile freedom of trade, freedom of association and free negotiation by workers on their conditions of employment.

Taking up these three challenges, the ILO published a report, *World Employment 1995*, on the eve of the Social Summit. Trade liberalization across the nations means that the benefits of increased market access should extend to developing countries including the world's poorest, the ILO report. Therefore, "a fundamental objective of economic policy in developing countries should be to capture as much as possible of the potential gains from expanding trade and investment flows". To seize the opportunities generated by the Uruguay Round outcome, developing countries need to adopt a balanced, two-pronged strategy aimed at generating a higher number of modern-sector jobs, while upgrading the skills and living standards of the vast majority of the labour force clustered in the low productivity rural and urban informal sectors.

Given the magnitude of poverty and under-employment affecting workers in developing countries, it is important that development policies should not be biased against them and that measures to reduce unemployment and poverty, be given priority in government programmes. Supportive policies need to be implemented to promote growth in the urban-informal and rural sectors, including, in many cases, direct measures to alleviate poverty and generate employment.

The report notes that a balanced strategy is necessary. High rates of investment in both physical and human capital have been hallmarks of successful developing countries. However simply boosting investment or increasing aid to poorer countries is not enough: "it is equally important to raise productivity of capital and to ensure that it is efficiently allocated across sectors."

Capital markets in developing countries, the report notes, are often distorted with producers in the rural and informal-urban sectors having limited access to credit, which drives up borrowing costs and depresses productivity. The result is reduced living standards. In contrast, ILO cites the positive example of innovative credit schemes targeted at small producers, which have "shown impressive results in a number of countries."

Foreign direct investment, the report notes, can be a powerful spur to industrialization and job creation. Flows of Foreign Direct Investment (FDI) to developing countries reached \$70 billion in 1993, but the bulk of that (76 per cent) is concentrated in just 10 advanced developing countries while 47 LDCs receive only a marginal (and declining) portion. The policy variables affecting the flow of FDI include economic and political stability, a favourable attitude towards private enterprise and clear and transparent policies toward investors, especially multinational enterprises. Creating the right environment for investment promotion will involve extensive (and unavoidable) reforms for many countries, including reforms to the labour market. However, the ILO warns that "precipitate and ill-designed programmes are unlikely to be successful and will inflict unnecessarily high social costs in the process," thus risking a weakening of essential political support for the reform process.

The report notes that labour-market reform is necessary for many countries, particularly where inappropriate regulations have widened the gap between protected workers in the formal sector at the expense of the informal sector. However, ILO cautions that "it would be wrong to assume that labour market regulation is the major impediment to change." The most important factor in the success of dynamic Asian economies was the pursuit of effective export-oriented industrialization strategies and not the absence of labour market regulations. The far greater challenge facing developing countries is to undertake the wholesale transformation of uncompetitive industrial structures and inward-oriented development models. In many cases, strong labour market institutions can facilitate this change and minimize the social costs.

Strong labour market institutions take, for example, the institution of tripartism. Each partner must be highly developed and active in training its members in skills development, productivity improvement, bipartite participation and negotiation in order to improve the enterprise at enterprise level, whether in the private or the public sector. Each of us has a role to play. It is no longer a

matter of having an enterprise that works, but in having an enterprise that works better, that is viable in its own right. And here unions have a vital role to play.

It is particularly important for unions to play this role in the public sector to prove, as India takes the middle way in its process of economic reform, that privatization is not the only answer.

But we must all be vigilant. For instance, productivity improvement schemes should not result in deterioration in conditions of work or the lowering of occupational health and safety standards. At the same time benefits, resulting from the common effort should be equitably distributed. Pay systems should be sufficiently transparent to be well understood. Apart from technical and organizational measures, dialogue and exchange of views at all levels to reach economic targets but at the same time to preserve good working conditions and safety standards is essential. Participation by workers is the answer.

**\* Participation requires training.**

- \* **Trade Unions must develop their own human resources, not relying only on employers to provide training.**
- \* **Participation is essential at enterprise level, at national level and at international level.**

In this respect, I will just mention three examples of participation at international level that were mentioned recently in the ILO's regular journal; *World of Work*.

A first business committee on a global scale, the World Unions Committee, has just been formed after long negotiations between the unions and management of SKF, a multinational of Swedish origin. The Committee is composed of 25 representatives designated by the unions in the 15 countries where the firm is established. It will meet at least once a year to discuss a whole range of industrial, economic and financial information.

The British multinational United Biscuits and the union GMB have announced the creation of a European

Consultative Committee to exchange information and points-of-view between management and worker representatives to establish a transnational dialogue. This is the second such agreement signed within a British multinational, after BP Oil Europe, even though the UK is not a signatory of the social protocol by virtue of which the Community directive on European business committees was adopted.

A first collective convention was signed in a free-zone of the Dominican Republic, at the Bibong Apparel Corp. (clothing sector) which has a factory employing 500 persons in Bonao. It foresees a process of regulating conflicts between personnel and supervisors. After the reform of the labour Code, and the joint agreement on its application in the free-zones, this convention is a new sign of encouragement towards the normalization of work relations in these zones.

! The ILO is conscious of the need to strike a balance between the protection of workers' rights and the flexibility of the labour markets which rapid changes in today's global economy demands. The last but not the least of the Organization's expectations of the Social Summit is a renewed insistence on the importance of social dialogue within each State. It is by consultation and free bargaining between them and with the authorities that employers and workers, who are the most concerned with employment issues must participate in the elaboration of measures that affect them, and the unemployed and underemployed, directly. Employment is at the heart of any effort towards development and social justice. And full employment should no longer be seen as an impossible dream.

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## ***Economic Reforms, Role of Planning Commission etc.***

❖ G. V. Ramakrishna

### **The Economic Reforms**

I am thankful to AITUC, the organisers, for inviting me to present my views about the recent reforms. I will place before you how I see these economic reforms in the past, present and a bit of look into the future. We commonly refer to these reforms as liberalisation and globalisation. I think these terms are somewhat misleading because liberalisation and globalisation are only a small part or the beginning of a bigger process of socio-economic restructuring which is what we are trying to bring about now. Socio-economic restructuring is a far bigger thing than mere globalisation. Therefore when we look at liberalisation or globalisation or any part of the economic reform we should see what its impact will be and where it will take us in terms of socio economic re-structuring of the economy. Now the whole thing started, as you all know, in 1991 because we had a crisis on the foreign exchange front. Therefore we had to depend on foreign agencies to support us and these international agencies have their own standard package of measures which they recommend to various countries which are in crisis and which go to them for help. So the same package with very minor changes was suggested to us and at that time the package had some validity.

Therefore, the initial process of restructuring started with liberalisation and what has happened in the last three years is to proceed along the line of liberalisation which is the first stage of this socioeconomic transformation. What we have done is to dismantle the various types of controls and regulations we had on economic activities in the country. Industrial licensing has been liberalised; MRTP has been liberalised; capital markets have been liberalised and export and import has also been considerably liberalised. Foreign exchange controls have also been substantially liberalised. All these are only part of it because liberalisation is not an end in itself and liberalisation may be necessary but not sufficient to bring about socio-economic transformation. Now as a result of the early stage of liberalisation you have seen certain developments in the Indian economy which has been brought about by the Government in terms of addition to foreign exchange reserve, in terms of industrial growth, in terms of agricultural production.

### **Reaction of people**

All these are seen to be the immediate benefits of liberalisation but along with this when you see the reaction of the various types of people in India you find reactions from three or four broad categories. The upper classes are generally happy with the liberalisation because it gives more opportunities for private entrepreneurs. It gives more consumer goods; it gives more imported goods and they have means to spend money. So they feel that it is generally a good thing. But when you come to the middle classes, you have got two or three special classifications even within middle classes, for instance you take the lower middle class which is just above the poverty line. Their reactions are "we have now seen, whatever may be the rate of inflation, actually prices of different items of common consumption have gone up by 50 to 70% between 1991 and 1994." So they say we are facing hardships, we are facing inflationary pressures and they say we are not interested in import-export, also we are not interested in foreign collaboration, we are not interested in the rest of the liberalisation; our lives have become more difficult. The last category is the poor people of this country who now



feel, as they always felt that they are not a part of the whole process. They have been left out of the whole process. There is no benefit to them, even the policies did not talk about that and also whatever schemes they have for poverty alleviation and other things, the delivery systems were so poor, full of leakages, that the benefits did not reach these poor people. So they felt that there is nothing in it for them. At the same time they say that when everybody wants quick return, quick benefits from this, whether it is financing agency or entrepreneur, he wants to get back quick returns in three or four years but when it comes to the poor people, you ask us to wait for ten years of uncertain future. So they say there is nothing in it for them; therefore, they want some degree of social security. In all the other countries in Europe, America, Asia you have some form of social security to take care of the real poor people.

### **Food security or populism ?**

We do not have such kind of social security. Their concept of social security starts with the priority of food security and that is why it is easy for them to respond to some body who offers them the first stage of social security in the form of cheap food. Therefore they say we do not agree about the rest of it. You say here is something of direct benefit to us, atleast the offer of cheap food, let us not beg for that.

When it comes to this kind of thing it is generally called populism. If you now call this populism, people say you should call the rest of it elitism, as the connotation opposite to populism is elitism. If that is not elitism then don't call this populism.

The people, because of the elections in the last few months, had an opportunity of expressing their views and they expressed their views in favour of social security starting with food security. Then you saw in the recent Budget some new proposals have been made for taking care of the poor by new pension schemes etc. The basic problem in the Indian system is that election affects all these programmes.

### **The five tier elections, role of states and centre**

We have adult franchise from the time of independence. Adult franchise means every man and woman has a vote. The same voters throughout India are approached by five levels of political groupings. The same people are approached for election to the village panchayat, the same people are approached for election to the mandal stage, the same people are again approached for the Zila Parishads, again for state legislatures and for Lok Sabha. Everybody goes and asks people to give him vote and the common man says if I give you vote I want three things, I want food, shelter and clothing; I want free drinking water; I want education for my children. His wants are the same but five different people go on promising something. These five levels have widely different powers and responsibilities. After all the Central Government does not have any delivery mechanism for the villages and the states. Its policies and its gracious support have to be executed through the states and the states have their own mechanism. Now panchayat raj has been given in some of the states. The state policies are implemented through the panchayat raj system. Yet the catch in this process is that the promises made at the highest level of Lok Sabha elections, no Member of Parliament is able to carry out his promises because the Central Government does not have authority at the cutting edge; it has no direct contact with the people. Therefore whatever new schemes are announced by the Centre the delivery is in hands of the states and the common people see immediate provider as the state government. About 20 years ago the Central Government had hundred and odd centrally sponsored schemes where the Centre gave 50% of the money and the states 50% of the money. About 10 or 12 years ago there was a Committee and they reviewed all the centrally sponsored schemes. States did not want these on sharing basis. They said give us a lumpsum amount, you keep your hands out of it and we will operate our schemes. So the 120 centrally sponsored schemes got reduced to 8 or 9 centrally sponsored schemes. So the Central Government's leverage in implementing all the policies for the people is further reduced. What is today happening is that the block grant is given to the states. After that it is upto the states to spend it. You have no way of withdrawing them. If you find

that it is not reaching the poor, that is the problem at the state level, so the leakage takes place, and it is not checked how much reaches the people. Of course, some people know where it goes but at the lower level there is such a tremendous leakage in carrying the benefits to the poor people. It is well known that if you spend a rupee for the benefit of the people, they probably get 20 or 25 paise. Therefore this is a major problem and that has to be sorted out. Whether we should now get back some sort of centrally sponsored schemes, it is a more acute problem now because of pattern of political parties in power. Twenty years ago, you had the same party in the all States and the Centre but today that is not the case. So this is much more difficult to carry this with the states. It is not too late to take back centrally sponsored schemes. States will not agree; they say give us the money and leave us free, we will do what we like for our people. Central Government in a way does not own land of its own, people of its own. You can say the whole country is theirs, but there they are—all parts of different states. So the states are very reluctant to give this power. So what is the role of the Central Government or the Lok Sabha members who go on promising things to the people? What is their capacity to deliver these things? This is a question to answer as this is prevalent in the system which has operated for the last 40 years. But it is surfacing now more and more because of the diversities of the political parties, diversities of state administration and philosophies of development. This is the situation in which we are now finding ourselves when people are asking for social security. Lot of people say we have nothing in the liberalisation programmes.

### **Liberalisation for whom?**

Meanwhile because of the steps that have already been taken we are now getting a kind of response from foreign investors, international investors. They have shown confidence because they like this liberalisation. Every developed country realises that all this liberalisation is free trade for them. But that is for telling others and not for telling themselves. The first thing that they do is: I will not allow free trade or liberalisation to affect my country, my industries, my people. This is generally the philosophy of western countries.

Their Governments make speeches on free trade. If you try to export to their countries they say "No, no it is affecting my industries, it is affecting my employment, it is affecting my wages". So it is an unequal arrangement. Therefore we also should not be taken in by this talk of just liberalisation or opening of trade without looking at our own self interest. If we do not take care of our self-interest liberalisation will get derailed. When people feel that there is nothing in it for us or that national interest is not being advanced by liberalisation, this is a caution to remember to take care of yourself first. Liberalisation is for India and not for others. If we benefit and others come on a mutually beneficial basis, all right. They are not coming for charity but they should not also come for exploitation. We want neither charity nor exploitation. It should be a mutually beneficial association and that is a principle that has to be remembered in the process of liberalisation.

### **Building infrastructure**

Now what has happened is that in four areas where the process of liberalisation has left gaps or lacunae; the first area is in developing infrastructure. Even if you want development of Indian industries, Indian Public Sector and also foreign private sector you need infrastructure. There are two types of infrastructure, one which appeals directly to the people. viz, social infrastructure providing drinking water, health facilities, education which are also a part of the infra-structure. Then we have physical infrastructure such as power, telecom, roads etc. Now we have to look at infra-structure. The State Governments have to take care of both social infra-structure and physical infra-structure. There have been very little private investment in India in the infra-structure field. Even today, nobody is taking private investment or interest in social infrastructure. There have been no private investment in either education facilities in the villages or facilities of drinking water etc. because private investment comes on the basis of the profit motive, on the basis of the return on capital whereas social infra-structure is a public welfare programme which a state is expected to provide for the benefit of the people.

In fact, we have cases where some private people wanted to set up water supply schemes but they are pricing the water so high that you cannot give it except in the most affluent areas where people are prepared to pay. In rural area people will not pay that kind of money for water supply. Yet they deserve water supply and they deserve education for their children. All these continue to be the responsibility of the State and of course you know the resources are so poor both in the Centre and the States that it is unable to provide enough resources required for improving the social infra-structure. That is the one aspect missed by liberalisation. Social infra-structure funding is inadequate and both States and Centre are finding it difficult to meet the requirement. Today if we go to a primary health centre the budget allocation made for medicines is not sufficient. Medicines are given for two days in a week. The doctor comes to open it on monday and tuesday; he prescribes medicines and after that his medicines are over. He tells the people I have nothing to give you, you go away. He goes and sets up private practice 20 miles away. That is happening. I have seen this in Madras and in other states. It is happening because there was no funding. This is a fact, everybody knows.

You look at the budget. Now we come to physical infra-structure. What have we done? We wanted to get private capital into power, into roads, into telecom. We are trying to do that. We have not had much success in the last four years even in physical infra-structure in getting private investment because public investment is short for social infra-structure. So there is no state funding available for improving even the physical infra-structure. Again when we get private investment as I have said we do not want charity, we do not want exploitation. The happy media of having mutually beneficial arrangement has not yet evolved getting private capital even into physical infra-structure.

### **How much free is the free market ?**

Two things are essential and these are fundamental to the reform process. We want free market; we want competition; we want efficiency and we want transparency. These are four tenets of the ideal free marketing economy. In fact there is no

such thing as ideal free market economy. Today anywhere in the world these four principles are stated. Now we have to see whether any of these four principles have been applied in getting foreign investment in the physical infra-structure. Firstly, there is no competitive bidding. You are not getting any surveys or investment at the cheapest possible prices. Whereas competition is the very key element of the free market and yet competition is missing. When we get private capital in infra-structure there is no competition. If there is no competition you don't know whether you are getting it at the lowest possible price. So he quotes whatever he wants; He has the monopoly situation and therefore we pay very high cost for infra-structure. High cost infra- structure will have very serious repercussions.

In the power field they have agree to give guarantees and counter guarantees. They are not even quoted on competitive basis and the rates of return of all kinds are supposed to be very high. They said after these seven cases we will not give any counter guarantee but still the absence of competition continues. Others are going ahead. It has been proved that if there is no competition the capital costs are inflated by anything from 25 to 40 per cent. So if you build this kind of inefficiency into this infra-structure it is going to affect the development of this country; power cost will be high; industrial cost will be high; it will affect export capability. Therefore we have been asking, the Planning Commission have been saying: please go for competitive bidding; It has not happened in the four years. Secondly, this protracted negotiation without competitive bidding leads to delay.

### **The power sector**

The result is in the last four years you have not got any private investment in the power sector producing even one unit of power and you are not likely to get in private sector investment producing power for the next three years. So the whole 8th Plan has been wiped out without any additional power coming from private investment from abroad. The result is the shortage will increase. By the end of the 8th Plan we will get less than 22000 Megawatts against the original expectation of 38000 Megawatts which was scaled down to 30000 Megawatts.

The achievement will be less than 20000 Megawatts. So it will be a big shortage of over 10000 Megawatts.

### **Roads**

Then you see the case of roads. The roads case is very complicated. You cannot get private investment in roads very easily because any investment that comes in roads will ask for a return, will ask for cash flow, will ask for revenue which comes from toll taxes. Now you cannot convert an existing free High Way on which people have been travelling free of cost for 40 years, over night put a barrier and say pay 10 rupees for going on this road or pay 25 rupees for going on the road. This will create problems. You have to create another parallel road going outside and the cost of road building according to the standards we are talking of, is over 6 crores rupees per kilometer. So a road from here to Agra will cost Rs. 1200 crores and if you want a 15% rate of return you have to give them 180 crores. That kind of return you cannot produce unless you have very heavy toll tax rates on people using these roads. So the whole policy of getting private investment in the infra-structure has not been well thought out. That is why we are experiencing all these delays. Our problems are serious. There is lack of interest in it; the only interest has been shown where you allow them to quote any price. They are covered by guarantees. They have given high rate of return and they bring their money. Is it in the best interest of the country is the question people are asking.

### **Public Sector**

Then we look at the second major area that is the public sector. In the case of liberalisation the only talk we heard in the early days was exit policy because exit policy is worked out by foreign agencies and we adopted that. But what about the public sector as a whole. They generally talk that public sectors are very inefficient and private sector is efficient. Both are absolutely wrong. The public sector is not uniformly inefficient. There are 120 public sector units which are profit making and their profits went up from Rs. 7400 crores to Rs. 9700 crores in 1993- 94. You cannot call them all inefficient. There are of course a few other public sector which are loss

making but to say uniformly against all public sector, is wrong factually. The records show that the private sector is also not uniformly efficient; 1200 private companies are before BIFR. So the point to remember is the public sector has been working and a large amount of national money has been invested in the last 30 to 40 years and they are running with 9000 crores of profit. They are exporting over 10000 crores of products; they are contributing to taxes. Are we going to take care of them? What we have done is to put them in competition in all these areas; you have allowed private sector to come; Indian private sector, foreign private sector, multi-nationals are coming to compete with the public sector. We have given them all the facilities but what are we doing to give more facilities to the public sector which can compete, which will have to compete with these new challenges? We have been asking why don't you give them the same autonomy in management? Why don't you give them better remuneration to keep the better managers because today there is exodus of the better managers and senior people from public sector to private sector which are taking them away on three to four times the salary. So if all the good people leave the public sector then even good sector will suffer for want of good management, good leadership.

The next area we have not taken care of is autonomy. We went on asking for it, several months. Recently top bureaucrats in the country in the Committee of Secretaries, supported autonomy of public sector. They say give them full autonomy but it is not going through. Who is opposing this? Whether it is at the political level there is opposition. You cannot ask the public sector to compete with import, to compete with multinationals, to compete with private sector and tie their hands behind them without giving them autonomy and freedom to respond to market challenges, making new investments or to diversify. I think if the public sector goes down private sector is not going to fill that gap for a long time to come. The country will suffer.

Public Sector today has over 70,000 Megawatts of power. I do not think the private sector is going to give even 5,000 Megawatts of power in the next seven years. So they are not



solving the country's problems. In the meanwhile you make the public sector more sick and more difficult and more people will leave. This is another area we have not thought of.

### **Regulatory Agencies**

The third area we have not thought of is about regulatory agencies. We do not have regulatory agencies. We need them because in each of these fields we have got multiple builders. Now you have got private sector. You have got foreign sector, you have got Indian public sector, all in the same field, whether you take power or petroleum or anything else. Who is to regulate this in the interest of the public? Otherwise you will get private monopolies: you will get pricing at a very anti people, anti consumer level. In other countries, in western countries when they started liberalising they set up independent regulatory agencies which had public sharings, listened to the people and fixed fair prices, to ensure no private industry can charge rates beyond what the regulatory agencies have fixed. They had nationalised the power sector in U.K. They set up a power regulatory body. That regulatory body last week drastically reduced the power rates charged by the private power companies. They said you are charging too much for power, reduce the price and the industry is now doing what the regulatory agency says. They are a lawful authority set up by the Government and they have the authority to fix it. In India we have not set up regulatory bodies either for power or for telecom or for roads. The only regulatory body that has been set up has yet to find its feet: No powers are being given.

The security exchange board for the capital market regulation is not a very perfect form of regulation because of the way market and rest of exchanges are functioning. But at least a beginning has been made but in other areas even a beginning has not been made. The absence of the regulatory body will put the consumers of these services and products at a great disadvantage because there is no public interest which is taken into account by these producers of goods and services in providing them to the public.

**Foreign investments - in what areas?**

The last area is what is happening to direct foreign investment. Lot of approvals have been given. How much is coming? In which areas they have been given? The fact is that direct foreign investment has not come to the extent that is expected. Some of the more open and frank people from abroad come and tell us why they are coming here. They have gone on record in Delhi to say we are coming here because of the vast domestic market where we can sell our products and make profits substantially, which they have proved. They have usually come so far in the consumer items. They have come for food items, ice-cream, chicken, beer and whatever else you want. They have come in these areas very easily but when it comes to high technology areas they are reluctant, because they do not want to develop production base here unless there is a wide market and because of the economic conditions of the people. You would not provide such a wide market for high technology goods here and more important they have to face competition with already existing units. Take for instance, power equipments. Today you would not find any foreign party setting up power equipment factory here because he cannot compete with BHEL. BHEL is winning contracts in other countries but it is not allowed to quote competitively in India itself. We have not learnt to go beyond that stage of trying to understand the total activities of that company and many of these multi-nationals who come here have hundreds of subsidiaries around the world with all kinds of un-connected names where they have high technology products, where they are doing research on high technology. We are not even aware of it. So when they come to us and give one proposal which suits them we have no way of reacting to it or being pro-active by saying all right if you want to make beer bring A, B, C more of your new technology also into this country. We are opening the door wider and we ask him to bring his better products and technology also to India. That pro-active is totally missing because people have not bothered to find out. Today Hindustan Levers in India makes soap and other things. They have 250 subsidiaries around the world

doing high quality research on various other products. We are not even aware of the names of these 250 subsidiaries. They are located all over the world with all kinds of names which are apparently not connected with the Hindustan Levers. They are doing work in agricultural technology, bio-technology, economic research, so many other things. But when somebody like Hindustan Lever says I want to do something here producing lipstick or soap you don't call him to the table and say tell us what other things you are doing around the world. You could say, alright to what you want here, also do what we want you to do here. That is totally missing. Therefore they think Indians are very immature and they are not very smart in negotiating with us: they take whatever we offer. This is another area which has been lacking for the last several years. Earlier we had controls and we could say yes or no even to them. Now we have opened the doors and we are not even putting to them that they are not bringing high technology products into India. So what we are getting initially is interesting consumer items and of very little importance to the economy or to build and strengthen the economy.

In the Power Sector nothing much has happened and we go on expecting something may happen in the next few years. A few cases may come but on very exorbitant terms. So the whole process of getting foreign investment, of liberalisation has to be taken on a more professional basis, with better knowledge of the global conditions and keeping national interest more in mind. We are not here to allow them to make all the consumer items and sell them because our business is to open up Indian market for them so that they can take profits. We should calculate the benefits of getting some of the other more important things also into India. That is the basic thing. So in this set up these four areas have to be rectified. Then people will begin to think of India as a more matured state of people to deal with: you cannot take them for a ride; you have to be competitive; you have to be efficient and every arrangement is to be mutually beneficial. If you do this you will get some progress in getting liberalisation for the benefit of the country and benefit of the people.

## **State and Central Finances**

The other thing is about the way in which the state finances and the central finances are being dealt with. You have seen the 10th Finance Commission Report which has just been laid on the Table of the Parliament. Many people have not studied it but some reports have appeared in the Press. There is a view that some of the states, perhaps even the Central Government are heading for a debt-trap. They are saying this because the interest payments of the Central Government now are 54% of revenue receipt and the interest payments are in excess of your market borrowing. It means what they are borrowing every time is inadequate even to meet the interest charges. How long can you continue it? We have to keep on borrowing, keep on paying interest and therefore the resources left for development, for building irrigation works, for setting up of power projects, building of roads, building of schools, building of hospitals, primary health centres will face a big crunch. Whatever way in which you distribute the money between the Centre and the States there is going to be a financial crisis, unless people wake up to take some action because the debt is mounting up over 500 thousand crores of rupees and interest payments are eating away most of the revenue: 50 per cent goes to defence, some percentage i.e. about 18 to 20 per cent on services and other things. So you do not have very much left and you keep on borrowing, not for investment, but to pay interests. So where is the money for investment? Are we adding to the national wealth? Are we adding to productive capacity? Are we adding to social infra-structure for the benefit of the people? These questions have to be asked and looked at in totality because the whole planning process is now not very realistic: the states say we will raise whatever we can; they put any figure they want. Take any figure of plan; the nominal figure showing the plan has nothing to do with actual expenditure under the plan. Plan figure is cosmetically made up only to hoodwink before the people. Nobody bothers what you did on your nominal figure. So the whole planning process has got into this kind of sharing game where people are not being frank with each other and the result is the actual investment suffers and many irrigation works are not given

for the benefits of the fields because they have no money to take the common area. Development of field channels are not coming but all investment on huge dams and water supply canals. The fruits are not yet coming because the people do not get it in their fields and many people in the common areas are digging wells and putting pump sets whereas they should get the channel water if they have infra-structure growing.

Somebody has to take note of what is happening in the rural areas of this country and needs for the rural people. It is not enough merely to think in terms of the external world and not look inward into our own people, what their problems are and what has to be done for them.

*Several questions were asked by participants after this presentation, to which Mr. Ramakrishna gave the following replies :*

### **India not to go the Mexican way**

What about the Mexican experience or the East Asia experience and how much it applies to India. This is a big mistake to think of India similar to any of the countries, India has its own special characteristics in terms of the economic pattern of development and socio-economic considerations. We have demonstrated our capacity to get into crisis situation also. But does it mean that we will get into the situation again? We have learnt some lessons and certain directions of growth are emerging. But the pit-falls we have to worry about is the kind of problem we have seen in Mexico. It is not the economic collapse of Mexico, it is more important to see the social discontent in the northern parts of Mexico among the people where insurgency and violence started even before the elections. Candidates were shot at: The President was shunted out and they got a new man. Now the present man is grappling with economic inequalities compounded by major economic crisis. That is why they are de-valuing and going to America. Mexico is another name of America. America has a big brother attitude and over- night they are pumping 40 billion dollars package into Mexico. Nobody is going to do that for India. The effort here will be to squeeze the blood out of

India before they are given a dollar. So we should not get into that situation and I think we will not get into that situation. But if we do not apply corrections probably we will get into difficulties.

**Re : Sickness in PSUs :**

I say, don't create more sick public sector units which are perfectly healthy today. In oil, for instance, there is a move for asking public sector units to hand over their assets to the private sector. There is a project which is a very lucrative project. This is going to get lot of money in the public sector. We spent 300 crores and if we finish it next year that will probably get 70 crores a year. Now that half finished project is to be handed over at cost to a private party. We are objecting to that. We have objected in writing to them saying don't strip the assets of public sector specially when they are profitable ventures. They said no philosophy should get into all these areas. Why should it not go in the private sector? You have got the people who started with polyster shirt, going down to polyster, going down to PTA, going down to refineries and going down to exploration. You have one kind of integration in the private sector. If the public sector wants to diversify and integrate with their own resources without asking for a rupee from the budget, why are you saying no? I am saying let us prevent sickness first and also deal with sickness. So I have said we may have big hospitals for the sick but also keep play grounds for the healthy otherwise you will have to build more hospitals. So sick industry's approach is also faulty because in some cases you can make structural adjustment and put in some more money leaving those sick cases. It is like a hospital : you have the ICU cases, you have the recovery room and you have the average outpatients. So in the industries also you have got various levels of sickness: some inpatients, some in ICU's: you have to deal with each industry in a specific way. I cannot make a more general comment on this.

**Protection by developing countries**

There was a question about protection in developing countries. Foreign investment will come on a scale, if

protection is there. In many developed countries you have seen that when we are exporting skirts they stopped on some flimsy grounds. There is a law in the USA, which is 25 years old, under the USA Trade Act, which says any import which causes domestic injury, the word is 'domestic injury', can be stopped. I dealt with it 23 years ago. It is a judgement of the administration to say that this import is going to affect my industry, my employment and therefore it is causing domestic injury; then they put 20% duty, 100% duty. They are aware of the fact that they only pay lip service to free trade but they are not really for free trade. The infra-structure funds, should government go into this at all cost? If you say "no power is costlier than costly power" then that is what you will get. It is so simple. Take your wife to buy her a saree on her birthday. If you look at a saree and went to have it at any cost, they will charge 50% more. If you look and say it is not good they will reduce the price. So we have to go competitive.

Take power projects. Only recently, a few months ago on competition, the cost was 2.75 crores per megawatt and this was in the case of coal based with high investment. Now why are we going to Rs. 4.4 crores and above? Competition is the solution and government is short of resources. That is a fact. I think if we can divert whatever resources government can get for social infra-structure and get competitive private investment in power that would be a feasible alternative for us for the next few years. But the public sector has a very large role in infra-structure particularly in power, roads etc. Therefore it is not a total substitution of public sector by private sector. It is supplementing public sector activities by private sector activities.

### **National Interest in public sector**

What is now happening, they are not just supplementing they are supplanting public sector. They have debased it. The demand is "Hand over the projects, hand over your outlets, hand over your oil pipelines to us or share your pipelines compulsorily with us etc." Why is this happening? In true term it is not just a ministry's bureaucratic apparatus force.

That is only 50% of the problems. Other 50% are the public sector themselves. There are the people who let down the organisations by doing all these things without a letter of dissent and I can quote any number of examples, where a Public Sector chief two months later walks into a cosy job in the private sector. Therefore unless there is some public, national interest in his heart he does not deserve to be a public sector Chief. If he is favouring his own interests all the time and saying 'I will jump on to other job' the public sector chief is most undeserving. Dealing with such things calls for a great deal of change and great deal of understanding of national interest.

### **National Renewal Fund**

There was a question about retrenchment and renewal fund. Yes it is a fact. Renewal fund has been underutilised. Last year the provision was Rs. 700 crores and it was used to the extent of Rs. 230 crores. This year they have reduced it further to 300 crores because nobody is using it. Most of the renewal fund is being used for VRS. The problem is nobody is able to put together an imaginative or sharing programme which will be employment oriented. You have not given attention to re-training to be employment oriented. Nobody is going for re-training. Then you add to the number of unemployed. Again mere re-training would not help unless you target it.

### **Social Security and Panchayat Raj**

The other question was about the social security, Out of promised 75 rupees how much will reach the old people I cannot say. I have already commented on that but one word on this Panchayati Raj system. Let us not imagine that the Panchayati Raj system is a solution to all of our problems of people or taking care of gross root problems of the villages. I have seen Panchayati Raj system. The day it was initiated, I was operating as the District Collector in 1959, when you had Balwant Rai Committee in Gujarat. The second step was to implement it in Andhra State and I was there in Zila Parishad as non official Chairman. Things were much better those days



but I think today to imagine Panchayati Raj as a solution is a mistake because in the lower formation you get easier control over a few people. You can control 2000 people more easily than two lakh people. So you have lot of vested interests in the villages. You could think in many ways : First leakage starts with the headman of the panchayat. His brother-in-law will get the contract for the house, his son-in-law will get another contract and the engineer working under the chairman is supposed to supervise and certify that work. Which engineer will certify against the son-in-law and the brother-in-law? I have seen all this in state administration but people in Delhi don't have that understanding.

### **Indian Industry**

Why is there no self-interest for Indian industry? Well, Indian industry is a big slot of various types. You have one Indian industry which already has foreign investment; second Indian industry, without foreign investment; Indian industry which has thrived in the days of the control. They are beginning to realise now, budget after budget including the latest budget that their competitive position is being threatened by cheaper imports and competitive production from multi nationals. In the last year they called the Bombay Club and now they are saying take care of Indian industries first. But we are not looking at what other countries do. They call it 'domestic injury' and take care of their industries and they have documented it very well. About a month ago a London economist brought out a full story as to how employment and wages in the developed countries have fallen because of free imports, because of the capital going out of their country for investment in other countries. Specially at the lower level of scales, their employment has gone down and security measures have gone down and they are getting worried about it. Therefore they say, in our own country employment and wages should not go down. This is the basic philosophy that they have. It is an inspection game plan that they have all been using in the name of free trade, using WTO etc. to enhance market opportunities for them without affecting their own employment and wages.

### **The role of trade unions**

I have commented on the Chief Executives of PSUs, The trade unions have a role to play, trying to take care of the interests of the enterprises and the national interest and their own interest as a third priority. If they are able to get that kind of a priority, the difference will not be very much. I think they can make a contribution to the Nation. Don't allow to strip assets of public sector undertakings: they are not only assets of the undertakings, they are national assets and the workers have a stake in keeping those assets. Don't allow to render the PSUs sick and then throw you out. Keep them healthy. If there is a way of keeping PSUs healthy why are you taking measures which will render them sick. Question the established management, when all this is happening what are you doing? When they say hand over this half finished project at cost, the unions should ask why are you doing this? If the management does not protest, at least trade unions can protest. If they say hand over oil pipelines and outlets, they have to act in the interest of the company, interest of the country and in their own interest also.

### **Disinvestment in PSUs**

You see if it was intended for development, they would not have dis-invested. This the only answer I can give because there are compulsions of meeting the budgetary deficit, the fiscal deficit and they have to account to foreigners from whom they are getting some money. But it is a one shot operation. You see you cannot sell something twice over. The states are selling away their companies and power stations are being offered. They are offering their crown jewels, base power stations at Vijayawara and Nellore. Two stations are being offered. When they are having a plant load factor of 85%. States are resorting to it. Now ITC says I will buy it and they will buy at depreciated value and then what happens? Who is going to share the power? They will say, how I distribute the power is left to me. They will stop giving power to agriculture unless you pay subsidies. All such problems are there.

### **Food stock and prices**

On one hand they have raised the procurement prices but they have raised the issue prices also little higher. Why have they raised higher. The simple answer is to reduce subsidy. They say you give adequate administrative price of foodgrains. Planned diversion of land away from foodgrains and to have a commercial corporation is not good for the country. Let us keep the farmers happy and see he continues to keep land and water required for food grains production. So you have to provide that for them. They have to keep the issue prices within the reasonable limits. So the gap is the subsidy plus cost of Food Corporation of India of transport, storage and the carrying cost, the financing cost which are quite enormous. People say 30 million tonnes is a large stock. Firstly I don't agree with that. We have had seven good monsoons and statistically we should be prepared for one or two bad monsoons. In 1966 wheat imports were roughly 10 million tonnes a year in the P.D.S. Today with the higher population, it will probably take over 15-16 million tonnes in the P.D.S. We have stocks to meet 15 million tonnes in one year, one and a half years because in the 30 million tonnes useable stock will not be more than 25 million tonnes. If you look at FCI record of storage and the losses at the bottom you know what are the losses, So if you have got 25 million tonnes of usable and you need an annual outflow of 15-16 million tonnes you are not very disturbed with these things except that you keep replenishing it, procure more and use old stock and all this. The question is how much subsidy we can afford, where we get that subsidy. In Andhra Pradesh, 10 years ago 33% of bogus ration cards were taken by the dealers. Subsidised sugar, subsidised rice were taken out and handed over to the hotels and they got a margin of over three and a half and four rupees. Of it they will share between the hotel and other people. It happened also in Tamil Nadu where they had this kind of thing. We inspected register. I have myself seen the register, it is perfect, all the 20 cards entered, numbers given, names given and then he said 10 people I will give and the stock is over. We said show the register of 20. All the first 20 are bogus cards. He enters all the bogus cards at night before opening the shop and the first stock that comes goes out

through the back door and the first 10 people get it. This I discovered there; I asked who are those first 20 people, no name, no address but some card numbers. How do you trace them, it is difficult to trace them. The target should be for the real poor people. Why should a person getting 5000 rupees or 6000 rupees get the same kind of facility of P.D.S? Why is it people are not seriously thinking of having local committees? If the local people don't get it they can complaint nearer. They can not complain to Delhi but they will complain to Collector Office.

**The comprehensive alternative infra-structure.** We are now like property developer in Delhi who acquires lot of land and a lot of building. What does he then do? He does not care for the building. He first demolishes it, then clears the rubble because the land is valuable. We have done a lot of things which are quite efficient, which have good results in terms of foreign exchange, in terms of growth of exports and imports. That is the first stage. When the land is levelled at that stage you need an architect to tell you what you want to build. What is the blue print for a socio economic structure of India. That blue print should be placed before the people to say the alternative blue print of this kind or that kind, that they want.

We then take into account what is the role of small industries, what is the role of employment promotion, what is the role of foreign capital, what kinds of industries they want, that is the blue print. I do not think till today anybody has talked in terms of alternative blue prints for the future socio-economic structure of this country. We are talking only in terms of liberalisation, of removing this control, removing that control, opening this door and that window. If you build without an architect's blue print of a structure, you will put the bath room where the bed room should be and you will put the kitchen where the bathroom should be. You will build in a haphazard way. So we must have a comprehensive blue print and this is the right time. It should have been done in the last one or two years to unveil before the people of this country two or three alternative blue prints to get the reactions of the people to know which way they want to go.

Another point that was raised was, are we acting under compulsion. Yes there is compulsion. The GATT agreement and all this. But here again you may have a difficult situation but the skill with which you play a weak hand at the game of cards also can get you out of trouble. The skill with which you initiate can get you out of trouble but even a strong hand can lose again if you play foolishly. Therefore if you know that we have a weak hand because of some of our dependence, all of it is not weak; some of it is exaggerated, weakened just to procure the money. You are not developing those skills to deal efficiently with the rest of the world, with professionalism.

Somebody was asking about the 250 subsidiaries of Hindustan Lever. Who has got that list? I don't think anybody in Government have got it. I am even asking for it for the last ten years, whether anybody has got it. I got for a few companies myself.

### **The Role of Planning Commission**

Somebody asked what the Planning Commission is doing and why you are not giving alternative blue prints. I am saying most of this in my personal capacity. I want to say it again because the Planning Commission is not performing the kind of role that it was originally thought of. Even originally it was an advisory body but an advisory body which came out with alternatives and alternative blue prints and something which is directly within the role of the Planning Commission. If you are supposed to have over view of all aspects of the economy, the socio-economic aspect, the role of the Planning Commission has to be strengthened. The Planning Commission should not be a hand maiden of the ministries of the Government of India. It should be an independent advisory high level body as it was in the early days. Even when I was in the Planning Commission about 13 years ago it was a high level independent advisory body with high level professionalism built into it and I think that role has to be restored to the Planning Commission particularly in the present situation. But without alternative blue prints for the socio- economic transformation of this country you cannot go forward. We have to take this country forward for the benefit

of the people, not for the benefit of the foreigners, as we have to get foreign capital. We have to get external savings to supplement our savings; but there are ways and ways in which you can do the something. You can do something very inefficiently; you can do the something efficiently. We have to get more professionalised. We have to look at overall blue print of this country, how to meet the social unrest, how to meet the disparities among the states? These are very major issues but I do not think that kind of a role has been assigned to the Planning Commission or at present it is being asked to attempt. That is why I am pleading for a more active and a more development oriented role of the Planning Commission which has to be given now because ministries take particular type of view with which we have differed. I have differed as a single Member of the Commission but I do not think it is a kind of an over view taken by the Commission. The Chairman of the Planning Commission the Prime Minister himself says it can be a very powerful body, it can be an influential body. It has the Prime Minister, the Finance Minister, the Commerce Minister and lot of people are in it and also full time professionals. If you activate the Planning Commission, make it an effective body, we can place before the people two or three alternative blue prints of which way we want to go.

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## ***Structural Adjustments, Markets and the Poor***

◆ *Hanumantha Rao*

The whole theory of marketisation or structural adjustment assumes that market signals are necessarily rational. Some kind of sanctity is attached to the working of market mechanism. Marketisation is indeed necessary in certain respects. In respect of hotels, for instance, or airlines, I do not see personally any reason why the State should be deficient in resources and why the people should not pay for these services according to what market dictates. Even in regard to irrigation water or power for the rural sector, I personally don't see any reason that except for small and marginal farmers who don't have the capacity to pay, why the large farmers and middle farmers should be paying the same rate as they have been paying for the last 20 years or 30 years even when the cost of providing inputs has risen several folds. Now, this is how many of the socialist economies have become bankrupt and they have had to de-bureaucratise their planning processes and respond to market signals.

But I am now dealing with the other issue of how to make markets 'friendly' to the poor. Structural adjustment is about making the economy 'market friendly' but where the poor and the deprived and the under-privileged are involved, the markets may work against them.

In the last three years markets have proved that they can work adversely against the poor, against those sections who are assetless, who have no bargaining power. Now, how to improve markets or how to reform markets or how to strengthen these deprived sections so that their position in the market improves and the markets to that extent can be made friendly to the poor. This is not a new idea. The whole issue of structural change as distinct from structural adjustment has been talked about, argued in our own country by the kisan movements, workers movements and by economists and others in the fifties and sixties even in seventies. It was given up when the Green Revolution came but now the idea is being revived. When we talked of structural changes in the sixties and seventies what we had in mind is the change in the property relations through the implementation of land reforms and the empowerment of people in general through better representation in the elected local bodies/institutions.

Now, we are talking of reservation through constitution amendments and all that. We want a kind of democratisation of the rural areas by ensuring relative equality in the endowment or ownership of the assets and by ensuring participation of the poorer sections in the decision making process. This was discussed in the Report of the National Commission on rural labour. Incidentally, the Report was submitted to the present Prime Minister and the Government four years ago. It is available and stored in the shelves of Parliament and whoever asks it is being given but otherwise we do not hear much about it! In one of the studies made at that time about the functioning of the markets and their impact on the rural poor, it has been found that in areas where land distribution is more or less equal or less unequal, compared to the situation where the distribution of land is highly unequal, it has been found that the wages are generally high in areas where the distribution of land is less unequal.

So where the concentration of land is very high, the wages are depressed.



### **Assets and Wages**

Markets, of course, set wages but that is influenced by the distribution of assets. So the structure underlying the operation of market process is very important. Markets do not operate in vacuum. The existing distribution of assets with which both the social power and even political powers are correlated is extremely important in trying to understand why the wage rates are low in some place and high in other cases.

Where there is assetlessness the interest rates on loans are very high. As you know, the rural interest rates charged by the private money lenders range nowhere between 24% to 100% in our country in the eastern parts of our country. Even in West Bengal in quite a few places, 80%, 70% interest rate is charged. It is also very common in South. In fact it has been found that 35% interest rate is a commonly observed interest rate in the rural areas, in a large number of cases in the informal sector, not in the formal sector. These interest rates are influenced by the demand and supply forces, of course. If there are large number of people who do not have any assets, who do not have sufficient income and who face lot of uncertainty, whenever there is need for either production credit or for marriages or for funeral, they have to run to money lender whose rate of interest is very high. Therefore, the property relationships and assets endowment have a tremendous influence on the way the prices are set in the market.

### **Infrastructure and Markets**

Then comes infrastructure. In areas where infra-structure is well developed, and I am talking basically of irrigation and roads in this case, the marketing margins are not exploitative. The difference between the village market prices and the wholesale price is minimum as compared to regions where infra-structure is not developed. The farmers have to part with their produce at very low prices and the traders can sell at very high prices in the whole-sale market. The margins are very high because of low development of transport and low infra-structural development in general. So infra-structural

development is another extremely important factor in determining the way markets function, the way prices are set and also in setting the rate of exploitation.

Of course, it is well known that, markets by themselves cannot help in evolving new technologies. Economic theory has been saying for a long time that evolution of technologies is determined by the relative prices of factors of production. So Hicks, a great economist who first put forward this theory in his book on 'Theory of Wages' said whenever the wages rise there will be incentive to economise on labour and for innovation towards capital-intensive methods of production or viceversa. Whenever interest rates become very high capital becomes very costly and labour becomes cheap, the other way around may also happen. Although the studies show that the relative prices of factors of production and the nature of substitution between capital and labour will determine technologically innovations, the more recent evidence suggests that many of the innovations that are coming have very little to do with the factor prices. For example, discovery made in the context of defence somewhere after the war becomes highly useable in civilian productions.

In the case of Green Revolution, for instance, fertilizers came first and then the need to exhaust fertilizers put a pressure on the evolution of seeds which are highly fertilizer-using, as in the west. This is how green revolution started and spread to our areas also. Now there is a move to evolve seeds which can economise on chemical fertilizers for protection of environment and so on and so forth. So there are different routes for technological change, markets by themselves are not really basic or fundamental in the evolution of new technologies.

Then environment question is there on which there is general unanimity that markets, because of their very short horizon and because of the actors in the market i.e., the private enterprise seeking to maximise profits in the shortest possible period, ignore the long-term factors and therefore are not friendly to environmental protection. We find a very clear case now of aquaculture coming up in a big way in Andhra

despite the national remote sensing agency, warning the Andhra Pradesh Government several times in the last 3-4 years that it is going to create a serious environmental problem because mangroves have been destroyed in the coastal areas. So steps should be taken to regulate this. But when some people are governed by immediate and very high profits, then the environmental issues are ignored.

These are some of the illustrations I gave to emphasize that markets so far as the poor and environment and technology issues are concerned, unless there are reforms, unless they are re-structured or unless the participants in the market particularly the position of the poor is strengthened vis-a-vis market forces, it would be difficult to achieve the objectives of marketisation or structural adjustment, that is, to make efficient use of resources. You may make a more efficient use of some resources at some point of time but particularly in the case of un-organised sector the effects on balance are going to be adverse.

In the last four years among several criticisms of new economic policy that one can make, one basic flaw in the whole process is ignoring the need to change the structure and functioning of the markets specially as they affect the poor and the deprived. Of course, Finance Minister in his recent Budget claimed that the economic reforms have not resulted in mass unemployment as some critics have feared some three to four years ago. Now this is taken on the credit side of economic reforms but I think the credit goes to the functioning of democracy in this country. If economy reforms were allowed to operate in the same way as in many other countries where dictatorships are the rule, the results would have been disastrous. India is one of the those few exceptions where economic reforms are being implemented in a democratic set-up. The opposition and the resistance that was offered, I think, is the most important reason why there is no mass unemployment as a result of economic reforms. It is true that economic reforms in the four years have not created that much of unemployment as it did in many other Latin American countries. For this the credit goes to our democratic set up

and not to the architects of reforms because we know the package that was conceived earlier and was sought to be implemented.

### **Land Reforms-A Pre-requisite**

Now, what are the structural pre-requisites or pre-requisites of structural change as distinguished from structural adjustment which can make markets friendly to the poor? I would straightaway go into the empirical evidence of those countries where there was a conscious attempt for historical reasons or for whatever reasons to introduce structural changes much before they embarked upon the new economic policy. This has happened in East Asia consisting of Japan, Peoples Republic of China, Indonesia, Thailand, Malaysia, Indonesia and few other countries. These countries are under diverse socio-political systems, under the impact of diverse ideologies, Japan on the one hand and China on the other. I was told in Japan long ago, when we asked about land reforms that they had a hundred years' history of land reforms in their country. On a number of occasions they thought that they were on the threshold of implementation of land reforms but they could be implemented only in China and immediately after the close of Second World War in Japan also, South Korea and in Taiwan and some other countries. Why? It is because, interestingly, the occupation forces could do this and the credit goes to the unexpected forces so far as land reforms are concerned. But the point really is that the basic structural changes were brought about long ago. The World Bank report itself in its Asian Miracle, held this out as the example for us to emulate as to how East Asian countries after liberalisation, because of private enterprise and all that, have made such big improvements, both in terms of economic growth as well as removal of poverty.

Incidentally, the East Asian case has contradicted the long-standing hypothesis held by economists following the Nobel Laureat Simon Kuznets. The hypothesis is that in the initial stages of development, for quite some time in the process of growth, inequalities will increase although the absolute

poverty may come down. That is, incomes of the poor may increase somewhat but inequalities will increase.

### **East Asian Experiences**

But the East Asian experience, whether it is Japan or particularly the Peoples Republic of China, Vietnam and many of the other countries in East Asia which are not under socialist Governments, has contradicted this hypothesis in the sense that in these countries the data shows that along with economic growth inequalities have also declined. This is a first case whether economic growth has been associated with the decline in inequalities and this is because of this fundamental change, land reforms to begin with, followed by massive provision of minimum needs particularly the universalisation of primary education in the shortest possible period. If we really followed our directive principles we would have achieved 100% literacy some 2 to 3 decades ago. Universalisation of primary education should have been achieved some 20 to 30 years ago. World Bank in their report ascribe everything to elementary education. Statistically it is so, rightly so because if you see the relationship you will find such a strong co-relation between universalisation of primary education and economic growth and the decline in inequalities. Therefore, development of primary education and other associated minimum needs are recommended as the basic requirement for this kind of structural change.

But then, one should not miss the hidden relationship which cannot be captured by statistical techniques, for example, the relationship between land reforms which were thoroughly implemented earlier and the universalisation of primary education. When there is extreme poverty and assetlessness people don't want to send their children to school, as the children are made available, as you know, in the market for labour. In our own country today child labour is widespread in the hazardous as well as non-hazardous occupations, because of their poor economic position. It is often said and even some of our leaders in the Government, even the Finance Minister said somewhere the other day that

the poor are left out of the market. I think this is not an accurate statement. It is wrong to say that the assetless and the deprived are outside the market mechanism. They are very much in the market.

What is bonded labour? They are in the market. What is child labour? They are in the market. Casual labour is in the market. The only difference is that they are participating in the market at unfavorable terms and that is because of their very low staying power or the dependency syndrome. They don't have any alternative. They have to accept the price that is set by the market and the markets set price on the basis of the relative asset position and bargaining power of the people functioning in the market. So prices set by the market are not independent of the position of the people participating in the market. So what we should be saying is not that we should be giving some dole and some kind of charity until they are able to face the market or until they are able to enter the market. What is true is that already they are participating in the market. They are being exploited ruthlessly in the market. Market is working against them. So we have to introduce structural changes, necessary changes to enable them to bargain for better terms in the market and that is possible only if you introduce some structural changes.

I talked about East Asian case which has relevance for us. In East Asia I am including China, Indonesia, Korea, Malaysia, Phillipines, Thailand and Indo China. I am excluding Japan because that is a category by itself, as it is a developed country. In countries like Peoples' Republic of China, Indonesia, Korea, Malaysia, Phillipins, Thailand, Indo-China, their poverty ratio has declined dramatically over the last 20 years. That means the proportion of people below the poverty line declined significantly. There is a comparable poverty line, I need not go into those technicalities but it is comparable. On an average, the poverty in these countries declined from 35% to 10% in two decades. Today for these countries it is 10% on an average. From 35%, it has come down to 10%. In our own country it has come down from around 55% in 1970 to 35.5% in 1990 which is still far above the level in all these countries.

In these countries together the number of poor in 1990 was 180 million including 100 million in China. This dramatic change that has occurred in the 2-3 decades in east Asia has been associated with very high rate of growth and decline in inequalities. This has been made possible through land reforms and universalisation of education, I mean, elementary education, provision of minimum needs and a very high priority given to agriculture and rural development. In China also, as you all know, in the last 15 years since the economic reforms started, they have given priority to agriculture. Agricultural growth was phenomenal for the first 10-15 years in China before they embarked upon other economic reforms. In our case it is the other way round. We have gone into external sector first and then we are talking of the domestic sector; agriculture is still largely untouched.

In all these countries, if you take life expectancy, the highest is in China (70 years) compared to the lowest in India, just 58 years. This is in 1990. In all other countries it is lower than in China or around the Chinese figure but much higher than the Indian figure. Then infant mortality rate: for one thousand population, again in 1990, in all these countries, it is much much lower than the Indian figures of 78 for one thousand. It is as low as 70 in South Korea: 29 in China but the highest figure is for us. The adult literacy rate : the highest is of course in Thailand, Philippines and Korea i.e., above 90%. In China also it is around 73-75% but again the lowest figures relates to India, that is, 56. Population growth rate is among the highest in our case but there are other countries where it is higher than ours. But even in Indonesia which embarked upon the Family Planning drive very late, the figure is 1.8% growth rate as compared to around 2.0% in our case.

Because of these favourable indicators and better socio-economic position of the poor, the demographic transition was very quick in these countries: they could bring down the population growth very quickly. This has very important implications for labour because coupled with economic growth due to which the demand for labour was rising, the supply of labour in fact began to lag behind the

demand for labour after a point of time. The neglect of social sectors is of course the reason for high population growth and once the population is growing fast it has an adverse impact on the fortunes of labour in the rural market and elsewhere. So this was controlled in those countries through social development at a very early stage. It has several favourable impacts apart from availability of skills and better bargaining power.

### **Vicious Circles and Virtuous Circles**

In economics, we used to talk of a vicious circle, everything leading to wrong results and which in turn leading to wrong results. Now we find the case of virtuous circle, i.e., one good thing leading to the other good thing which in turn leading to another good result. You know it is a virtuous circle. You can create it only if you are wise enough to start your intervention at the right point and choosing the right sectors. It has a cumulative affect.

I have described the initial conditions at the start of our economic reforms so far as our unorganised poor are concerned. As expected under the circumstances the Consumer Price Index for agricultural labourers, increased by more than 50% in four years because of high rate of inflation particularly in respect of essential commodities. In our drive to reduce subsidies we don't have enough courage to reduce subsidies given to the rich farmers and the affluent sections. We don't have courage to target subsidies only to the poor. This is what the World Bank also says, targeting the poor and all that. But we are not able to achieve that. In Andhra Pradesh, for instance, where I come from, rice is being supplied at 2 rupees a Kg to 80% of population. Surplus farmers sell rice and buy it at Rs. 2 per Kg for their own consumption. In our traditional analysis of market surpluses we first calculate how much is the production and how much he will retain for his consumption and how much he will sell. Now the concept has to be revised. Now everything that he produces is the market surplus and for domestic consumption Government has to come forward with subsidies. This is what is happening in Andhra Pradesh. Some talk was going on



recently in the corridors of the Secretariat that the ration cards will be pruned now and only those eligible poor will be given and others will not be given. It is alleged that it had some 'adverse' impact on the recent Panchayat elections. If you are really serious about the ongoing package of economic reforms, what you should be doing first is to exempt only the poor farmers and charge economic rates from the others for the services like water and electricity, and for that it requires political consensus. If you are afraid of losing the elections then it requires consensus.

The general principle seems to be that you give subsidies to all before the elections but try to slash them at the first opportunity after elections. This is what is found expedient from the political point of view.

Per capita availability of foodgrains also has declined or remained constant in the course of last four years because we have accumulated now over 30 million tonnes of foodgrains by offering very high prices to farmers. The idea is to bring domestic prices in line with international prices. We doubled issue prices in 4 years so that there is today hardly any difference between the issue prices from the Public Distribution System and market price. Therefore, even the poor people would like to buy from the market because you get some little better quality than from the Public Distribution system which is charging a high price. So this is how the economic reforms through subsidies and withdrawal of subsidies have operated in the last four years.

Because of this the latest figures show that poverty has increased. The Finance Minister in his latest budget speech has talked about rise in real wages and rise in employment. Before coming here I checked from the statistical experts. The increase in casual labourers has been in evidence for a long time. There has been increasing casualisation of labour which we recorded also in our Rural Labour Commission Report. That is not a sign of an increase in employment. There is as yet no evidence of real agriculture wage having recovered to a pre-reform. I will just read out the following paragraph :

“The estimates on the latest National Sample Survey data show that the proportion of population below the poverty line increased from 35.5% in 1991 to 40.7% in 1992-93, so that the absolute number of poor rose from around 300 million to 355 million now”.

This is not just a comparison between two points of time. This is a comparison every year, whole of 1980 series as well 1990 series. This has happened suddenly now. This is against the recent trend of a decline in the absolute number of poor. In the whole of the late eighties, the absolute number of poor was declining and in these four years you suddenly find a reversal of this trend coinciding with the reforms. The increase in the poverty ratio is bigger in the rural sector and this has been analysed by everybody. Dr. S. P. Gupta who earlier was incharge of Prospective Planning Division in the Planning Commission has done it. I talked with him before coming here and this has been quoted even by the greatest champions of economic reforms and privatisation like Swaminathan Aiyar of Economic Times. He has been giving the same figures but giving different interpretations but he is very uncomfortable about the figures.

Further, between 1991, the year when the reforms started, and 1992 the distribution of consumption both in the rural and urban areas has deteriorated. I am talking of inequalities of consumption now. The consumption share of individuals both in the lowest and middle groups declined, while that of the top increased. This again represents a reversal of the trend observed since 1987-88. Since 1987-88 when the poverty ratio was declining there was a decline in the inequalities in consumption also but after the economic reforms started there is a rapid growth of durable consumer goods, as compared to rate of growth of essential.

Now the basic question is why this could have happened. First of all the poverty ratio is very sensitive to what happens to those just above the poverty ratio. A large number of poor are just above the poverty line, that means if there is deterioration for any reason, large number of people will come below the poverty line and if some improvement takes place

for some reason then quite a few people will rise above poverty line. So a large number of people are just below or above the poverty line and that segment is highly sensitive to small changes in prices. We have had around 10% rate of inflation on an average for the last four years of economic reforms. In fact, so far as essential commodities are concerned inflation rate is 14 to 15 per cent for a good part of this period. We never had in the past 40 years such a high rate of inflation for such a long period. We did have even 20%, some times even 24% rate of inflation but only for a few months. In the early seventies as well as early eighties it was quickly brought under control. For a prolonged period we never had such a high rate of inflation. I personally feel that the rise in poverty is on account of this high rate of inflation and the decline in the consumption of the fertilizers amongst the small and marginal farmers due to the initial withdrawal of subsidies. If small farmers have to pay high prices they may not use fertilizers at all. In that case their output will come down and their income will come down. Inflation has been a far more important factor than any other factor in worsening the poverty situation and this has to do with the way we have implemented the reform process.

Some of us have been saying that broadly the reform process was in the right direction. This is borne out by the experience of many socialist countries also. We have to become more market-friendly. We have to de-bureaucratise and liberalise and so on and so forth. But our country's situation is different from those of socialist countries. Their social structure is different, their infra-structure is very well developed. Their initial conditions were far more favourable; our initial conditions were not favourable for the poor. Therefore, we have to do a lot for re-structuring our rural society particularly both by way of strengthening asset position of the poor and by improving Public Distribution System, by improving their participation in the rural decision-making so that the benefits really reach them. This we have been emphasising. There is no doubt that the rural development outlays were increased some two years ago. At

least there is a realisation that in a country like ours, the way we have been proceeding with economic reforms is not the right path and we have to have a strong place in the reforms for the deprived and the poor. There is a clear recognition of this in the latest budget presented by the Finance Minister, though it has come unfortunately very late. It has come because of political compulsions but in our country or in any other country for that matter improvement in economic policies cannot be divorced from the political processes. Ultimately, it is the political processes which govern the economic policies and in our country it was accepted that politics of our country would assert and bring sanity into reforms. This is my personal conviction and I am happy about this development that there is an explicit recognition in the Finance Minister's Budget recently of the need to strengthen the socio-economic position of the poor and to that extent the reforms package becomes more balanced, not entirely balanced, but certainly a little more balanced than it was earlier. Although unfortunately it has been done at a time when not much resources could be allocated but, you know, there is some increase in the allocation of resources for these sectors.

Had it been done 2-3 years ago the reforms process would have been more acceptable; there would have been greater readiness to examine the reform, receive them in a more constructive fashion but let us hope that the reform process itself, the structural adjustment package itself will be reviewed now in this direction further. I thank you very much for this opportunity.

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*The participants then raised a number of Questions to which Prof. Hanumantha Rao replied as follows:*

On land reforms we should distinguish between its contribution to growth and equity in the historical context and as an intellectual question.

In trying to understand the processes of social transformation I was dealing with the land reforms questions.

How it helped the East Asian countries and how we missed the opportunities I would say so far as we are concerned we missed the bus long ago, so far as confiscatory land reform is concerned, on the scale it was done in Japan, on the scale it was done in China, on the scale in which we wanted to do in our own country in a naive way through legislative processes at that time. Every State legislature has unanimously passed the ceilings but those who are affected did everything within the shortest possible period to sabotage everything through the 'democratic' processes. So we have not understood our structure, our society. In a multi-class social structure through legislative process, confiscatory reforms, have only met their fate. My own position at the moment is that confiscatory land reform is not on the agenda. One point I want to make which we missed, which is one of the first lessons we learnt in Marxism in our political schooling early days, that is, things don't happen just by wishing them. There are historical political processes; co-relation of forces have to be favourable. Therefore, we cannot think of such confiscatory basic changes independent of historical, social, political processes. If our people are vulnerable, they don't have security, if they are vulnerable to exploitation, if by a little rise in price they can go below the poverty line what is it due to is necessary to understand. This provides us an understanding of what should be done now. If confiscatory land reforms are not possible in a society like ours, in a political framework like ours, it is all the more necessary to think of alternative methods, alternative innovations to achieve the same objective, if not in the same measure.

Even today a large number of people are selling away land and going to the urban areas. As one of you said just now horticulture and agro products, don't need much land; one or two acres can give you good amount of income. Moreover, we are coming into activities which are not land-intensive, which don't require much land area but are capital-intensive, you can give credit, you give technology. If you can provide services to the small farmer he can get higher income. So land market is there. People are selling away land going to urban areas, investing in urban estate and so many other things.

In the rural areas by selling away their land, coming and settling down in Hyderabad they have minted money. So land is being sold by these people, for various other reasons but who is buying that land? It is not the landless who want to cultivate. Landless who do not have a desire to cultivate would not have the expertise, who don't have inputs, from them the land will be taken away again. There are cases like that but there are millions of people who have one acre, two acres who are desirous of augmenting their land holdings. There are even number of landless people whose only ambition in life is to have an acre of land and cultivate it. They have been doing cultivation on these land throughout their life. There will be others who are not interested. So you don't have to thrust land on everybody but there are people who are desirous of cultivation.

Now I am going to suggest to the Finance Minister one of these days, why don't we work on an idea of land bank. Why don't you provide interest-free loans to those who are desirous of buying land, not to everybody but to those below five acres or two acres or the landless. Those who want to do cultivation they will on their own come forward. Again, this is a question of market mechanism. In a free market there are those who have the capacity to buy, who can borrow from banks but those who don't have that, they are priced out. So this is also a question of turning markets favourable to the landless, favourable to the poor. How can you do that? Land markets can be made more favourable to them by extending liberal loans to them. This is how state intervention can turn markets poor-friendly.

I have seen in my home district a number of villages where by using the funds from the Scheduled Caste Development Corporation a very enlightened District Collector gave 2 acres or one acre to 4 to 5 able bodied persons in each village. I saw a number of such villages and, remarkably, I found the wages were high in those areas. You know that labour market is so segmented in the rural areas that if 4-5 able bodied persons withdraw from labour market it will have an immediate impact on wages.

So there is a case even today for land reforms. Confiscatory reform is not on the agenda for sheer political reasons. In Punjab, and Haryana, they have got better wages, they are going to non-agricultural activities, they are leasing out their land to the bigger people who are leasing in land from the smaller farmers. That is a different situation but there is West Bengal, there is Orrisa, there are several other cases where landlessness is there, people are prepared to buy land if it is available on reasonable terms. In any case, where you are lending a lakh of rupees for buying a tractor or even in the IRDP a cow or buffalo, why not give loan for buying some land. So why this prejudice. In fact, I find among some of our political leaders a prejudice against giving land to the landless.

In fact, landlord families 40 years ago wanted to multiply their numbers so that they can escape ceilings on landholdings the very same people who now enjoy free power and free water, their immediate concern is how can the Government run if rice is given to the poor at two rupees a Kg? I am of the view that 2 rupees a Kg. cannot go on for ever but the point is there are forces in our society which are coming in the way of social equity.

### **Black Money**

It does affect prices but the reformers think that black money has been generated because of suppression of markets. They think that the prices you have set are so low as compared to free market prices that people have the incentive to evade and since the tax rates were so high they have the incentive to evade and now as the Finance Minister has claimed the revenues have increased because of low tax rates, people are now not holding black money but they are declaring. I don't 100% agree with that proposal. There is some improvement in tax compliance but not a dramatic improvement. This is a methodological issue. But black money has affected the markets because it raised prices of urban real estate Everything became out of the reach of the commonman but I agree that black money does influence the working of markets and by and large it goes against the poor and the middle class people and the honest people.

### **Market Socialism**

People are questioning even the Chinese professed practices of market socialism, how there is so little socialism and so much of market. Anyway this is a large issue. I do not think we can discuss it at the moment but certainly I am in favour of it, to temper markets, to modify markets, to make them humane and this can be done only by the kind of measures which I have suggested.

**Foodgrains availability** has been there. We have had seven consecutive good harvests but the rate of growth has been very low, much below the population growth. So, per capita production is low but per capita availability is even lower because we have accumulated quite a good amount of stocks with the F.C.I. We never had such a large stock and that is because we gave very high prices and also we raised the prices in the Public Distribution system. The off-take from the Public Distribution was reduced, procurement was increased. So on account of both these factors we have large accumulated stock and this gives you a low consumption figure per capita.

Regarding my position whether the economic reforms are in the right direction or not. Direction is right to my mind, the whole world is going in this direction. The impact for the poor I have already stated but that has been corrected to some extent through the latest budget. There is a recognition of the need to correct this package. This is a message, I take from the Finance Minister's speech but whether the corrections made are satisfactory, that is a different issue.

**On Co-operative movement.** The joke ever since the Gorwala Committee submitted its Report almost fifty years ago on rural credit is that co-operatives have failed but cooperatives must succeed. We all know that cooperatives have failed particularly the cooperatives which were intended to be for the weak and under-privileged. They have been run basically by the well-to-do and those who have resources. Some poor have been coopted all right, they have been co-opted into it. Though cooperatives have worked but not in



the text book directions. If Amul has succeeded in Anand, it has succeeded because of various reasons but it was also limited to the weaker sections in a certain way. Basically the milk is collected from large number of small and marginal farmers who have only one cow or two cows. There is no reason why the idea of cooperative cannot be encouraged. In these anti poverty programmes there can be a cluster approach, there can be a co-operative of those who are involved in that but the Government officials, despite what the Planning Commission says, avoid these things because when the poor come together then they also act as a Vigilance Committee. There is no reason why we should not give collective or group loans, to 10 people, 15 people, 30 people. Then loan will also be guaranteed. There is better prospect of its being utilised properly. Group action can be very useful and has been envisaged in the Planning Commission particularly with reference to weaker sections. It is very necessary to identify eligible weaker sections for the benefits. Who will identify? It is the people who can better identify the poor and then implement it properly.



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## **GATT to "NEW GATT" or WTO — an overview**

❖ *Sh. S.P. Shukla*

WTO or the "New GATT" has become an issue of popular concern, a target of the opposition onslaught; a platform for mass mobilisation. In the past, the GATT had never gripped the popular imagination in a like manner. Indeed the old GATT was hardly ever discussed beyond the narrow circle of the trade theorists and the trade negotiators. Not that the old GATT was a dormant or ineffective institution. As many as seven rounds of trade negotiations were concluded under the auspices of the old GATT. And the new infamous, the latest round of trade negotiations, namely, the Uruguay round was also initiated and accomplished in the forum of the same old GATT. What is it that makes for such a vast difference in the responses to the old GATT and the new GATT? We must address this question historically as well as analytically. And in our search for an answer to it, we shall discover the genesis and the salient features of the so-called New International order which is being imposed on us by the global forces of capitalism.

The General Agreement on Tariffs and Trade (GATT) was signed by twenty two countries in 1947. Among others, the signatories included India and China. But the treaty or the agreement was essentially a product of prolonged negotiations

between the U.K., on the one hand and the U.S.A. on the other between a capitalist power which, had all but lost its hegemonic role and a new hegemon which was destined to play the decisive role in the capitalist world in the decades to come. Other participants were camp followers, if not bystanders, essentially. The Americans wanted to force open the exclusive British market of the commonwealth preferential system. The British wanted to reduce the high tariff walls protecting the American market. And all participants wished to avoid the recurrence of the severest crisis of the capitalist system - the great depression of the thirties. The question of the development of the countries of the Latin America, or the countries emerging from the colonial world of Asia & Africa was hardly of any significance for the majors of the GATT system which was so founded.

Four features summed up the essence of the GATT system. First, **Non-discrimination** : No member must discriminate between its trading partners in the matter of tariffs and other trade regulations. Second, **No Quantitative Restrictions** i.e. tariffs were recognised as the only legitimate means of regulating international trade. Quotas were not to be permissible except under strictly depressed circumstances and conditions. Third, **The tariff levels should be continually negotiated downwards**. And finally, **The Retaliation** : that is, if any member were to be found in substantial breach of the system, other members could retaliate by withdrawing the concessions and thus denying to that member the basic right of non-discrimination.

It is worthwhile to remember that these features and principles were the outcome of the mutual concerns of the two hegemonic capitalist powers - one setting and the other rising. For countries like India and others who became members of the system automatically with the demise of the colonial world, these lofty principles were not of much significance. For example, when it came to trade in textiles, where the newly emerging members of the system had actual or potential advantage and therefore, constituted a potential threat to the inefficient textile industry of the industrialised countries, the

major of the system promptly lifted this trade out of the system and fashioned a discriminatory, quantitative restriction - leader regime and forced it on the developing countries in the name of special arrangements for textile trade! And the developing countries who were experiencing endemic excess of imports over exports could do little by way of retaliation against the principal members of the system viz. the U.S.A. and the European countries who perpetrated this flagrant breach of their own system.

Another striking inadequacy of the old GATT system happened to be the near complete exclusion of the socialist bloc from the system.

The inequity and inadequacy of the old GATT system engaged the attention of the trade theorists and the trade negotiators in the fifties and sixties the developing world which was making its debut in the international areas, passionately espoused the cause of reforming the old system. Thus was born the United Nations' Conference on Trade and Development (UNCTAD) which rightly stressed the themes of development and universality. The decades of fifties and sixties were the 'decades of optimism'. The emerging nation of the third world were hardly considered to be potential competitors except in a traditional, sunset industry like textiles. Moreover the golden age of growth of global trade was on. The capitalist economies of the developed world were experiencing unprecedented period of growth chiefly through rapid expansion of trade. The aid fatigue was yet to make its appearance.

Nor had the problem of stagflation and sticky unemployment, not to speak of those of jobless growth, made their appearance on the horizon. The optimism was in the air and its contagion was spreading to soft-headed visionaries of the third world.

This period was followed by the decade of seventies which can best be described as 'the decade of euphoria' from the view point of the third world. The emergence of OPEC and the discovery of the powerful weapon of oil prices symbolised this

euphoria. The third world became conscious of its potential strength of raw materials and markets and wishfully believed that they could bargain from this point of strength to acquire 'financial resources' and 'technology' from the industrial world. The charter for economic rights of the sovereign states was negotiated and accepted. A programme for stabilisation and remunerative prices for export commodities was worked out. Even a code of mutually agreed principles for regulating the behaviour of predatory transnational companies was on the anvil. Indeed a new international economic order redressing the inequities and imbalances in the fields of trade, industry, financial resources and technology and knowledge was conceived in the forum of the United Nations. It looked as if the historical backlog of colonial world of domination and injustice was being wiped out through mutually negotiated settlements under the auspices of the United Nations.

But it did not take long for the third world to be shaken out of this soporific euphoria. The recycled petro dollars were quietly working thier way to create new dependencies and new crisis for the developing world. While the nominal prices for commodities like oil did surge in seventies, in late eighties their real worth came down to pre-1973 level or even worse! The warning bells first rang in the Mexican debt crisis of 1981.

It was in the eighties that the industrial world and the capitalist forces which had reached a new transnational stage in their development struck back. The governments of the industrial countries were no longer maintaining the semblance of independent entities of nation states. They were virtually acting as loyal agents of the transnational corporations of the western capitalist world. The decade of eighties can 'therefore, be well described as 'the decade of counter strike'. It was during this decade that the idea of a new round of negotiations under the auspices of GATT was born.

The main motivation for this new round was to impose a new international framework-a new legal order, the profits and power of the transnationals. Indeed there had emerged by then a new conglomerate-the State TNC conglomerate in

the industrial world. It is this conglomerate which found the euphoric ideas of seventies as mere rubbish and even worse, a potential danger. The assertion of economic independence by newly emerging nation- states of the third world was perceived as a major future bottleneck for the spread of the influence and control of the new conglomerate of the industrial world. The dramatic performance in the fields of manufacture and trade by new comers such as South Korea and Brazil was perceived as a real threat - a dangerous possibility of many new Japans springing up to challenge the monopoly of the conglomerate. Thus was the decision taken not only to abandon and banish all the initiatives of the 50s through 70s - in the various U.N. forums but also to take the international negotiations out of the relatively more democratic fora of the U.N. and to foist on the weaker third world the agenda that furthered the interests of the conglomerate. The counter-attack was complete and effective. Thus in place of the erstwhile negotiations on Transfer of Technology under the aegis of UNCTAD, we had the new theme of the protection of intellectual property in the Uruguay round of negotiation. In opposition to the mutually agreed principles for regulating the behaviour of TNCs, we had in that round, the theme of investment regimes in the developing world, that is to say how these regimes could be made conducive to the spread of TNC's tentacles. The theme of development was retained only as a ritual mention in the preambles to the negotiating charters. In effect, all that was considered necessary was to give free reins to the agents and practices of the so-called free trade. The internationalist role of the nation states seeking to redress the historical imbalances and inequities was looked upon as mere barriers to trade", or "distortions" of trade and therefore, worthy only of elimination.

This approach gave rise to the introduction of the theme of 'services trade'. The omnibus experience was defined, if it could ever be called a definition, to imply "any service in any sector" except the traditional functions of executive, judiciary and the legislature! The national boundaries were sought to be wiped out for the purposes of the operations of the transnational corporations.

And it is here that we witness the change of paradigm of trade negotiations. For all its shortcomings, the old GATT system was based on the border paradigm. It respected the national boundaries. It functioned strictly on the rarer edge of the boundaries of the nation states. Its cardinal principle was to respect the sovereign economic spaces of nation states. It did not seek to lay down rules and regulations for the decision-making by the nation states within this sovereign economic space.

The old system also had one relieving feature. The international treaty that it was based upon granted to each of its members-old and new rich and poor alike - the unqualified right of non-discriminatory treatment in respect of its trade in goods with other members. No member or members, howsoever powerful they may be, could unilaterally impose new conditionalities on other members for continued enjoyment of this right. No such new conditionalities could be brought in except with the **unanimous approval of all** its members. In other words, every member enjoyed an implicit veto to thwart the design of powerful members to impose new conditions or to seek extraneous concessions for mere continuance of the exercise of the right to non-discriminatory treatment in trade in goods. **In theory**, this was undisputed and recognised by **all**.

The WTO agreement has extinguished both these features for good. No longer the sovereign economic spaces are sacrosanct under the new system. Thus extraneous themes of services, investment and intellectual property protection have been introduced in the system. The new regimes in these areas are designed to further the interest of the transnationals and to erode the powers and rights of nation states of the developing world. What is more, the opening has been institutionalised to bring in **any** other new theme, or new conditionality, in the guise of trade-related matters. Thus we have already the issues of "environment" and "social clause or Labour standards" on the discussion agenda of the WTO.

What is more, the implicit veto enjoyed by every member in the old system has been extinguished. Now, the WTO no



longer will function as a limited, international treaty organisation. It will function more like a world legislative forum—a world Parliament. The only difference being that this Parliament will not have in it any truly democratic representation. The clout of the State-TNC conglomerate will force the decisions under the threat of trade sanctions. We have now a situation similar to that dramatically captured in the phrase of “taxation without representation.”

Any new conditionality, any new regime on subjects strictly falling within the sovereign decision making space of the nation states can be laid down and enforced by the WTO. It will only be a question of fulfilling the prescribed majorities in voting.

This “new” international order is more like the old colonial order—except that it has maintained the facade of an international agreement and it is being enforced through the instrumentality of trade sanctions - an instrumentality which appears more civilised than the gun boats of the yore.

This order has been accepted by **all** the members of the third world - India included. What is worse, this surrender of sovereign decision-making was “celebrated” by the ‘representatives’ of the third world governments with a standing ovation” at the Marrakesh Conference!

Truly therefore, the decade of nineties can be titled as ‘the decade of surrender’ on the part of the third world.

The question that arises is : why did it happen? How is it that all the good ideas giving shape to the ideal of reducing and redressing historical injustices and imbalances in economic relations, which were once occupying the centre stage of international negotiations, were so easily forgotten and abandoned?

The answer to these questions must necessarily take us to deeper issues and forces, to the distinction between the surfacial phenomena and the dialectical process that shapes these phenomena.

What has happened in the nineties corresponds to the new phase in the development of international capitalism. The

nation-states in the industrial world have outlived their semi-independent role and are functioning to subserve totally the interests of the transnationals. Those sections of the societies and politics of those states which are not part of these capitalist forces have little influence on the decision-making of the governments. The internal crisis of the capitalist world is compelling these forces to make a more determined onslaught on the markets and resources of the third world. Also, they find it necessary to strengthen their monopolistic hold on the knowledge and technology to the exclusion of the new comers of the third world. The same crisis also has led them to reckless over utilisation of the resources of the planet. To their complicity in this process, a tangential debate is generated on environment, on linking this issue with the exports of developing countries, on sustainability of the process of development itself the completely obfuscating the real issue of "sustainability" of the consumption patterns and levels of the rich of the world.

The experiment of the capitalist path - the state driven capitalist path - to development, has succeeded in a few countries of the third world. But this success itself has brought about the counter strike against the effective role of the nation - state in the third world. Moreover, the capitalist class of the third world, such as it is, now finds it more acceptable and feasible to take up the subsidiary or tertiary role of agents and sub agents of the transnationals rather than forging their own future growth through accumulation and control of the national markets. They find this latter course leading to avoidable confrontation and also less profitable. That is why we have the shameful spectacle of the celebration of surrender. That is also why we have witnessed the recent past or mass upsurge against all that the new GATT symbolises.

Do we see any alternative to this course of happenings? When do we begin and how? Before we go to the alternatives, we must relate the present development to the analytical framework of the Marxist thought. The contradictions in the functioning of the capitalist system arose fundamentally out

of the untenable process of private appropriation of surplus labour productivity. The concept originated in the tangible phenomenon of private appropriation of the current surplus produced by labour. With the development of the capitalist productive apparatus, with the strides in the science and technology, with the phenomenal progress of the automated processes of production, this concept was further sophisticated. The private appropriation thus encompassed not just the current surplus productivity of labour but the entire, **cumulative social productivity of the past and the present together**. The private appropriation became far more exacting, far more prodigious and far more predatory. With the emergence of the State-TNC conglomerate with the deepening of the crisis on the functioning of the capitalist world dramatically manifested in the jobless growth, alienation of vast sections of society and impending disintegration of the social fabric, the process has now acquired unprecedentedly alarming proportions. Now we are witnessing nothing short of **private appropriation of the future of humanity**.

These are two specific manifestations of this process which need to be clearly understood. The entire exercise about creating a new effective international discipline to provide heightened protection to intellectual property and the attempt to define intellectual property to cover the wide spectrum - from industrial patents to copyrights to trademarks to trade-secrets and finally to life-form patenting - is nothing but a deliberate design to deny the four fifths of humanity an equitable and easy access to technology and knowledge. This mainspring of development is being effectively denied to the third world. Indeed a major source of potential social wealth in the shape of plant life, animal life and micro organisms is sought to be for private appropriation and exploitation by the oligarchy of a few transnational corporations. This is the absurd level to which the process of private appropriation has now reached.

At yet another level, in order to mitigate, postpone or sidetrack the current crisis of realisation, the capitalist

production processes have resorted to reckless over use and abuse of the natural resources of the planet. We have thus the prospect of ecological and environmental destruction coming large before the humanity.

The process of private appropriation has reached a stage where the future of the planet is not safe. The debates in the forum like WTO on the issue of environment are merely a diversionary.

The mega-crisis that we are facing today has its origin in the basic contradiction inherent in private appropriation of social creativity. The absurdity of the private appropriation of the future of humanity by a few transnationals cannot be allowed to succeed. Indeed it is unsustainable.

If we view the crisis facing us in this light, the question of finding an alternative and how and where to begin will appear somewhat less formidable.

What is necessary is to remove this basic contradiction at every level. Time-and-space-specific policies and programmes can be worked out and must be worked out. Since the future of humanity is at stake, the allies and the agents of the process of combating the crisis will be available and have to be located not only in India, not only in the third world, but also globally at large. The popular upsurge against the shameful surrender at Marrakesh that we have witnessed in our country can and will become truly effective if it is seen and organised as part of the much larger struggle against the inherently unsustainable but currently threatening to be all-encompassing process of private appropriation of social creativity.

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## ***Understanding the Nature of State and Newly Emerging Middle Class***

❖ *Sanjay Baru*

The time has come for fundamental re-thinking about the direction of our country and the direction of our capitalism by understanding the nature of capitalism both in India and in the world. You know some begin with assumption that this is Quid- pro-Quo State, a state of Quid-pro-Quo Bourgeoisie; some believe it is a state of the national bourgeoisie; some believe it is a state of alliance of feudal landlords and big business. These are all formulations of the fifties and sixties. Without altering this formulation we are trying to understand a changing reality. I do not think it is possible to understand the nature of the economic policy without fundamentally re-examining, our understanding of the State and the role some of these classes, specially small business; the petty bourgeoisies play. They play an important role in the politics and economics of this country.

### **Different approaches on NEP by different sections**

One of the main targets of the new economic policy is the organised working class. Those who are organised into the major trade unions are in all sense, first target of attack.

Curiously enough, the economic policies of the last 3 or 4 years have tried to insulate, to some extent, the rich

peasantry. The cost of procurement prices has steeply increased, food prices have been pushed up and the policies in agriculture have yet not severely affected both the middle and the rich peasants. Thus the primary target of the new policies are the organised working class. So quite clearly the reaction of the trade unions will be very different, will be fundamentally different from other sections of society.

There is a big mass of peasants, of agricultural workers and small peasants, of middle class. People like Calcutta have tried to incorporate into this, those who are self-employed, partly employed in organised industries. Government servants, shop keepers and a section of middle class, what you might call petty bourgeoisie who are not really part of the working class movement, of the trade union movement, yet have been drawn to the communist movement and other social democratic parties. There are some elements of the new economic policy that might be seen as benefitting some sections of the middle class or peasantry.

You go to states like Maharashtra, Gujarat, Haryana, Punjab, Andhra specially coastal Andhra, Karnataka, Tamil Nadu and increasingly now in States like Kerala a large number of small businessmen employed as traders, merchants, the category of people who are not affected by any policies that affects the working classes but are equally placed in an antagonistic relationship with big business. What they have in common with working class is their antagonism to big business.

### **Who were benefitted from license permit raj?**

A crucial way in which big business has negatively affected the interests of these groups is through their control of the State. All of us are familiar with the effect of the entire licencing regime. The control regime of the last 30 to 40 years has benefitted big business more than any other sections of society. Whatever the objectives of this regime, whatever the objectives of the kind of command economy or planned economy that Nehru and Indira Gandhi set up the fact is that the beneficiaries of this were the big business. There are number of reports, official reports, books written on this to

show how the Birlas and Tatas benefitted from the control regime. But those who lost out of this control regime were precisely the middle class, the consumers, the small businessmen, the traders, the merchants etc. This nebulous class of petty bourgeoisie or a middle class have been at the receiving end of this regime. Because they are not in a position to bribe the regime which big business has always done, because they are not in a position to control politically the regime which big business has been able to do. They have had not the means to enter into this protected market which big business has controlled. I can give you any number of examples specially from my own State of Andhra Pradesh where many enterprises, the small scale enterprises have had to close down because of the conflict between a small entrepreneur coming from Guntur or Krishna districts or Vishakapatnam and Marwadi business men coming from Bombay or Delhi or Calcutta. The abolition of the Licence Permit Raj was one of the most popular decision of this Government. It is extremely unfortunate that this was at the fore front of the demand of the Left itself because within the Left if you look at all the literature you will recognise the fact that this whole licence Permit Raj was being used by big business. The objectives of maintaining regional equality in terms of distribution of investment, the objective of preventing concentration of economic power, of controlling monopoly capital, the objective of developing indigenous business—I do not know this class has opposed comprador or imperialist capital, all these objectives were never served. We have analysed and shown that none of these objectives were served. The objectives that were served was to carve the market up so as to give politicians the power, to give power to one group or another to distribute licences and collect money for the funding of the parties in power. When the Licence Permit Raj was sought to be removed it is one of the great ironies that the credit for that was taken by the very political party that benefitted out of this regime.

### **The NRIs**

The second point is that in the eighties, specially in the eighties, there is a segment within the petty bourgeois emerging with links with foreign capital. Again for simplicity

sake I will call these non-resident Indians, first generation of businessmen. If you look at NRI businessman he is the first generation of businessman.

These are all essentially people from the middle class. They are children of traders, merchants, in many cases farmers and bureaucrats who acquired professional education, went abroad, acquired professional skill, built up the capital in distant countries ranging from countries like the USA to Middle East and Africa. They come back to India to invest and while on the one hand in China we see the non resident Chinese becoming the fuel for the re-generation of the Chinese economy, the N.R.I. finds himself facing a huge wall of protectionism built up by big business.

Here is a constituency which is against the old regime and in favour of liberalisation which again we should have been tapping, which was not tapped and that is a constituency that gives the whole credit to Mr. Manmohan Singh because in many ways he has done many things that have benefitted those sections of the small business or the petty bourgeoisie in this country.

### **Assertion of middle class as a consumer**

Finally there is a third problem that the trade unions and specially the political parties in the left will have to give importance and that is the increasing assertion of the middle class self-employed worker. After all the middle class is the salaried class. It is not asset earning or wealth earning. May be it is a land owning class in many parts of this country. You may be a government clerk but you are also a small business man. You are land owner in the village but middle class in the city and there are those problems. I mean there is a lot of literature on the kind of those problems. Even if you look at the urban middle class, the urban middle class is both consumer, worker and employee. As worker and employee there are certain rights, there are certain privileges for which you are struggling but as consumer also there are certain rights and privileges for which you are struggling. A large number of public service in this country was increased. Linked to increasing efficiency of service it is better to offer



better customer service, if you improve salaries. Now no consumer, no reader of my newspaper say consumer of banking service will sympathise with the union if that is the way in which it is put because the consumer wants good service. You cannot justify not providing the best service to the consumers and that is again something that has been used very effectively.

Now why the hostility to the public sector? They say that the public sector is consumer unfriendly. It is unable to deliver services to the people whether it is in power, public transport or municipal services. Therefore the demand is: privatise everything, get the Government out of all this because the consumers' interest is not being protected. The consumer as a class has become a very vocal and organised community of people in the last ten and twenty years. This is a phenomenon that has to be understood. In the context of the growing influence of communal parties which will essentially find their support base among this middle class consumers you have to give importance to it. If you look at the economic policy of the BJP for instance, it is a policy that is trying to address the concerns of domestic business but on the other hand is very directly addressing all the consumers, as consumers. Therefore it is not afraid to be hostile to the organised working class. The entire BJP policy of public sector, is privatisation, is built on this understanding that the vocal urban consumers, middle class consumers is getting sick and tired of the declining quality of service. Therefore it imagines that privatisation is an alternative.

Literature coming out of countries like Britain which has gone ahead in privatisation shows that privatisation is not necessarily the alternative: That even after privatisation service may not improve, that there is something called culture of all service, culture of providing a service which is more important and which you encounter. For instance, in East Asia which has a much better track record of serving the interests of the consumers you need emphasising on quality, emphasising on efficiency on productivity. All these are the things which may be in a sense more culturally defined then purely defined by institutions.

I wanted to focus specifically on a dimension of society, of civil society that all changes taking place in the nature of the business class, in the nature of the middle class are in a sense influencing economic policies. Now any critique of this economic policy must be based on a re-thinking about the nature of state, the nature of the dominant classes, what is happening within this coalition of classes that control the states, and what is the nature, the contradictions between the working class and all these other social groups in our society.

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*Questions were asked by the participants to which Mr. Sanjay Baru gave a brief reply.*

I deliberately chose to focus on the middle class because, in a sense, this has been my personal obsession. I have been researching the role of the middle class. I come from a state, Andhra Pradesh where I think fundamental changes have taken place in the nature of the social groupings within the state, the emergence of the rich peasants. Children of rich peasants have spent their childhood in villages and have now come to the cities for business. I am sure this is true in Punjab in Maharashtra.

That first generation capitalist who has come into existence, has become politically powerful, economically powerful.

I have seen in the last five years that there is a constituency to which all this is economic policy appealing. They long to see the new economic policy push ahead. It is not as if everybody is hostile to it. So those of us who are hostile to it must ask what is it in this policy, that appeals to these people and why. I think that is the problem that interests me to try to untangle the whole policy and to see which elements of it are popular, which elements of it are not popular.

My entire proposition has been questioned by the first discussant when he said how far will the new economic policy help the middle class? Will it in fact help middle class at all? But there I do believe that there are many elements of the policy which are aimed at least in theory to help them.

The public sector which should remain and which should go?

The policy is to privatise large sections of public sector. Again here I would say that there are some public sector undertakings which I do not see any reason why they should not be privatised. In fact, the Left should be in the fore front of demanding the privatisation of all five stars hotels. I do not see any reason why five stars hotels should be in the public sector. The money saved can be used for whatever workers' interests, education programmes or rural employment or drinking water that we propose.

In Bengal I know the CPI (M) Government is trying to privatise the Great Eastern hotel and the union in that hotel was opposed. A large element of the public sector must be defended. If India is to be a major industrial power then it needs the public sector. Without the public sector there is no way in which the Indian business class today is in a position to ensure India's place among the top 10 industrial counties of the world. So there is a national reason apart from the interests of workers affected in the PSUs. There is national role that the public sector has to play and all social classes will benefit from the role and that message has to be made and that is where the government's neglect of the public sector must be attacked and must be criticised. So again I would like to differentiate within the public sector.

### **Small scale industries - How did they grow?**

So far as the Licence Permit Raj itself is concerned I think the small scale sector in this country, has grown for two reasons. One, it has grown as an ancillary sub contracting, segment of big business whether in the public sector or in the private sector. There are private sector companies which have helped in process of ancillarisation and sub-contracting. There are also public sector undertakings which have helped similarly, and in such areas the small scale sector has benefited as a result of the growth of the large scale sector whether in the public or in the private sector. The small sector incidentally is also benefited from the growth of multi-nationals in some industries where sub-contracting is taking

place through multi nationals. But there has been a second reason why a small scale sector has grown and that is to do with the growth of agriculture as in Punjab.

So I think that agrarian prosperity the accumulation of capital in agriculture and the movement of capital out of agriculture into non agricultural activities the small scale sector also grows. These are two different processes and I do not think Licence Permit Raj helped in the sense of a system that protected only the big business.

### **NRC & NRIs**

Now as far as the NRIs are concerned I do not know if we can say the non resident Chinese are more patriotic than non-resident Indians. There must be reasons why non-resident Chinese are more committed to China than non-resident Indians. I think the main reason is the fact that the NRCs come from two small pockets, Hongkong and Taiwan. Both have recognised that in the next century they are going to be part of China. So in a sense they do not even look at China as another country. They are investing in a territory where they hope to continue. Indians living abroad, except for the Malayalees in the gulf region who know that they will have to come back, Indians living in the USA or Europe are not as committed because they don't have to come back here. China has shown what role the non-resident Chinese can play in the industrial re-generation of that country.

### **The role of left trade union**

If there is a struggle between the multinationals and domestic business, I think Indian business is very powerfully placed, to fight that struggle on its own and the Left movement need not be in that struggle. I don't see any reason why we should be lobbying for more units to be set up by X Y or Z in India as opposed to ABC from abroad. That is a struggle that the Bombay Club will fight, let them fight that struggle. I think the struggle of the Left has to be on different issues and not be pre- occupied by this. I am not saying that there is no need to protect Indian business. I think the Indian

business today is powerful enough politically, powerful enough economically to fight its battles and when they are saying we don't mind reduction of tariff then why should the trade unions come in the way. All the trade unions should do is then to demand the higher level of efficiency so that the real wages, the real wage of workers are protected against competition. That is the major issue that we have to face whatever form the competition comes.

### **Need for improvement of efficiency**

We are extremely inefficient in industrial economy. We have to accept that. We have to become efficient not to protect big business, not to protect multi nationals, but to protect jobs in this country for Indian workers. I mean the jobs for Indian workers is at stake. I have seen data which shows that the so-called advantage of cheap labour is no longer an advantage. Industry after industry the advantage that we had of having cheap labour is being neutralised by the new technologies not just in software and capital goods industries but even in industries like textile where India was one of the world's largest textile producing countries barely half a century back. Today we are on the margin of the textile industries, our advantage of cheap labour is no longer completely automatic.

Now what are the industries in which we will find jobs for Indian workers. The real hope for Indian industries is in textile. If we exploit the benefits of the new markets that might become available then the advantages are here. But those advantages cannot be reaped unless there is an investment, unless there is increased productivity. I think these are the issues that we have to trace. If we don't trace these issues there is no escape from the direction in which the economy is moving.

### **The rural middle class**

If you go to coastal Andhra, if you go to Punjab, to Haryana, you go to the prosperous regions of this country this distinction you draw between urban and rural bourgeoisie is disappearing because in terms of consciousness the consumerism of the so called petty bourgeoisie is already there,

whether it is cement, refrigerators, television sets or whatever it is, Go to rural Punjab to rural Haryana, rural Andhra, rural Kerala, to rural Tamil Nadu, you will find television antennae in every prosperous village. So this so-called urban rural gap in many parts of the country is vanishing. Rural petty bourgeoisie is as consumerist and wants much more of the benefits of consumerism than even the urban petty bourgeoisie because he has money. In many parts of this country they have money. The un-taxed farmers of Punjab and Haryana who do not contribute anything to the tax kitty are spending all that money in buying Maruti cars and buying colour television sets. This rural urban distinction no longer is valid except in the most backward regions of the country. There is certain regional differentiation taking place in this country.

Some parts of the country are racing ahead, some parts of the country are lagging behind but in those parts of the country which are racing ahead I don't see the rural urban distinction. I think Kerala is one extreme which is an example and so on but even you take other states where, in fact this distinction is evaporating.

Mr. Balram Zakhar wants globalisation of agriculture because he wants the Punjab and Haryana farmers to export Basmati rice. Why should they be supplying rice to the Indian market where all of us poor Indians cannot buy this at 32 rupees per kilo, and we are demanding 2 rupees per kilo rice. The Punjab farmers today say globalisation is important: I will sell my Basmati in the western markets; I am not interested in this domestic market, I want to be the part of the world agriculture market where I can sell my Basmati rice.

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## ***The West Bengal Case of Industrial Development***

❖ *Somnath Chatterjee*

### **Our principled stand**

We have objected to the economic policies of the Central Government and also its industrial policy which according to us open the doors of this country and paves the way for almost take over by the foreign multi-nationals. It has to a certain extent sounded the death knell, so far as the principle of self-reliance is concerned.

Indian industry is facing serious problems and we are already facing tremendous problems because of the reduction in the import duties. Now I would like to be brief about the West Bengal position.

### **Historic factors of Industrialisation of West Bengal**

As you know, West Bengal at one time has been at the top of the industrial map of India, the most industrialised state, for the obvious reasons that the British established there many major industries. Engineering industries, jute industries as also tea apart from the foundries, casting and all these are very important. As you know Howrah in West Bengal was known as the second Scotland of India. 1956 was a very crucial year for us and that year the Prime Minister Jawahar Lalji had declared the new industrial policy of the

Government of India, declared that the public sector will occupy commanding heights of the economy and the principle of self-reliance will be one of the guiding factors of Indian Government's Industrial Policy. In 1956 the Government of India decided to locate a Steel Plant at Durgapur under the Hindustan Steel Limited. That was in 1956 and at the same time government introduced the "freight equalisation system." It means coal, steel, cement, some of the major ores like iron will be available in all parts of India at the same price because the railway freight will be subsidised by the Government of India. Therefore what is called a locational advantage of West Bengal, for that matter also Bihar and Orissa of having coal iron-ore and important raw materials with locational advantage had gone to certain other parts of India. We did not object, nobody did mind about the same because we want the development of whole of India. These are important raw materials which should be available to the people of all the states of India for their growth but at the same time one had felt that this freight equalisation system will be utilised for a balanced development of India and there will be a time limit for that. It cannot go on and could not obviously go on indefinitely because eastern India would have its own problems to solve and own development to consider.

Along with that you know that the licensing system has been in vogue. The Government of India would decide so far as large industries and medium industries are concerned, where to locate them. They would have to give the permission. Import licenses, had to be issued by them, export license, would have to be issued by them and so many other formalities would have to be gone through including obtaining financial accommodation from financial institutions. They all came under the control of the Government of India. We have seen almost a calculated move to wean away industries from Eastern India as a whole. As you know, we have been insisting and we are dedicated, we are committed to the growth of the public sector. We want the public sector to progress and to be the main sector. We have been declaring that there cannot be any doubt about our views and our policies and



programmes on this but amongst all the major investments which are being made in public sector, nothing has been given to Eastern India and to West Bengal in particular.

The last public sector big investment was Hindustan Steel in Durgapur in 1956, and thereafter no major investment in the public sector was done by the Government of India. On the other hand the Government of India on the demand of the trade unions and other people had taken over some of the major industries in and near about Calcutta like Jessup, Brathwaite, etc. These are major engineering units which were taken over by the Government of India and subsequently they took over the ownership also of Indian Iron Steel which we all supported.

### **Today's West Bengal**

What we see is that not only there was no new investment in Eastern India, in West Bengal, but also these major industries were gradually rendered sick. There is no proper management, no modern input of modern technology, no development, no expansion, nothing has been done and today we see the situation, the dangerous situation, that these major industries some of them for example, supplying the entire requirement of wagons to Indian Railway, are today on the verge of closure and every time, every session we have to shout about this in Parliament and outside Parliament. There have been unanimous resolutions of the West Bengal Assembly, of all political parties: Trade unions have launched movements for this, we have declared bandhs: we have demonstrated and agitated. But today the wagon industry is absolutely in doldrum. From the requirement of eighteen thousand wagons, order has come down to ten thousand. Even after considerable pressure both within and outside Parliament, and despite the Chief Minister regularly taking up that, as also we in Parliament as M.Ps humbly taking up this matter, but still no development is taking place, no real effort is being made by the Railways to revive these units. I am not the Chairman of the Standing Committee on railways. But I know the Committee has made recommendations, strong

recommendations, unanimous recommendations for increasing the placement of orders for wagons but nothing is being done. We may shout, we may protest, we are doing it. There is no question of any compromise and we are strongly opposing, criticising the Government. But today we find that we cannot get orders and without orders these companies cannot survive and the workers cannot survive, cannot retain their jobs. Today as you know even Indian Iron and Steel Company Limited is facing serious problem. Now it is before the BIFR. What the BIFR will do, nobody knows. It requires about five thousand or four thousand five hundred crores of rupees. The Sail Board and IISCO Board, have jointly prepared package for revival and for modernisation and expansion and that is now before the BIFR. BIFR has asked IDBI to look into it for their expert report and they have engaged Dastur and Company and whatever may happen this is all tamasha going on because in the whole plan only one crore is provided for IISCO by the Government of India. This is all tamasha, a drama is going on now in the name of consideration by BIFR. There has been not one penny spent by the Government of India for expansion and modernisation of IISCO where 30 thousand workers are employed. Everybody admits that without modernisation it cannot work, without expansion ultimately it will have to be closed. Even trade unions feel that. We as a team of MPs had visited there more than once.

The other thing what we wanted in the public sector was an electronic unit in West Bengal. Our Chief Minister had offered free of cost to the Government of India, to Mrs. Indira Gandhi, hundred acres of land in Sealdah for establishment of an electronic factory, a modern electronic factory in the central sector but that was rejected on the ground that West Bengal was a border state and the Government of India had been advised that it will not be desirable to have an electronic unit in a border state like West Bengal. Therefore, that offer was not accepted by the Government of India.

Now we have been demanding, and the West Bengal Assembly had passed a unanimous resolution for abolition of

the freight equalisation system. We have been demanding for the abolition of the licensing procedure because licensing procedure was utilised not for locating industries in areas where they are needed most. Today Eastern India, as you know, is industrially backward. In West Bengal there is no development, no new major industries. So also in Orissa and Bihar which have the richest mineral resources. They are also lagging behind so far as industries are concerned. Therefore we find that the Government of India has been following a policy which has been depriving north eastern sector of India of industrial investment: we have been demanding investments in the Central Public Sectors but no new sector was coming. We can give plenty of instances where private industries who wanted to think of investment in this part of the country, have been lured away to other areas. What happened to the jute industries?

Why Jute Industry became sick? Because the jute barons swallowed all the profits. The owners have been persuaded to invest outside and they have invested in other parts of the country. We do not mind investment in other parts of the country but why do you prevent people who want to invest particularly in eastern India, in West Bengal? That has been happening and the industrailists know in which way the Central Government would like to force them to go because they were controlling the licensing system procedure. This is in their hands and under their control. The finances are in their control and obviously they would like to keep the masters pleased and happy instead of annoying them. That is how in Sultanpur so many factories are being set up or proposed to be set up. There is no infra-structure facilities available but it is just to please the then ruling real authority in this country.

### **The classic example**

I can give you an example. I was the chairman of a cent per cent state public sector unit Golpalpara Project Limited which had taken up a scheme of brick manufacturing out of fly ash which is generated in every Power Station and poses a disposal problem. That project we had sent to Delhi and after

a year and half it was rejected by Committee of Secretaries which devoted precisely 20 seconds for its consideration. When my Officer had come as a Managing Director, as an IAS officer he told me, "Sir only 20 seconds they devoted to this, they say instead of bricks they want a machine making project, hence rejected". I had to take up with the Government that this is a very serious matter, a state Sector project cannot be killed like this and ultimately I asked for a review. I insisted on the Minister and I was fortunate that by that time the Janta Dal Government had come. Mr. Ajit Singh was the Industries Minister. I insisted on him to have a review and after review it was found out to be one of the best projects and I am happy to tell you that it is now operating in West Bengal, manufacturing bricks out of fly ash with 83% utilisation and other States are now coming to us and visiting us to find out how it is being done. But of this process so much time elapsed and a four crores rupees project, because of the escalation of the prices and the four years we had to wait for getting sanction from DGT&D and other authorities of Government of India, the cost escalated upto fourteen crores. The State Government could not provide money and had to invite private sector, Peerless Finance to come and join us. Then they joined us and we have given them 26% or 27% share holding. We had to give this, otherwise money was not available. This one example, a very short example is to show how a beautiful, excellent project was sought to be killed and how it was delayed, how license was not given for years together. I myself met hard core leaders, I met Sheila Kaul, I met secretaries. This is a unique project in India and we are utilising Indian Technology Research Institute, which is a Government of India concern, a unique project of manufacturing bricks which are required for people, out of fly ash which is a health-hazard and creating environmental pollution problem and that was almost killed until we had intervened and I could get a re-consideration of that and how that price escalated: The Government could not complete it and we had to go to a private sector as a collaborater. This is the position in a nutshell. This has been the reason why how West Bengal which

had been occupying No. 1 had gone down to No. 12 among industrial states in India. Our demands are not being fulfilled money is not coming: investment is not there in West Bengal public Sector.

Haldia Petro Chemicals, is another classic example. Government of India took 11 years to grant license. It was a state sector project. The project cost was going to be 434 crores. After 11 years, can any industry, can any project be implemented at the same cost? Bakreshwar Thermal Power Project. It has taken 12 years for the Central Electricity Authority to grant permission and the cost considerably increased. How many times has this happened? 434 crores has become four thousand crores so far as Haldia Petro Chemical is concerned. Can anybody a dream of implementing or executing a project where you have to wait for the sanction of the Government of India or their authority for an unlimited period? No reason is being given why it is being done so and after it was done IDBI has taken three years to give financial accommodation to a scheme which was found to be viable. Therefore we have been demanding, rightly so that this licencing should go because it has not resulted in balanced development of the country. That is why no investment in Bihar, West Bengal, Assam and in Northern Eastern states, in the Seven Sisters who deserve the highest consideration. This system on the other hand was utilised, to locate industries in one or two areas of the country which we did not mind because they are welcome, they are all parts of India, as I believe any part of India's development is development of India itself.

### **Our achievements**

But we have our problems, so far as Left Front Government is concerned. I am very happy to remind you that we have achieved a fast growth rate in agriculture in the last three years. We are number one because it is a state which has implemented land reforms. We have got the largest number of small scale industries because this is in the State jurisdiction. We have got the largest number of cottage

industry units, we have got now the largest number of handloom units and as you know, our investment in human resources is considerable and today West Bengal has been recognised by the Reserve Bank as a state where the rural areas have the highest purchasing power.

In the rural areas the highest purchasing power of the people is in West Bengal. Our per acre production is quantitatively the highest in India. So far as agricultural growth, in last three years we have been number one. In the fish production we have for the last eight consecutive years got the first prize for the highest growth and this had been awarded by the Government of India. In human resources, UNESCO has recognised our achievement. That is why our Minister was called there to receive an award in recognition of the progress in the literacy sector.

### **Our problems**

But five million are on the employment registers. The condition of Calcutta roads is deplorable. They are being taken over by squatters. People are squatting there and carrying on business there. We are having problems for that. 6% of the Calcutta city is only providing roads. It should be 37% as in Bombay. But we have only 6% of the roads area. We have tremendous problem but we are trying to provide some tenements to those who are there for a long time. This has become even controversial also.

Then we have to have opportunities for providing employment, self employment or other forms of employment. The question is what type of industries? How do I industrialise? How do I set up industries in West Bengal. This has to be considered and I am still waiting for it. My Government is also **still waiting for it. So far as our perception of the economic policy, industrial policy is concerned we are thoroughly against privatisation for the sake of privatisation; we are thoroughly against the opening of doors in a manner that anybody can walk in for any type of industries. These are all known facts. I do not have to go into that and give my credential here.**

**So far as the exit policy is concerned we are against it. We want the sick industries to be revived and this is one of our** main jobs that I am doing today as the Chairman of WBIDC. Though unit by unit, I am happy to tell you, there is a very promising start. Now the question arises what will happen to, let us say, JESSUP. Unless substantial input is there, both technology and money it will die. Three thousand, four thousand workers will be on the streets. So what do we do? I would like to ask you also please tell us what do we do. Where do we get the money? Where do we get the technology? State Government has not got it. It is impossible to do such big investments. May be they will do one or two small ones within their funds. How do we do it? Who will come forward? What will happen to these workers if it is closed down? When Central Government closes down, immediately people say State Government must open it. This is happening one after another. There is a yarn factory in West Bengal. The Central Government was running it and closed it down. Nothing, not one paisa was paid, no compensation, no gratuity, no provident fund, nothing was given. They just left closing the mill and factory and 800 people were on the streets. The State Government had purchased it about 7-8 years back. We had to spend about 5 crores but it requires a lot of money. We are not getting that fund. What do we do then? This is a very important question. I would like to be advised by you.

### **Our latest initiative**

Therefore State Government decided, Comrade Jyoti Basu has said, let us take advantage of the abolition of the licensing system, as industrialists have become free to invest here, without handrance. They can decide for themselves where to locate their industries. Now that restraint is gone. They don't have to go to Delhi even to consider whether to locate an industry in West Bengal or not. They can go to Calcutta, can talk to the Chief Minister, talk to the Industries Minister, talk to WBIDC also. Now they say we want to locate industry in West Bengal. Let us start that. I say, let me see what I can do for you, I have no money. I have no asset either. I can only try to find out whether I can get you 5 acres of land or 10 acres of land or 100 acres of land. I would like to have a labour intensive industry. But if an industry is there, then any type

of industry is welcome. Actually they have given us project reports. They have to tell us what will be the amount of investment. They have to tell us how they will get the money and what will be the number of workers expected to be employed, engaged. What do I do? I ask the District Magistrate, I ask the people there in the concerned areas to find out and locate land and try to sell it. This is precisely what we are doing.

Now the question of power availability. He wants power, he wants land, he wants to know whether water is available. He wants to find out what is the infrastructure and then he will try to set up an industry. So what else can we do except to try and help him locate land and give it to him. I will not give 10 acres of land if somebody comes and invests only one crore rupees because there will be others who will provide better employment. If his unit is set up. What I find today, in last six months, people have intervened and told me that there are number-of people, hundreds of people, Indian industrialists, small, may be big, or medium who are now thinking of West Bengal as a possible place of investment. I wish they invest in West Bengal.

### **The propaganda**

So many are coming just for exploration, to find out what is there and you know they have been having such a negative image about us that "there is no power in West Bengal; no infra-structure in West Bengal and that workers do not work. There is no work culture: LAL ZHANDE BAZI HO RAHA HAI, KUCH KAM NAHI HOTA HAI; twenty departments you have to go, it is so time consuming, nothing moves in West Bengal" and so on. This is our image. We have been having so many people come and say "Sir will we be able to work here? Is there work culture? What about productivity because we hear so many things. Will we get power?" I went to Port Blair during Pooja vacation for four days. Somebody had asked there, "what about power position in West Bengal." I said "it is the only State which has surplus power and is now giving power to other states. This is possible because all the units have been revived."



### **Some encouragements**

Apart from the Indian industrialists what I find so much encouraging, I must confess, is the interest taken by N.R.I.s. I must say that I did not know people from my state or my area are known to be experts in so many fields abroad. But there are very disinclined to set up here. They are not expert entrepreneurs, they are all professionals. They have no industries but I must confess that the interest that is being shown now by the people from my part of the country is very encouraging. This morning a gentleman, Mr. Sen. met me. He is having some business in Belgium in brass and he has come with a proposal to start an agro-based industry. He wants hundred acres of land. This is one example. Now other NRIs are showing interest. As I said I wish all these interests had resulted in investment. But then the question is the foreign investment. We have made it clear, our Comrade Jyoti Basu has issued a policy statement. You know West Bengal cannot have a different industrial policy.

### **Limitations of State Govt.**

As a case take Coca Cola. We have not given any facilities to Coca Cola to come to West Bengal. Government of India has permitted them. Once they are permitted by the Government of India, I leased out land. They can set up their bottling plant. They can have their dealers. How do I stop it when they come to Calcutta to set up bottling plant unless I can physically drive them away by police or by my people. How do I stop Coca Cola from carrying on business there. They do not need help from the West Bengal Government. They have not asked for any help. We have not given any help to them. How do I stop it? I am not giving any resources. West Bengal Govt. as such is not helping them. We are only concerned where investments can be made in West Bengal by foreign investors primarily in joint sector; whether the technology input will be there. That is what we are saying and what the Chief Minister has said of "mutual and advantageous terms" and that has only created interest. Yes, foreigners are coming. They are making inquiries. To some of them we said you have to select an Indian partner. You select some Indian partner and let us see

what is your project and later we would like to see what will happen so far as the job potential is concerned, where from the money will come and so far as the repatriation of profit is concerned it does not depend upon our decision. It depends on the Government of India's decision. What they permit or do not permit. Today in West Bengal if I find that the people are interested in investing in West Bengal should I say very well, or say no I do not want you? Go away, go to Madhya Pradesh or to Gujarat and Rajasthan when every state is, luring them, trying to attract them. Then what they will do in West Bengal? Should I say "I don't want industry because there is foreign investment involved or foreigner involved. Therefore I believe this is the most practical policy which has been adopted here.

**Rest assured the state is with the working class**

I can only say whatever has happened since Chief Minister has made his industrial policy statement, nothing has happened or can happen so long as the Left Front Government is there, which will be against the national interest or against the working class interest.

Today when the Government of India is openly and blatantly jettisoning all these industrial units, closing down the industrial establishments owned by the Central Government without providing any financial compensation to the workers who are losing their job and no attempt is made to revive these units, what do we do; can we be silent spectators? We have been openly opposing their policies. But no State Government can decide who can come to India and who cannot come to India. Let me remind you under the system we have not got that authority. The Industrial policy under the 7th Schedule is, big industries under the control of the Central Government. The question is only location. I do not think that our Government has taken a different decision and I boldly say nothing has been done against the national interest, against the working class interest. I cannot think of a better friend of the working class than the Left front Government in West Bengal headed by Comrade Jyoti Basu and we are responsible to trade unions there.

They are very alert and they can look after the interests of the working class. Therefore I will be very happy if some guidance is given, how to do it? How I can provide jobs to our people, our boys and girls. As you know they are very experienced and they are going elsewhere and setting up industries helping in the softwares. Almost world wide our boys and girls are going but they are not able to do anything here because there are no job opportunities. In Microsoft wares the largest number of technicians are from West Bengal but they are not getting jobs in West Bengal, or in India for that matter, and they have to go to Boston and so many other countries in the world. There can be no reason even to think that the interests of the country or interests of the working class will be prejudiced by what is being done in West Bengal.



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## ***A view re : Policy Statement for Industrial Development in West Bengal***

◆ Ranajit Das Gupta

### **The Wider Context**

The Left Front government's recent move for industrial development in West Bengal needs to be viewed in the national context of discussions and debates going on since the late colonial period and throughout the post-colonial period, particularly the early post-colonial period of the 1950s and early 1960s, on industrialisation and economic development, and social justice.

The crucial issue in the industrialisation debate, whether in the Bombay Plan or better known as the Tata-Birla Plan as well as in the first three post-independence five years plans, was creation, protection and consolidation of autonomy in relation to the world imperialist system and foreign capital - of a relatively autonomous domestic space. The concern was not just economic growth but a self-reliant growth with social justice. In the developmental strategy and policies the government was to play an active and large role. The industrial economy was divided into public sector and private sector. Foreign capital was not barred but was allowed selective entry.

Because of the large role assigned to the government through the licensing system and various other regulatory

measures as well as the socialist rhetoric resorted to by the Congress leaders, the economy and the economic policy were viewed in some quarters as socialist ones. But it was basically a strategy and policy for having capitalist development, a relatively self-reliant one, with large space for the play of private market forces, though within some limits. The existence of what came to be known as the world socialist system and particularly Soviet Union facilitated the pursuance of such a strategy and helped the loosening of imperialist stranglehold and creation of industrial capabilities to a considerable extent.

The policy was, of course, marked by basic contradictions from the very beginning. It came to be increasingly diluted since the early 1980s if not still earlier. The New Economic Policy launched in 1991-92 marked almost total abandonment of that policy in the name of globalisation and liberalisation, efficient allocation of resources and increased competitiveness. This included, among others, the following :

- \* an open-door policy with regard to international productive, commercial and financial capital in its new form of multinational companies involving red carpet treatment to it,
- \* deliberate planned retreat and withdrawal of the government from virtually all the key sectors and areas,
- \* curtailment and/or withdrawal of subsidies for foodgrains and virtual dismantling of the public distribution of essential commodities,
- \* privatisation of public sector units (PSUs),
- \* opening up of vital infrastructural areas and social sectors to the private market forces,
- \* attempted introduction of flexibility in the labour market, at euphemism for 'hire and fire' policy.

All these constitutes a policy for an unregulated growth and operation of capitalism.

Essentially, it is the Fund-bank package prescribed in the interests of international capital which converges with the secular interests of important sections of Indian capital who were also pressing for a similar policy.

It would not be wrong to suggest that the policy being pursued is no policy at all. Policy involves putting forward of perspective, identification of thrust areas and prioritisation among those areas, pursuance of appropriate selective measures and instruments. But all this is absent under the Rao-Singh dispensation.

In justification of this, frequent references are being made to the East and South-East Asian experiences of industrialisation and economic development in Japan, South Korea or Taiwan. But the Rao—Singh policy, if that can be called a policy at all, is in sharp contrast to the East Asian policies and experiences. There is a large and growing volume of detailed in-depth studies showing that whatever might have been the nature of political institutions and political arrangement, in none of the cases of the Asian 'tigers' and 'cubs' the state did abdicate its role. In most of these countries, the state played a crucial role. Using a mixture of positive incentives, instruments of control and pressure, and mechanism of spreading risks the state performed the function of a catalyst in industrial growth. In many of these countries, particularly Japan, South Korea and Taiwan foreign capital did not have any unrestricted entry. It is striking that South Korea pursued a policy of exclusion of foreign investment for many years and did not allow the use of any foreign brand name till the early eighties. Taking the advantage of such protectionist measures the growth of giant conglomerates like the Hyundai and Samsung, the largest two Korean companies, took place during the 1970s.

To put it somewhat differently, East and some of the South-East Asian governments exercised an industrial leadership role which is in sharp contrast with the role of the Rao-Singh government.

### **A Few Critical Observations**

The point in dwelling upon all this is to make a critical examination and assessment of the Left Front government's industrial policy. It would not be wrong to suggest that it is hard to find any basic difference between this policy and that of the Centre. Some of the key components of the Left Front government's policy are :

- \* virtually no mention of promotion and expansion of public sector and reduced role of the government tending towards its gradual withdrawal from many key areas,
- \* Privatisation of several state PSUs as well as social sectors.
- \* virtually an 'open door' policy with regard to MNCs and foreign capital (examples : MOU with an USA firm for production of ayurvedic products and a Brooke Bond Lipton project for food processing).
- \* encouragement to unregulated, almost unbridled growth and penetration of market forces in various spheres of the economy and society.
- \* advocacy of a labour policy amounting to class peace between labour and capital. (Economic Times, Calcutta, 24 August published a report that for the Haldia petrochemical project a thoroughly tamed labour force has to be created through careful selection and recruitment of workers and installing a pliable trade union in the plant.)

The pursuance of such a policy cannot but weaken struggles against the Fund-Bank strategy, the new economic policy and Manmohonomics.

### **Propounded Justification**

The adoption and pursuance of this policy are being justified on several grounds.

- (a) The State of West Bengal has been suffering from industrial stagnation and even de-industrialisation since as far back as mid-1960s. Much of this was due to the licensing system which was deliberately used



by the Central government as a means of discrimination against West Bengal and the freight equalisation against West Bengal and the freight equalisation policy which militated against the natural advantages enjoyed by the eastern region. The remarkable agricultural performances in the State, the delicensing of most of the industries and partial freight equalisation have opened up new opportunities for industrial regeneration of the State. Industrial growth and technological change and upgradation are urgent imperatives and full advantage has to be taken of the new opportunities in the broader interest of the State. The new State industrial policy is also sought to be justified by projecting the hope that it would create large scale new employment.

- (b) West Bengal is not a sovereign independent republic and the Left Front government has to function within the constitutional, political and financial constraints of the Indian Union. Though many aspects of the Centre's policy are detrimental to national interests, the Left Front Government cannot go beyond that policy and work out and pursue a different one. In other words, the Left Front government has no other option.

Following the announcement of the new state industrial policy many circles traditionally hostile to the Left Front government, including many sections of business and industry as well as important sections of the media, are full of praise for the Chief Minister and the Left Front leadership for adopting a non- doctrinaire pragmatic approach. Some have been euphoric about the changes in industrial scene that have set in the recent months. A leading mass circulation Bengali daily came out with a full page story titled "**bam durge dhanatantrik biplab**" (capitalist revolution in the left citadel). Several statements and press interviews by some, of the government leaders, including the Chief Minister have tended to give the impression that the State is already in the midst of an industrial upsurge. Such euphoria has been seen most at and around the time of the centenary celebration of Confederation of Indian Industry last January.

### **A Few Major Reservations**

While these and some aspects of individual policies have some rationale at the micro-level, it is possible to speak of several serious reservations of both theoretical and practical nature about the Left Front government's industrial policy and the ongoing changes.

In the first place, there is no doubt that under certain political, economic and social circumstances it is possible to have industrialisation and economic growth (as distinct from development) in a few countries of what is known as the Third World. But Marxism does never allow discussion of industrialisation, economic growth and technological changes as well as social issues in the abstract, unrelated with and divorced the class and social dimensions. But many of the pronouncements made by important leaders exhibit virtually a non- class outlook and perspective. It is hard to find any awareness in the pronouncements and writings of the leading spokespersons of the new policy that the industrialisation policy being advocated and put into practice is basically a capitalist one and would have serious social consequences. In justification it is argued that there is no other option. (The validity of that argument in the form in which it is presented will be discussed below). But there is an essential difference between such an argument and remaining oblivious of the class nature and capitalist characteristics of the industrialisation drive as well as social consequences of such a policy.

Continuing, it needs to be stated that Marxism demands discussion of social questions in the wider historical and socio-economic context, both international and national. Without going into any elaboration, it needs to be observed that the irony of the contemporary period is that behind the seeming worldwide triumph and 'golden age of capitalism', capitalism in the closing decades of the twentieth century is in the midst of a deep crisis and has created catastrophic socio-economic condition.

Notwithstanding some very recent indications of a moderate revival, capitalism in its North American, West

European and Japanese bastions suffers from extensive and persistent stagnation marked, among others, by what is characterised as 'jobless growth'. The reversion to capitalism in Eastern Europe, Russia and the former Soviet Republics has led to socio-economic collapse of a magnitude and intensity unthinkable even a decade back. China which has made a 'peaceful transition' to 'market socialism', despite its remarkable economic performance, is also experiencing socio-economic problems unprecedented in recent history, accentuating social and regional inequalities and even alarming rise of crimes. Entire continents, specifically speaking Latin America and Africa, particularly sub-Saharan Africa are condemned to regression. Thus, almost the entire capitalist world in its what may be termed as deregulated phase is exhibiting tendencies towards decline and stagnation with varying degrees.

The embracing of unregulated capitalism by the Rao government and the growing integration of the Indian economy to a world economy increasingly being dominated by the Bretton Woods Twins the International Monetary Fund and World Bank - and the newly set up World Trade Organisation and international capital organised in the form of multinational companies (MNCs) cannot but lead to deeper contradictions in the growth of Indian capitalism and disastrous economic and social consequences for vast sections of population, particularly the working masses.

All this indicates the fundamental global as well as national constraints within which the Left Front government has to function. This does not mean that the scope for industrial and economic development is entirely blocked for the State's economy and industry. But given the crisis and contradictions in which world capitalism is caught and currently strikingly symptomised by the decline of dollar, one cannot but wonder whether a broad based vigorous capitalist industrialisation, not to speak of an industrial revolution, is at all feasible and achievable in West Bengal.

Secondly, it is difficult to come across any precise information about the investment proposals being received

and implemented in the last few months. According to one source, between July 1991 and May 1994, 473 memoranda of understanding involving an estimated capital investment of thus 327 crores and creation of more than 1 lakh jobs have been signed. Since last September there has been a spate of MOUs. But many of these are at the proposal stage. Even most of those which have been approved, are yet to be translated into actual investment. Further, large number of the new proposals received and projects undertaken are high-tech, capital-intensive ones like Haldia Petro-Chemicals having very limited employment potential.

### **Issue of Difference**

Lastly, but not least in importance, is the issue of difference between the Rao-Singh new economic policy and the Left Front government's policy. It is not that there is no difference. An important feature of the Left Front policy is that it follows, despite limitations, the implementation of fairly extensive land reforms and considerable decentralisation of governmental power and functions through the panchayat system not achieved, in fact, not even attempted, in any other states other than Kerala with regard to land reforms and Karnataka in relation to panchayat. Yet one more important feature has been the emphasis put on cottage and small industries and their growth. But leaving aside these aspects, it is difficult to find any basic difference with the Rao-Singh policy and practices.

It is no doubt that West Bengal's industrial situation experiencing decline and stagnation for three decades or so is a critical one. It is often said that at the time of independence the State occupied first place in the industrial map of the country. But it was essentially a weak, lopsided and limited one with export-oriented processing industry (e.g. jute) and plantation agriculture (tea) and extractive mineral industry (e.g. coal) occupying the first three positions. Engineering mostly of repair workshop types was another major industry. It is only with the launching of a few public sector enterprises like the Durgapur Steel Plant, Alloy Steel Plant or Mining and

Allied Machinery Corporation in the Durgapur area that the industrial map began to undergo change from its colonial character. But for various political, economic and social reasons by mid-1960s the process came to a halt and since then the industrial scene came to be marked by rapid decline and pronounced stagnation.

Given the constitutional, political, financial and social constraints, from the early days of assumption of power in the State the Left Front government was beset with the difficult and formidable problem of bringing a turnaround in the situation.

### **1977 Policy**

Yet the Left Front policy could have been radically different from what was announced last September. It is not just a wishful, unrealistic thinking divorced from the ground realities. In fact, the Industrial Policy announced by the Left Front in 1977 on its first assumption of governmental power had a distinctly, in fact, a radically different perspective. It put forward the following as the major interconnected goals : “..(a) reversal of the trend towards industrial stagnation, (b) arresting the growth of unemployment and providing for increased employment in the industrial as well as agricultural sectors, (c) encouraging the growth of small and cottage industries, (d) lessening the stranglehold of monopoly houses and international firms on the economy of the State (e) encouragement of indigenous technology and industrial self-reliance, (f) gradual expansion of the public sector, and (g) increasing the control of the actual producers, that is , the workers, over the industrial sector”. The announced policy had several interrelated components and proposed a number of specific measures and instruments, some in a fairly detailed manner, for attaining the goals mentioned above. (The 1977 ‘Industrial Policy for West Bengal’ was published in full, among others, in *Social Scientist*, January-February 1978, pp. 103-108).

But to the best of the present writer’s knowledge no serious attempt had ever been made to implement 1977 policy except

the goal relating to the promotion of small and cottage industries, and examine and assess it in the light of experience and constraints being faced in translating it into practice (undoubtedly there were many formidable obstacles), reformulate it and work out appropriate instruments. Curiously enough, in the current discussions and debates there has not been even any mention of it. It appears that the 1977 policy document has been given a quiet burial.

### **The Issue Of A Different Policy**

But even in today's extremely overall difficult context - the demise of the socialist system, the worldwide onslaught of international capital and imperialism in its new phase, the disorientation among the socialist and progressive forces, and the defensive position in which the working class and working masses have been put into - the Left Front government in West Bengal has the potential of playing a critical role.

It is in this background that the Left Front government's industrial policy becomes particularly important. To reiterate, despite the presence of formidable constraints, it is possible to work out and project an industrial policy distinctly different from the current one. Such a policy could pose a counterpoint to the Rao-Singh policy and strengthen popular mobilisation against the latter. Here are a few indications :

#### **Regulation of Market Forces**

Despite planning, large role of the state and bureaucratic control, throughout the post-colonial period private capitalist market forces have been in operation and thriving at various levels of the Indian economy and society and following the launching of the new economic policy those forces have been penetrating fast in various spheres. West Bengal too has not been free from this and could not remain so even if it was desired. But an important question is : will unbridled play and penetration of private market forces be allowed by the Left Front government?

These need to be contained, checked and regulated. The Left Front government can introduce, encourage and foster.

non-capitalist non-private forms. In contrast to the typical capitalist form of enterprise run with private profit motive the corporate form the Left Front Government can encourage and promote cooperatives of various types -producer cooperative, marketing cooperative, credit cooperative etc. Marx himself in several of his writings attached considerable importance to cooperatives. To quote from him, "The cooperative factories of the labourer themselves represent within the old forms the first sprouts of the new ...." (Capital, Vol III, P.431).

In fact, the State itself does not lack at least a few examples of successful producers' cooperatives. Tantuja is perhaps the most notable instance. Similar cooperatives can be encouraged to be formed. It is not that the September 1994 announcement on industrial development or subsequent statements by the Left Front does not make any mention of such cooperative enterprises. But this is not accorded much importance.

True, organisation of industrial cooperative is beset with serious, operational, financial, marketing and related problems. But there is the example of the celebrated Kamani Tubes case of worker takeover and running of a sick industrial unit. Even in this State there are several examples of workers' cooperatives (for example, Wire Machinery, Panihati, International Automobile Cooperative Workshop Ltd., Calcutta, Satyajug Employees Industrial Cooperative Society Ltd., North Howrah Hosiery Ltd., etc.). The Sangrami Shramik Union of the Kanoria Jute workers put forward a detailed scheme for organising a cooperative which could not be launched due to various obstacles, not least in importance being the State government's apathy.

In the case of marketing, (i) provision of alternative marketing channels controlled by people which could threaten and contain speculative and profiteering private market forces and (ii) establishment of direct links between the actual producers and the export markets which can act as countervailing institutions against the domination of MNCs and foreign concerns and large Indian firms should have an

important place in the Left Front government's policy.

The government could also explore the formation of managers' cooperatives in case of sick units and provide facilities to these.

Even in social sectors like health or education launching and running of hospitals/health/diagnostic clinics and educational institutions on cooperative basis and through cross-subsidisation could provide cheap and excellent medical and educational facilities to the poor and non-affluents. That such a scheme is feasible is shown by the running of several wellknown hospitals/clinics in Tamilnadu, Karnataka or even Maharashtra. Instead of providing facilities to greedy private entrepreneurs for opening highly expensive hospitals or educational institutions catering to the needs of the affluents, the Left Front government can provide support in various forms to such non- private form of organisations and thus project new alternative.

### **Role of the Left Front Government**

In the changed international and national context and under the pressure of various agencies oriented to private market forces the Left Front government need not abdicate its role but need to function as a catalyst and play an active role in rejuvenating the industrial economy of the State. Briefly, such a role involves, among others, the following :

- (a) The market forces need not be eliminated or even suppressed but are to be used as well as contained through a mixture of control and regulation, provision of positive incentives and spreading of risks. The Left Front government can put forward the perspective of developing a synergistic relation between public institutions and private market forces and play a leadership role in the industrial scenario of the State.
- (b) It is vitally important to identify the thrust areas and industries. The Chief Minister's announcement has of course identified and given emphasis on several such industries, for example the petrochemicals, electronics and software.



- (c) But among several such areas it is also necessary to prioritise the identified thrust areas and provided necessary support and facilities. At the same time, all indecisions and uncertainties need to be removed.

Here is one example. Tannery and leather industry has been identified as one such area. But while for quite some time talk has been going on for shifting the major tannery from its existing location in Tangra in east Calcutta to a new location Bantala, necessary infrastructural facilities, including road and power are yet to be developed (The Telegraph, 7 April, 1995).

Here is one more example. Steel, including mini steel plants constitutes one such identified area. In this connection emphasis has rightly been placed on ship breaking needed for getting scraps. It is a highly labour-intensive but also very energy- intensive industry. But for shipbreaking it is necessary to have very large areas, again with various infrastructural facilities. Regrettably enough, such areas with appropriate facilities have not yet been developed.

- (d) But as Haldia petrochemicals or electronics are high-tech industries having limited employment potential, no less important is the need to protect and revive traditional highly labour- intensive industries. Jute manufacturing is one of these. This industry has been ailing for a long time due to several international and domestic factors, one of the most important among the latter being the operation of the speculative controllers of mills having little stake in the future of the industry. The industry was condemned as a sick one. Even the much publicised Arthur D. Little scheme drawn up for industrial revival considers the future of the industry bleak.

But the reality is that the Industry has good prospects, and the United Nations Development Programme in cooperation with several other agencies is working on policies and measures for revival, modernisation and diversification of the industry. However, the Chief Minister's announcement fails to make any mention of this industry and the Left Front

government is yet to work out any worthwhile plan and programme for the industry. Similar is the government's position with regard to another major traditional but ailing industry - the engineering industry which needs extensive restructuring, modernisation and technological upgradation.

Given the magnitude of unemployment problem in the State, it is also important to select and promote industries with large employment potential.

- (e) It is imperative on the part of the government to thwart the entry of predatory interests and greedy operators. The jute industry is plagued by the operation of 'fly-by-night' operators who not only flout all norms and laws with regard to labour but also act against the long run interest of production and industry.

Tea plantation in North Bengal is another industry which has been witnessing the feature that in recent years attracted by the prospect of large and quick gains various interests ranging from a large company like Duncan Agro-Industries to 400 or 500 acre new operators are purchasing and virtually grabbing tribal land, paddy and agricultural land, and peasant land under Teesta Barrage Command Area through persuasion, enticement in the form of high price for land and promise of a job in the garden, and both covert and overt pressures. The point is that all this is being done by (i) flouting all existing laws, rules and regulations with regard to transfer of tribal land and conversion of traditional agricultural land to plantation areas and (ii) evading Plantation Labour Act and other laws relating to P.F., ESI etc. Local protests have taken place and articles exposing these have appeared in the CPI(M) daily *Ganaskati*. But almost nothing has been done to prevent such operations. These are areas which call for early government action.

### **Role of Public Undertaking**

In the current context of increasing penetration of private market forces and undermining of public enterprises the latter can and must continue to have an important place and role. However, for that it is necessary to have a differentiated approach. (i) Chronically loss-making non-viable units need

to be closed down with appropriate protection to the interests of the workers. (ii) Some units, particularly those in businesses and services like tourism and hotel industry in which the government should not have entered at all, may be privatised. (iii) The remaining State public undertakings should be restructured and run along sound business lines. In fact, much of what was said of the restructuring of these enterprises in the 1977 Policy remain relevant even today. It was stated that these "must operate at demonstrable levels of efficiency, be free from corruption and generate surplus.. The employees in these undertakings - workers as well as managers - must not be caught in a vicious trap of low productivity, high costs, erosion of net worth and general indifference."

With reference to the need for training and skill acquisition, the Policy document stressed that "the workers must rapidly equip themselves with skills and knowledge so that they might be associated with the efficient running of these enterprises".

The document also specified the way in which the PSUs might be restructured. To quote : "The Left Government must critically review the performance of these PSUs, rationalise and restructure them where necessary and put them under professional management." Continuing the document stated, "Their accountability must be established not by bureaucratic controls but by setting clear financial goals and physical targets and continuously monitoring their performance".

### **Issue of Privatisation**

That the PSUs are not sacrosanct and that some of them may have to be privatised has been suggested above. But a few relevant questions are the following : Why privatisation? In which areas? Through what method?

One example will be of help in this regard. Much controversy has arisen around the issue of handing over the ownership and management of the Great Eastern Hotel to a French organisation, Acre Pacific Asia. That the government should not normally be in hotel business is by now accepted

in all quarters. But there are two points : one minor, and another major.

The minor one is that among about 70 State PSUs Great Eastern Hotel is among the 6 or 7 units showing positive return. So, why privatise it. But much more important is the method of privatisation. Why Acre Pacific Asia and not Peerless or ITC- Welcome group or any other organisation? What is the basis of selecting the French organisation? The point is that the method of privatisation of any PSU must be a transparent one, both at the Central and State levels.

Here is another example of the peculiar method of privatisation. With a pledge to reopen and run a closed factory (the National Tannery), the State government purchased the unit through Calcutta High Court. But the government having taken possession of it in November 1992 has not opened it yet. In the meantime the government has moved the High Court for (1) permission to sell it to a private promoter and (ii) an order it will never be made liable to pay arrear dues to workers. It is possible to give several similar examples. But such methods need to be given up.

#### **Attitude Towards Foreign Capital and MNCs.**

- (a) There is no question of barring the entry of foreign capital altogether. But there should not be any indiscriminate entry which may lead to most serious problems. Here is one example. A few years back R.G. Brearly, claiming to be a resourceful British entrepreneur, was allowed to take over four jute mills under arrangements never made public and given a red carpet welcome by top persons in the Left Front government. But ultimately he turned out to be a mere speculator. The government must be cautious in dealing with foreign capital and foreign entrepreneurs. Only those foreign concerns (i) who have substantial resources and are willing to make requisite investment, (ii) who are strong in R & D, and (iii) who have professional management may be allowed entry.

- (b) With regard to MNCs too the government would have to be careful. MNCs are necessary for getting access to foreign market and for acquisition of new technology. But in dealing with MNCs pressures need to be put on them so that (i) the bulk of their products are exported and (ii) necessary inputs are mobilised whenever available from within the domestic economy. Such policies have been pursued by South Korea or Taiwan.

### **Role in Planning**

Last year, completely bypassing the State Planning Board (SPB) the State government authorised the Boston-based management consultancy firm, Arthur D. Little to draw up a perspective plan for West Bengal's industrial promotion. It is difficult to understand this undermining of the SPB. If necessary, help and advice from foreign consultancy organisations maybe sought. But an organisation like the State Planning Board can and must play an effective role.

### **Workers' Interests**

The issue of workers' interests is a vital one. While trade unionism unmindful of workers' duties, productivity issue and wider social responsibility has to be discouraged, it need to stressed that under the Left Front government thousands, if not lakhs, of workers have been rendered jobless due to closures and lockouts as well as systematic retrenchment and evasion and blatant flouting of labour laws and regulations. Further, the wage-earning working masses have been under severe attacks from the employers. The Left Front government must protect the legitimate interests of the working class and working masses.

To sum up, though the Left Front Government has several achievements, particularly in relation to land reforms and panchayats, its industrial policy and practices are seriously flawed and do not have basic differences with those of the Central Government. But despite many constraints within which a State Government has to function, the first Left Front government projected a radical perspective and industrial

policy in 1977. Drawing on many aspects of that policy or to put it in a different way looking ahead to the past it is still now possible to work out and put forward a revised policy which can act as a counterpoint to Fund-Bank Package and Manmohanomics for popular mobilisation and struggles. In this note an attempt has been made to suggest a few elements of such a policy.

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## ***Globalisation of finance and not Globalisation of Production : What it Means***

◆ *Prof. Prabhat Patnaik*

In the context of the current economic policies which are being indicated here and also in the context of the current state of international economy, the first point which I would like to make is that the assumption behind the proposition with liberalisation-cum-structural adjustment as given for an under developed country is that if it happens, then there would be a substantial inflow of direct foreign investment into the country. Let us look at the position of those who are favouring liberalisation-cum-structural adjustment and find out what is it that they are saying. I believe that the only valid interpretation, you can give to their argument is the following :

They would be saying that "suppose you actually have an economy in which you remove restrictions from the operation of the capital including operation of foreign capital. If you remove trade restrictions, if you liberalise the functioning of the markets, if you withdraw the state from the sphere of production as far as possible, there would be a build-up confidence on the part of capital in your economy. If there is build-up confidence then you would find that international capital would flow into your economy and on the basis of this flow, you will be able to maintain rates of investment which

are so high that you can have growth rates which are also very high. As a result there would be a trickle down as far as the ordinary population is concerned. In other words they would say that whatever is lost by the state withdrawing from the arena of investment, whatever is lost by virtue of the fact that a certain amount of domestic industries may close down because of international competition, all would be made up because of the inflow of foreign capital. That would raise your investment ratios to a significant extent and therefore that will raise your growth rate."

**History exhibits unevenness of development**

Now this is a proposition which is contradicted by the whole history of capitalism. If you look at the entire period from very inception of capitalism right until the Second World War or even now, you find that the bulk of capital inflows, direct foreign investment has always been within the same capitalist countries, not much actually given to the under developed countries. If it had come then the dicotomy which exists in the capitalist world between the developed and under developed countries would have disappeared. Suppose it was the case that because labour force in Bombay is very cheap and British textile industry had decided to locate itself not in Lancashire but in Bombay. Then you would have found that it is Bombay that has been industrialised like Lancashire. So if it was the case that inter-nationally capital flows to a place in order to take advantage of low wages, then you would find that the under- developed would not have remained under-developed. In other words, the phenomenon of under-development is actually a reflection of the fact that internationally capital flows have not taken place from the advanced to the under-developed countries but within the advanced capitalist countries. This is in the period from 1851 till about 1914. You find, for instance, that only about 20% of the total capital flows took place from the advanced capitalist countries going to the under-developed countries and that too they came in areas like plantation, mining etc. which are absolutely an area you cannot help; You need those minerals, you need those plantation products; They did not come to manufacturing in the under-developed countries.



So throughout the history of capitalism unevenness of development that we have witnessed, is a result of the fact that capital is not freely mobile. In other words, if you have a situation where labour is not freely mobile, if they put up restrictions against the migration of labour from our country, capital is not also freely mobile. You have a situation in which you find that some countries remained rich and other countries remained poor. So the argument which is being put forward today in support of economic liberalisation is an argument which in fact is contradicted by the whole history of capitalism. But this should be put forward. It may be argued and as many of them say "look here you forget about all that past, all that history. We are not concerned with history; as things stand today you find that the world in fact has come close; the mobility of capital has increased gradually; as a result we live in a world where globalisation process has gone very far and if that is the case then no matter what happened in history, now in a new phase of capitalism in which there is tremendous capital mobility taking place and if you are silly enough, if you are un-wise enough to close yourself to these possibilities then you would ever remain backward while those who open themselves to these possibilities would forge ahead."

**Movement of capital - Not productive capital, but of foot loose finance**

This is the basic argument on the basis of which one can in fact, support these economic policies. My objection to that basic argument is, that my reading of the international economy is that this is not the case that has happened internationally. No doubt process of globalisation has taken place; no doubt there has been a great enhancement in the mobility of capital; But the point which I would like to bring to your attention is that there has been enhancement in the mobility, not by productive capital but of speculative capital as high finance. I think this is a very important distinction and once this distinction is drawn or appreciated, we may be able to understand a number of phenomenons which are taking place all over the third world. When I say capital in the sphere of production, what I mean is that 'let us say people

come and locate their production plants here for meeting the international market; Now suppose it is the case that you find foreign capital coming here to locate its plants on the Indian soil for meeting the Indian market and then that basically supplants some domestic products and that is a concealed form of de-industrialising the economy. But if foreign capital comes to locate its plants on the Indian soil for meeting the international market that is it uses India as a base for meeting global demands, then it is not supplanting domestic produces but it is adding to the level of activities which prevail in the economy. Now globalisation of productive capital in this sense is not taking place; It is not as if you find that producers, capitalist producers from a metropolitan country are moving out all over the globe to locate their plants in the low wage countries to meet their demands back home. In fact the fear of that happening is what made Mr. Rasparo attack Mr. Clinton which paints the picture of ill paid Mexican workers and saying that American industries would disappear. Now that is not happening. Mr. Rasparo's argument as we understood in the context is not happening because if that actually happened, if capitalism genuienely became a global system in which capital production is freely mobile across the countries, then the social stability of metropolitan capitalism would collapse. Then you would see the whole branches of production closing down all over the advanced capitalist world, the kind of fear that Mr. Resparo is arousing among the American public. That is something which in fact would mean the loss of its own base. As far as capitalism is concerned it is precisely this loss of the whole base, because of which, even if for one moment that capitalist producers were willing to shift their capital out of their metropolitan home base to the third world countries, the state would prevent its capitalists. State would in fact prevent such a mobility of capital, just as they prevent the mobility of labour from the under developed to the advanced capitalist countries so that capitalism does not lose its home base. Because the Stae in some sense acts as more far-sighted statesman than capital itself and the capitalists. But on the other hand what is happening is to my mind undeniable of globalisation in the sphere of high finance. That is you have not capital in

production which is interested in setting up plants here: but you actually have a lot of mobility of foot-loose financial investment which comes to the stock market share. You may be surprised to know that in the course of the last one year there have been stock market booms in a lot of under-developed countries all of which have drawn huge amount of this kind of foot-loose money kind of finance capital which actually comes in quest of quick profits, in quest of capital gains. Usually it is invested in stock markets which are booming, or in real estate etc.

### **Globalisation of Finance and not globalisation of production**

Now for instance take the stock market booms. Poland has had a huge stock market boom Pakistan had a huge stock market boom; India some time ago had a huge stock market boom. So you find that this capital comes in to take advantage of speculative gains to be made on the stock market by pressuring secondary securities, whose prices are going up but it has nothing to do with production. In fact, specialised financial institutions have been set up in a number of countries. In America currently there is Indian courante. Indian courante basically means that people want to invest in India; they want to invest in India not because they want to set up plants in India; there are all kinds of companies which are specialised in investing in the Indian financial markets and all kinds of middle class or depositors are depositing their money with these companies because they get high rates of return. So this kind of capital is very mobile across countries at this time and there has been a tremendous increase in this kind of capital and capital mobility.

As a matter of fact if you compare trans-border movements of capital on account of settling trade transactions, even if we have an export service vis-a-vis some other service to export to them, if you look at capital movement to settle trade across border, they constitute only about 2% of the total capital movements which are currently placed across borders of the different countries. Now these capital movements which are taking place, are in fact, essentially financial movements, and

incidentally these financial movements are not just movements which have been made by the capital in the advanced capitalist countries. Once you have financial liberalisation our people also from here would then be investing in stock markets and later they will be investing for making capital gains in Kenya or somewhere else. You are actually having a globalisation of finance which is not the same as the globalisation of production. In fact I would say that the so called globalisation of finance prevents globalisation of production. What is more, that the globalisation of finance is extremely counter productive as far as the economy like ours is concerned.

Now let me elaborate this point. One may say 'O.K., no matter whether it is productive capital or finance money coming into the economy, we all know that our reserves have crossed 20 billion dollars' so one may say that huge amounts of money are after all coming into the economy. That is a good thing. Isn't it? In fact the Government continuously claims credit because we have such huge reserves.

### **Huge foot loose reserves-good or disastrous?**

As a matter of fact, it is not a good thing. It is a disastrous thing, for the following reasons:

The money which comes in is not itself directly being invested in productive facilities because these are speculative funds which are coming in. Now suppose that I am an American investor, I have been bringing some dollars into this economy, can change these dollars for rupees in the Reserve Bank and with the rupees I go and purchase some securities in the stock market which I think are going to give me a capital gain. Now the Reserve Bank has two choices. It can say that we are going to buy any amount of dollars at the prevailing prices. That means either take the exchange rate and hold on to as much reserves as possible which is what our Reserve Bank has been doing. The alternative it can say is, we have too high reserves, we do not want to hold reserves; the price at which you are going to exchange dollars or rupee is going to be determined on demand and supply. That means the exchange rate can actually be determined by market

conception or the exchange rate can be fixed by the Reserve Bank as any amount of reserves can be held when money is coming in. Now if the exchange rate is allowed to float upward when money is coming in then you have tremendous domestic de-industrialisation because then what happens is if the value of rupee goes up the value of the dollar falls. Then in a region in which there is free trade, foreign goods become cheaper therefore the domestic producers are not able to compete against foreign producers and huge chunks of your domestic industries would just disappear from the face of the earth. As a result, Central Government usually try and say "Alright we would not allow the domestic currency to appreciate too much, We will take the domestic currency and as a result hold down to reserves." That is what our Reserve Bank, for instance, has been doing.

Now if you hold down to these reserves, these reserves are directly not being utilised for any productive purposes because they are not being used for making any productive investment. There is no agency which can say we could buy goods with these reserves. We could, in fact, buy necessary capital good reserves or essential consumer goods with these reserves and so on. For investment you need some agency that can do the investment. Foreigners are not interested in doing the investment; domestic capitalists are not being interested in doing the investment. As far as the state is concerned, state made investment is frowned upon because nobody wants the state to invest because the public sector is the dirty word. Now as a result what happens is that investment does not take place, reserves pile up. When reserves pile up you know on these reserves the country is making some payment. Afterall there is some rate of return that they will be earning otherwise why should they bring in these reserves. But the typical rate of return that these reserves themselves earn is very little. If they are held in the form of currency they have rate of return, if they are held in the form of treasury bills of the USA Government it is something nominal 6% or 4%, of Swiss bank deposit 3, 4 or 5% rates of return which are very low. On the other hand the

country is giving much higher rates of return to those who are bringing foreign exchange. So there is a net loss in terms of rate of return that the foreign exchange which is coming into the country gets at a much higher rate of return. Then the same foreign exchange, which having come into the country, is being held by the Reserve Bank of India.

Secondly, these reserves are just lying around. Against these reserves money is printed, rupees printed because the Reserve Bank holds not rupees but holds foreign exchange. It has to bring rupees against it. These rupees are domestically available. I believe that it is nice proposition to say that when money supply goes up prices go up; I mean that is a proposition which is called continuous theory of money which has been attacked by Karl Marx and that is a proposition with which we are still going strong. So it is not when money supply goes up prices automatically go up. There is no such thing. But if it is the case, in the case of specific commodities there is pressure which get generated in the form of excess demand. In principle it is always open to the Government to actually use the available foreign reserves for importing commodities to beat down that excess demand pressure. But the Government may not do it as it did not do in the case of sugar. So in such cases inflation may arrive. So inflation is not because of the fact that you have a lot of money supply but inflation is because of faulty economic policies of the Government. In situations where excess demand pressures arise there is no doubt that faulty economic policies of this kind are notified. The coming in of foreign exchange means augmenting your potential supplies. If I have foreign exchange in my pocket, if I have dollars in my pocket I can go and buy any goods in the international economy with these dollars. So my supplies have gone up. But if I have dollars in my pocket and against these dollars if rupees are being created and these rupees go into somebody's hands, he chooses to spend it and some goods demands are also being created. There is no reason why the demand side should win and we should have inflation. That arises only because of the fact that the Government pursues faulty policies, that it does not do supply

management, that it does not actually buy commodities from abroad. So in that kind of situation inflationary pressures begin to rise.

Thirdly and most important is the fact that this is foot loose money. As I said much of this is globalisation of finance. How this finance that has come in is basically foot-loose money. Today it is here, tomorrow it will go. It is here to take advantage of all kinds of speculative gains and also high interest rate. You know currently nominal interest rate all over the advanced capitalist world is less than 5%. Why you look at India, because here nominal interest rates are very high. You say you find that India is more attractive as a place for making investment for anybody. By investment I do mean productive investment, at a place where you put your firms. India is a much more attractive place than any place in the advanced capitalist world in terms of rates of interest or rate of returns. So money is coming in. Tomorrow however this money may flow out. Suppose anything may trigger off outflow of fund due to loss of confidence; Mr. Manmohan Singh is removed as Finance Minister, money may flow out; Mr. Narasimha Rao loses his Prime Ministership, money may flow out; you have another communal riot, money may flow out; you may have NF-LF Government in the Centre, money may flow out; in other words anything might actually trigger off this flowing out of money.

### **Should Mexican experience be repeated in India?**

Now, as a result, notice what is happening when money flows in. It is not utilised in any productive way; even in the current budget Mr. Manmohan Singh has liberalised the imports of variety of consumer goods by lowering their tariff rates. So that money is utilised partially at any rate for purchasing of all kinds of consumer goods and this is what happened in Mexico also. Though money flows in it has no effect on the growth rate. A bit of this money is utilised for making luxury goods; consumer goods inputs. So it disappears. Suppose let us say 20 billion flows in and 10 billion disappears in the form of luxury consumption, no effect

on employment, no effect, as far as the poor in the country are concerned who don't derive an iota of benefit from the 20 billion dollars. Suppose money flows out for some reason. When it flows out then there is an avalanche of flow because after all there is a flowing out. Then it creates a confidence over night that money can flow out, because once this type of confidence begins there is pressure on the currency and naturally people would like to move from rupees to dollars. The rupee begins to depreciate and as the rupee begins to depreciate people expect that it might depreciate further and as a result they take out money and when that happens you would find that there has to be once again a tremendous domestic deflation, that domestic demands, our essential inputs would have to be cut in order to generate foreign exchange whereby we can pay those who wish to move from rupees to dollars or we once again go to the International Monetary Fund, touch their feet and request to save us and so on like Mexico is doing.

Let me say that when money flows out, that is no positive effect on growth. For example when money flows out the growth has to be reduced in order to differentiate the economy, in order to generate enough foreign exchange because we have to pay all those who want to shift from rupee to dollars. Therefore, they demand dollars and we have to pay them dollars. You find that the net asset of this entire operation of finance capital in a lot of under-developed countries is in fact negative.

Now this is classic in the case of Mexico which I will just discuss briefly. In Mexican case specially, what happened? What happened in the case of Mexican is that for a long time they had of course this deflation. Over the last three years there was some growth beginning to take place just as in the case of India we have three years in which there has been zero growth and so on but now a little bit of growth is taking place because after a period of zero growth you find OK things begin to stabilise. May not be that you don't recapture. Some growth begins to take place out of the state of complete stagnation. That is what was happening in Mexico. Lots of



jobs had been lost, now some jobs were created and then the moment these jobs were created and Mexican economy was beginning to look out, you find Chiappas rebellion, (it could be because after all poor have been squeezed in Mexico for years). So the moment they raised their voice, you find that the 24 billion dollars reserves they had and much of it they had, spent quite a lot of it, in importing again all kinds of consumer goods and as a result the reserves went down. But over night almost you had a collapse of these reserves and Mexico had to go to the United States pledging their oil wells to them so that the Clinton administration can ensure some credit limits. All Mexico oil revenues has to be deposited in the USA treasury. This is the situation that we have in fact.

### **Why Inflation?**

A lot of people say globalisation is very good because it is with globalisation we are going to attract lot of capital, a lot of investment will take place. As a matter of fact what is happening is not globalisation of productive capital. This globalisation of finance is in fact counter productive as far as our growth objectives are concerned. The very fact in a period we have huge amounts of foodgrains stock, the huge amount of foreign exchange reserves, (in other words there is plenty of supply because foreign exchange is a versatile commodity, it represent command over any commodity which is there in the interest market and in a period in which we have enormous amounts of supplies of all commodities at every level, we actually have a 12% inflation, taking place is in fact symptom of it because this inflation is not because of any scarcities except those scarcities which the Government itself deliberately engineers. This inflation is not because of any fundamental scarcity. We have had inflation in the past in India, in 1965, 1966. These both inflations were because of huge drops in agricultural food-grains output. A country can be caught in a situation. Supplies of essential commodities might drop, because of job failures and so on. There may be some inflation but in India today no such thing. Nonetheless we are having inflation and in this inflation everybody knows it is on essential commodities that are in fact, the leading commodities.

### **Why Price Rise?**

As far as price rise is concerned. This is because of the general economic policy that we are pursuing, because withdrawal of subsidies, jacking up of administered prices. This entire inflation is an administered inflation. The entire inflation is a mean of jacking up. In other words, it is a means of actually depressing the real wages of the entire working population which is in fact depressed in a peculiar sense as a result of administrative fiat. Therefore, on the one hand we find that the growth of the economy comes down and the so-called trickling down, does not take place; the economy gets caught in a period of long stagnation, on the other side the poor of course get squeezed.

### **Investment and growth rate**

We have to talk in terms of investment ratio. You know people talk about China having high growth rate. In India the other day the Finance Minister ended his budget speech by referring to India becoming a major actor in Asian economic scene and so on. All the high growing economy in Asia, East Asia, China, South East Asia they have investment rate of at least 35% or above of G.D.P. China has an investment ratio which is 40% G.D.P. Now if you have an investment ratio that is 40% of GDP then you can grow at 8 to 10%. But our investment ratio is less than half of that income. Since the introduction of this policy our investment ratio has actually come down. It was about 23% fixed capital formation of the G.D.P. say about 23% in 1990-91. It has now come down to 19% in 1993. So we find that our production business is going down; It is much lower than that of any of the higher growth Asian economies and the only way to push it up, (after all India did experience much higher growth rates than we have been experiencing of course because public sector provided the lead). Public investment in economy like ours in fact crowds in, pulls in private investment rather than in fact pushing out private investment. This is what the Government plan realised. After all they wanted public investment because public investment acts as a beam of stimulating private investment in the economies like ours. In the latest budget plan expenditure, the plan expenditure has gone down

comparatively to revised estimates of 1994-95 and in real terms, much more because we have 10% inflation rate. So the cutback in public investment has actually resulted in lowering of the investment ratio and our investment ratio now is less than half of that of the high growth economies. If in this situation the Finance Minister instead of locating the cause of it actually says that we are going to become major actor in the Asian scene, the fate is really fixed up in the economics.

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*Several questions were put to which Prof. Patnaik gave the following replies :*

**About investments in China and South Asia**

As far as East Asian countries are concerned there has been a lot of discussion. As far as the East Asian countries are concerned and China let us be clear about one thing. In China more than two third of the total foreign investment which has come into China is on account of the Overseas Chinese. It is not multi-national corporations' investment.

Now the second point which I would like to make about Asian countries is that every single one of them in fact has a very high investment ratio domestically generated to which is added direct foreign investment inflows. South Korea was mentioned or Taiwan which have high foreign capital inflow in the sphere of production with high foreign capital. Their growth is not built upon high foreign capital inflow. They had in fact high rates of domestic investment generating high rates of growth that attracts foreign capital. In India if we could generate a high rate of domestic investment then it is more likely that you would actually get foreign capital coming into the sphere of production. But you see the point is that all these Asian countries whose 35%, 40% investment ratios are not foreign finance, in fact foreign finance investment is a proportion of this, not even the bulk of it. But they in fact, generate huge amounts of domestic savings and investment. Once you generate huge amounts of domestic savings and investment you have high rates of growth. That rate of growth attracts foreign capital and the process goes on. There is what the economists might call a virtuous circle.

We also don't draw distinction between direct foreign investment that comes for meeting the global payment which is theoretically on a very different footing from direct foreign investment. That comes in for meeting the domestic market because that is basically another means of de-industrialising the economy. The Coca Cola comes into India, that really does not help very much the industrialisation process of India. In fact to the extent it comes and displaces the domestic producers you can actually fully de-industrialise the economy to produce here for meeting global payment. That will be an addition to our level of activity but that kind of DFI is never distinguished from the other kind of DFI. We must distinguish between DFI and DFI. We must distinguish between DFI in cases where it comes from western multi-nationals and in cases where it comes from overseas not non-resident Chinese or Indians; we have to distinguish DFI which actually you know may be the kind you need debt for equities options and also may appear as DFI but that is not the something.

Ahluwalia himself says that next year we are expecting one billion dollars of DFI. What is one billion dollars, three thousand crores of rupees, in fact, trivial as far as India's investment requirements are concerned. In the last three years total DFI inflow into India have been of the order of billion and a half dollars. That is absolutely trivial, 20 billion dollars on the other hand consist of foreign exchange finances by inflow of finance. So the point I am trying to make is that really that is what we are getting. This is not a theoretical proposition. We are getting enormous amount of finance but we are not getting enough DFIs. Even if we get DFIs the very scales being mentioned is of an order of magnitude in which we certainly would not be able to raise our investment anywhere, where we can vaguely talk about high growth economy.

The period of world recession was 1975. In fact, 1975 was referred to as the second slump. In the later half of the nineteen seventies the entire capitalist world, in fact, had an acute recession starting from 1975. Due to price hike and so on you had a recession. That went on for three to four years. Now during that recession India and China had very high

growth rate. East Asia of course had but East Asian growth rate came down from very high level but still it remained high from 8% to 5%. In our case we are still at 5%. In other words the Indian economy when it was insulated from the world economy in the era of Nehruvian regime, India did not have a recession. Now if you tell me today that India has a recession because of the world recession, my point is that is beside the point: That is what the economic policies are out to achieve namely it is hitched. What is happening to our economy? What has been happening in the world economy? Now if it is the case that the world economy stagnate and nobody is visualising insignificant growth of the world economy. Are we thengoing to be remaining at the level of stagnation in which enormous number of people are unemployed and poverty stricken? Are you going to have that kind of growth rate which you need? The last three years have been worst three years period in terms of industrial growth rate. Now if it is the case then my point is precisely what the economic policy has achieved for us and precisely what we are attacking.

That brings me to the question of small scale industries. The question is of number of units; that industrial growth until last year in the economic services there has been some growth. With the worst three years period of industrial growth rate since independence never before we have three consecutive years of such miserable growth. So within that obviously the small scale industries also in terms of output must have suffered. No matter what is the number of units.

I do not visualise any significant inflow of direct foreign investment as far as the Indian economy is concerned. Certainly I do not visualise it as an engine of growth of the Indian economy I see absolutely no harm in our country, including West Bengal even really trying to get hold of foreign investment. I see no harm in a country like India getting hold of direct foreign investment. Why there is sort of Coca Cola variety. If India got hold of direct investment to be located in Indian soil for meeting global payment, I see nothing wrong with that. I see absolutely nothing wrong with that because that does not supplant any domestic producers. That is something in fact we have already implicitly accepted. What

was the free trade zone. The idea was that you give them an area in which they can come and get their Indian foreign exchange. So I see absolutely nothing wrong in inviting direct foreign investment in order to set up plant here for meeting the global payments. But Is it the case?

In other words the DFI does not de-industrialise the economy, told the Government. I am critical of the Government because you see there is a difference between having an overall economic policy in which this is also one of the components. We have our own economic policy. We have our own industrialisation in which this is one component but I certainly object to a situation where our entire industrialisation strategy consist of this. I certainly object to a situation where the tail is made to wag the dog; where the rate of surplus value in the economy has to be raised; the public sector has been wound up, the plan expenditure has to be cut down for the sake of attracting foreign capital. That is what I am opposed to. In other words I am opposed to a situation where the entire strategy of industrialisation get reduced simply to trying to invite foreign capital into economy. No matter where they are coming in, no matter on what terms they are coming, no matter into what industries they are coming in, no matter whether we need them or not. Now it is that to which I have objected.

**West Bengal economic industrial policy.** There is lot of talking in the Press that "our West Bengal industrial policy in fact shows that the left is showing duplicity, that on the one hand the West Bengal policy is the same and is the same, and on the other hand they are critical of this; That West Bengal Industrial policy is not different from the National Policy of the Centre. What is happening in China is not different from what is happening in India." You know the World Bank person has said that look at China they have enormous rates of investment. Obviously the State plays a major role in the Chinese economy. Here we are withdrawing the State, here our investment rate is coming down. My point is that similarly there is whole talk that West Bengal Industrial Policy shows that there is no difference between Mr. Manmohan Singh and

Mr. Jyoti Basu. My point is that there is no harm whether for a state or for a country if it invites direct investment on certain terms in certain specific sectors. First set in specific objectives which is a part of overall industrialisation strategy. But we have to have a strategy. We have to have an alternative perceptive and overall perception of how we expect India to grow. But what is the plank. Then I say if for that plank we are willing to negate, roll back many of the achievements: After all the trade union movement of the country is itself an achievement. If you are going to smash the trade unions because multi national won't like it, then that would be retrograde. I believe two things that No. 1, the West Bengal Government is not, as reported in the Press, going back on all the social reforms, agrarian reforms that has done. and No. 2 as Mr. Jyoti Basu himself has been saying repeatedly in the West Bengal Party Conference it is not that this is the only plank of their industrialisation. In fact he says that we are not concerned only with new units and a major part of industrialisation strategy is also revamping the old existing units we have strengthened them and therefore there is whole multifarious state of demands. In other words I believe in terms of conception, there are various conceptions. To what extent this was sought and will succeed that is a different matter. I would wish them good luck.





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## ***Industrialist's Approach to Reforms***

❖ *A.K. Rungta*

### **Appropriate Topic**

The theme of the discussion you have chosen today is very opportune, very essential because there has to be an economic policy which results into development and a development has no meaning if it does not carry social justice with it. This is how it should have been and the theme is very right and it has a total connectivity with the economic policies should be designed as a base development and that development should be socially distributable and there should be social justice in the country.

### **Democratic Country Independent judiciary**

The first is that who will draft these economic policies, who are the right people to draft these economic policies and obviously the reference would be to Government. I think now there is more or less a broad understanding in the world that perhaps a Government elected under pluralistic democracy is the best to develop policies. We have that democracy in our country.

There may be different views that some other models of the Government may be better but our experience in FICCI shows and this is a world experience today that this type of democracy is the best form and the basic elements coming out

of a democratic Government is that there has to be a proper Central planning for the whole country.

The second requirement is there has to be an independent judiciary to see that if we are talking in terms of some mechanism which is the call of the day, in terms of economic policies that market mechanism can be administered through that system.

### **The earlier policy**

The policy has to be first planned generation of prosperity and then see that it is of distributive justice attached to it. The earlier focus on the distributive justice was to an extent that generation part got mixed up or missed and that is why in that process all suffered.

We had a policy of one should not grow. So the size of the production units has to be of X which today when we have to compete in the international market we find that X is not even one per cent of an economic capacity of the other country but we are supposed to compete with that country, otherwise we will get extinct. These policies are creating problems today and we need that very quick structural adjustment that our size has to grow but had there been a policy of balance then this type of problem would not have been there.

The system of licensing or the system of say backward development, we developed a concept of development of backward areas and that is why it was said that you can get a licence only if you go into that backward areas. The economic considerations were not there that whether there are infra-structure, whether there are availability of raw material, whether there are availability of social infra-structure to create an industry there. There is no dispute that there should be development of backward areas but the policy has to take into account that backward area, could only develop if it has a back-up support in terms of economic needs of the unit.

## **The challenges**

The Indian industry which was complacent, totally insulated and protected today definitely recognise that their existence would depend on the type of international competition they can face. But even before these policies have taken off in a meaningful manner these policies are considered to be the villain of the electoral reverses of any ruling party. We do not find any linkage of the economic reforms with the election reverses. I feel today my Government which can provide a minimum living standard would get the recognition and approval of the electorate.

The first point I wanted to make is that the economic policies perhaps are a move in the right direction. According to us when development comes out of it and the social justice and how to achieve that, is the second and third part of the topic we are discussing today.

Various theories have been propounded on this. Some say that economy is growing but there is a time lag of trickle down effect and first it has to grow and then it will trickle down and then people will find the benefit of it. The two models I have in mind are of Korea where the development has been very fast and Taiwan. In terms of GDP growth, it has been in the region of 10 to 15 per cent.

Our cake has to be bigger and then only it can be shared by all. If our cake is going to be small I am afraid it is again the upper strata which is going to take advantage and that cake would remain with them by and large. The development process has to be of a much larger size. Suppose the industry grows it as a fact that this much of minimum labour would be required, this much of minimum transport would be required and it has a total linkage and beyond a point, according to us, it would percolate down, the benefit would go to all sections of the society, specially the needy sections.

## **Harmony amongst the factors of production**

The point is how do we get this type of growth and what are the requirements of this. I think the first requirement is that the three factors of production because they contribute

directly and indirectly should be in harmony. But there is lot of antagonism in the relation that we have built up. The Government has always mis-trusted business. The business has always looked up with suspicion at the labour, the labour has always looked with mis-trust at the industry. The business has looked with mis-trust at the Government. Now it is not possible to get that type of growth because you would be moving at cross purposes. If our objective is to have that growth and that distribution of that growth to all sections of society each one has to play a role. Government in terms of policy drafting, the industry in terms of management of the entire sector and labour in terms of providing productivity to that sector. If they don't work in tandem and with the proper understanding it would be extremely difficult.

### **Investments after liberalisation?**

Let us make a study what happened after liberalisation when there has been a freedom of industry creating new production bases, creating new employment, getting new investment in the country as a whole. We took the figures from October, 1991 to October 1994. These are in the investment intentions file with the Government of the country or popularly called as IEMC, Industrial Entrepreneurs Memo. These are only intentions. But even from the intention point of view a very horrible picture emerged that even with liberalisation and when the economies are set free, only 8 states could get 80% of the new investment. Since I come from Eastern region and so comes the moderator and Chairman of this session, in terms of thinking that of the total investment only 5% would come to the whole of east and whole of North-east. Even after liberalisation only 5% of the investment intentions are for this region and 80% is just concentrated in few pockets and it has happened. 20% alone to Maharashtra, some 17% to Gujarat followed by now Uttar Pradesh. The biggest beneficiary has been M.P. in month of investments.

### **What is required?**

Today there is no mechanism by which you can force anybody to set an industry at a particular place. It is not for

the love of the land or for any reasons: the competition is of a type that you have to see where your transaction costs are best and on that basis by putting the industry here of making your investment here, your transaction cost would be best in terms of competition in India and outside, you set your industry and that is going to be the order of the day.

Today I do not think any State Government howsoever they may try if the infra-structure is not there, if the productivity is not there, if other facilities are not there, investors would in any insignificant manner come. It is the ground level reality which would bring the investment.

Today if we go to the Central Government they say well we have set the whole country free. I was happy that for the North-east the Finance Minister has made some announcement of a special bank. Coming from West Bengal I have fought with the banks, when they don't invest. If they consider it is non-viable you cannot force them to invest there, whether there is a perfect logic or not. The point is that they have freedom, now everybody has a freedom and unless the thinkers and the people who are concerned to put their heads together it is difficult to reverse this process. I hope the message is that we have to work together, that is the point I am trying to drive at, will not be able to get the type of benefit which is possible in today's economic context.

It is a gathering of my friends from the trade unions and I think when we talk in terms of justice, we are talking in terms of justice for the whole country, for the whole sections of the society which have been deprived and do not get the benefits. We generally talk in terms of only organised labour. We have to think in terms of the labour, who are not that fortunate, those who don't have the umbrella of the trade unions. Neither the employees nor the trade union movement perhaps give them that type of advice. We have to think together as to how do we take care of them because they are also a deprived section of the society, that is nearly more than 330 million. Whenever we talk whether as an industry in terms of rules, whether collective bargaining it is barely for about 28 million people and the rest are out of it.

### **The role of Industry and Trade unions**

To conclude, I feel let us determine what are the roles the sectors should play. According to me the Government should give very very clear-cut and transparent policies which can bring growth to the economy. That is the role of the Government. The role of the Government is not doing business. We have seen that by and large they were not very successful. The systems are such I am not criticising the public sector. Few of them are running very well also. I feel that they should run the best because then they would not fear of competition and a few of the units run by the public sector are also very good and bulk of private sector units are not very good. I have no hesitation in accepting that and I do not say that private sector is more efficient than public sector but I think the business should be left to the people who can run business. The Government should give only policy guidelines and they should think how to take care of the entire population of this country. Their concern should be about education which is so important. It is totally neglected. Even after so many years of freedom we have hardly 50% literacy or 52% to be precise and there is no thinking about this. It has become just a directive principle of the State policy that we should have compulsory primary education for all. Again our studies show that literacy rate in itself brings very fast growth in the GDP. In East Asian economies 35% of the GDP has been contributed in terms of growth of their human capital because the literacy rates are very high. The Government should look to the education, literacy, health care. What should be our health facilities today. I think even 25% of the population do not have accessibility to any semblance of a care which can be considered health care. Let Government concentrate on that and give clearcut policies which are conducive for the growth of the economy for development of the industry, for development of various sections of society.

The industry, should have a very clear cut role now to compete globally. They have to have world class production in terms of cost. They have to develop cost efficiency. All consumers in this country have freedom and will have the

freedom under the new dispensation to decide whether to buy here or import. If in terms of running my industry I find that if I import an item I have on cheaper cost and a better quality certainly I would opt for it and not for a unit industry. The message is very clear that the Indian industry has to be more cost efficient and quality efficiency as in imported goods and then only they can survive. The whole of the Indian industry has to be re-structured to produce global quality at global cost and then only the industry can survive.

I feel the trade unions have to give this message to the labour that this antagonism is not going to help build a nation. Their improvement lies in the growth of the economy and the growth of the economy is only possible if all sections of production grow and they have a very big hand in that. I feel that the message is that you have a right and that you would get your right redressed, your right have to be met but then the productivity has to be there. The labour has to play that important role. It is essential to bring that change in the minds. Whenever I debated with any economist or any Government person or the people, they say everything is changed but the biggest problem is the change of the minds, including industry, the bureaucrats and it applies to Government, politicians and the trade unions. It applies to all with that change in minds they have to bring about the productivity revolution that is essential, otherwise, there can never be that type of quality.

### **Certain paradoxes**

In this new dispensation there are certain paradoxes. We should try to understand whether we can remove these paradoxes. You may have seen today's Economic Times which carries a headline that Industrialists are peeved and they want a level playing field and they have quoted that many of the top houses have complained to FICCI as to how would they survive. See the point is that Indian Industry feels that they should have this protection. Globally, the duties would be in the region of zero to ten percent. We were accustomed to a duty protection of about 300% which have been gradually brought down to 50%. By world standard it is still very high:

from Indian industry perception it is very very low. Yes the Indian Industry has extreme disadvantages that they do not have the size; their costs are higher in certain terms because their cost of power is higher; but in any economy there are plus, minus points. They have certain plus points also which perhaps they don't drop. No Government would be able to help them in terms of affording any protection, in terms of tariff barriers because then the whole economic structure will collapse. Today if they feel that the Government would be able to bring up tariff walls again and protect them it would not happen. It is a FICCI study that by change of technology today the highest value advantage addition by any country in terms of economic growth can be attained. 65% of the value addition in bulk of the commodities world over is coming out of latest technology. Japan is a country which practically imports everything and exports everything and it is the richest country in the world in terms of GDP or in terms of balance of payment position. They import their entire iron ore and coal which we have in abundance and I have worked out that their cost is nearly six times higher than ours when they charge that iron ore, coal in their furnaces compared to Indian but they are still able to produce a better corporate steel and a cheaper steel and the reason is their technology. They have constantly improved their technology. Their production is nearly two and a half times more than Indian furnaces, I am sorry to say their labour component is only 10 to 15 percent of what we employ here in these steel mills. I am raising this point because there is a very big fear in the minds of my friends from the labour that by adoption of these technologies there is a drop in employment; and what happens to the already severe problem of unemployment in this country if we adopt these types of technologies. We can share this study with you that by adoption of latest technologies there has been no drop in employment. The volume increases in such a fantastic manner that it compensates, it takes more than the necessary care. When computers were going to be installed in this country there was lot of steep opposition that this will lead to unemployment, so many people will lose the jobs because computers can be very faster and can do lot of jobs. The banking industry of America and several other countries, and



the insurance industry has the highest employment. In terms of employment it grew by two to three times by employing the computers and by employing these technologies. Only recently the insurance people were here and they showed that in two years time they were employing five hundred thousand people in insurance sector but now they are employing eight hundred fifty thousand. From five lakh in two years it went to eight and a half lakh. Three and a half lakh new people were employed when the whole thing was automatised because the volume grew fast. If they would not have adopted that then they had a problem and that amount of volume could not have been handled only by man power with efficiency and saving of the time. The point I wish to make is that the need of the hour is to upgrade our technology. We have to climb the technology ladder and it does not lead to unemployment, it does not lead to loss of jobs. If that is there, it is very temporary and it leads later on a macro-basis to much larger employment. If we stem it in the very beginning then we are depriving both the efficiency in the system and also employment.

We have again made a study that to bring about this social justice very fast in terms of the new growth, the Finance Minister has given big sops but the main thing is the focus has to shift and we are with him. In fact in my presentation to him from FICCI these are my suggestions for his social role: rural infra-structure and the infra-structural development Board and several things that we have said that the need of the hour is that the agriculture, agro processing industry, the service industry, tourism, transport, are the areas which will give immediate potentiality to employment, immediate distribution of income and these are the needs of the economy which would help industry. If today we go for manufacturing industry without having commensurate increase in the transport services the manufacturing base will collapse because there is no support of the transport to that. That type of disharmony is there. These are the sectors where investment is needed. I understand 30 or 40% products perished because there is no facility to protect. Then the whole economy gets a very big boost. So we are in agreement

that the policy should be of a type where planned development comes at the places which have a very quicker income generation and distribution and that gives support to the whole economic system. Friends I only hope that my main plea was an understanding among Government, business and the labour, and if that can come about I am sure rest of the things you would manage by closer interaction of time. I thank you very much for giving me this opportunity and for your very patient hearing.

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*[The Presentation was followed by Question from participants. The replies given by A.K.Rungta are given below]*

**Mr. Rungta's answers**

I would briefly answer all the points. These are my perceptions and also atleast shared by my executive in FICCI and the Secretariat in FICCI, may be the whole Committee would gradually accept these perceptions.

**Low labour cost is our advantage**

Our labour cost is low and I said every country has some plus and minus points. If we take the purchasing power at parity with what we pay for our goods and what they pay for their goods definitely our labour costs are low and that is our advantage. If we have so many disadvantages and we do not have any advantage then we cannot exist economically. So let us nurture this advantage of ours that we have a good labour force here and that is economical.

About the exit policy. Only yesterday, the Vice President of Asian Development Bank was with me and just in the course of discussion it came to his notice that we do not have a policy of closing any unit. We do not have any bankruptcy law. They call it Section 11 in USA but we do not have any system of closing a unit. That is why we call it a exit policy. Nowhere in the world the system exists that you cannot close a unit. Nowhere in the world system exists where a unit cannot become uneconomical for one or the other reason. USA is the most advanced country with adoption of technologies, modernisation and take the figures it is 1903 in

1993 in 19 years. The employment has gone down, the GDP has gone down, the income has gone down, their units are not there but they have restructured. May be a particular portion has gone away and a new portion has come. We are following a very unnatural policy that howsoever non-viable a unit is, we would continue with it. Earlier if it was a big unit unfortunately in the name of protecting the labour we were doing this. Either the Central Government would nationalise or the State Government would nationalise or there would be pressure on banks or the institutions to finance money and we would continue altogether.

I can give you an extreme example of a unit, the Scooters India Limited. On an investment of 12 crores of rupees this unit has made cash loss of more than 320 or 340 crores of rupees by now and they are continuing to lose anything not less than about one and half or two crores a month and they have three thousand employees. On an investment of 12 crores you have spent about 350 crores. I keep on saying to the Ministry that if you have done it all for the labour I would have been very happy: if this money was given in one go to the labour, only on the interest they could have built up nice house, they could have nice transport arrangement and could have lived much better life. You have not protected them but kept them always in the danger of what will happen to the unit. This is one of the extreme example. I request you to consider this because in my meetings with the trade unions I made this proposal—FICCI's proposal, that there must be consensus in industry and the labour to recognise the fact that if a unit really becomes non-viable and that by no stretch of imagination this unit can be made a economically viable unit, let us close that and release money out of that and we reuse that money for the development of the economy, from where the employment will come or something will happen. Today nothing happens. There are lakhs and lakhs of such units because we don't have a policy, nothing happens.

Banks do not provide the money, institutions do not provide money, creditors are at the neck of the entrepreneurs who are running the unit and it is often said that units get

sick but the promoters don't get sick because they fly away. They just run away from the scene but the unit gets closed. So we should have a policy. I am not suggesting exit policy but recognition of the fact that any economic unit can become economically non-viable and if it is so and there should be a consensus between labour and the management that it is not viable it should close. Because of this clash of view a unit can not close and there is no structure. There is no policy, the units get closed and everybody suffers in that process except the entrepreneurs. He suffers the least the labour do not get even their cost wages and gratuity, the banks don't get any money and they are all the worst sufferers. But if there is a structure then always by way of that every body would at least get something and that whatever is salvaged would be used but unless we have a consensus this thing would not emerge.

In our last meeting I had made a request and we are preparing a paper in FICCI. Earlier Mr. Chidambaram was to head this mission. We have people from the BIFR, from the trade unions, from the industry, from banks, all concerned. Then let us give a structure to the Government and to the public. I feel just by giving to the Government we are not leading anywhere. We have to give to the public that this is the structure. If a unit has to close in this structure, if it has to increase work force then this is the structure.

I know of so many instances where new employment can come but because of the existing system the new employment does not come. I am not elaborating on that I am giving specific instance where so much of employment can take place but is not taking place.

**About the Provident Fund.** I am not talking about the people who steal the Provident Fund money and mis-use the money for some other purposes. But if this money is used in the same unit because we do not have a system of closing the unit, it has to run, the finance has to come from somewhere. Now it is a crime that you cut somebody's Provident Fund money and then you don't pay them. But the decision is if it is with agreement of the workers perhaps the problem is

temporary. In two months' time may be there will be a change in the fortune or the raw material prices will go up. If there is an understanding that money is used. So the decision is either you close the unit or you use that money. One decision could be if a unit has to be closed down let it be closed but the Provident Fund money should not be used. It is the problem of the cash flow. If there is a structure and even if we reach the position that it cannot run, let it be closed but let them pay the Provident Fund. This whatever is statutory or if there is an understanding with the workers it may be their contribution. So many wonderful things have happened because of the labour contribution. Their contribution is remarkable in running so many units, so many agricultural farms, so many new farms have been opened because of the free labour and ultimately they have benefited out of it but understanding has to be there.

### **About MNCs**

The point about multi nationals : I personally believe in competition and the best way to put Indian industry into competition is to give them threat of multi-nationals because they are not afraid of anybody else but multi-nationals. Yes they are afraid and then only they will improve the efficiency. So let us understand multi-nationals are not going to come here for the love of this country. They have no love for this country. If they are coming here it is for some economic reasons and unless that economic reason is little better than what they can get in their country they will never come here. Because we know for certain they wil come here not because we want them to contribute things. If we ask them they are not going to come. They have no love for us. They have to get something. Now it is for us as Indian industry to bargain in a manner, to negotiate in a manner that we are better than they are. If they are going to make 10 units of profits and we are going to make five units of profits then perhaps we should talk in terms of having more for us and less for them. That is what the bargain is, but if you feel they are not going to come just like that, you should think otherwise or in other terms.

### **Management interference in labour**

The point that has been made about management interference in the labour. There are all types of management and all types of trade unions. We have to improve the quality of both the management and the trade unions. I know in West Bengal even for 100 persons employed in a factory there are five unions. I know for a fact that there are no other reasons except Mr. X said something so Mr. Y would not agree and Mr. Y said something so Mr. X would not agree. There is no other demand. This is bad trade unionism. If the managements are instigating it is a bad management. What we as institution, as trade union and as management or as FICCI need to do is that we should correct this management and correct this trade union to make it a good labour movement, and a good industry movement. I do not say that there are no bad managements. There are so many bad managements.

### **Technology and employment**

The point of technology and employment was made. You have made a point that why there is unemployment in other countries. After all there is a capacity of absorption. The point which I made was that technology does not lead to unemployment. In overall terms it has but it requires the overall absorption in the economy. In Japan there is no unemployment practically. A very small country and that is also in a very select nature. The point is that even in the highest technology country there would be some unemployment because you cannot absorb in the structure the whole thing but technology has not led to direct reduction in absolute terms, it helps create more productivity basis and more employment.

### **Social development**

The point about social development is fully there in my presentation to the Government for the budget. We have said that social infra-structure should receive the first priority. Now we are submitting a scheme that the private sector should in a big way involve in social infra-structure, a full model on education and health. If Government is not coming up then we follow certain models that Government gives funds for so

much of minimum education and thereafter industry takes it over and there they get training, because today on the job training leads to lot of loss of money. Today the entire training to the work force is on the job while world over they get training before they join the job. So it will benefit industry, because to industry I have to tell them what is to their benefit and just for charity they would not do it. It will benefit the society, it will benefit the nation. The industry will also establish educational institutions, get into social infra-structure and health points in a structured manner.

**Industrial relations** : I think this tripartite system has failed and industrial relations can only emerge because of our understanding, as Government has no axe to grind. We have talked with labour and sought their views, their earnings are at stake. The earning of industry is at a stake. If we can get together as enlightened management and trade union good industrial relations will emerge. We would not need law for this. Mr. Sangma said that by law you can never build relations. He always quotes an interesting example that "as a Christian I am not supposed to divorce my wife, that is a crime in my religion but as law there are maximum divorces in Christian community. If I am from a tribal area there is, a very simple law that you pay 60 rupees to your wife and say you only divorced and she is divorced. But not one divorce is taking place." The point is that relationship is built on understanding and not by law and rules. So we have to build relationship.

**The capital goods import** : We feel by and large we have to internationally compete then our capital goods also should be at international prices. We have suggested that for export production there should be no duty on the capital goods whether it is procured locally or for import on the basis of the cost benefit.

**The point of re-structuring** : I do not subscribe to those views because I have seen the IMF, World Bank dictates. I do not think that any of the economy models that we are developing has the dictate of IMF or World Bank. We have to

develop our own model, a model which would suit our conditions. I mean the world is only there to give some marginal support to some extent. Today when I borrow from a bank or from any institution I have to go by certain norms of loan and these norms are not only meant for me but universally for all borrowers of this. So if World Bank is giving money and they have certain norms and we have to borrow we cannot do without them, may be some of their norms have to be followed but not that any policy has been developed on that. We have to develop our model and we can develop our model.

### **Bombay and Bangalore clubs.**

There are no clubs. All clubs have vanished. The club now remains is of only one that every industrialist wants to survive in this competition. They may raise any amount of voice. I have received so many after the Budget, I have received that I should and must decry this reduction of the custom duty. But in my study I feel this is the order of the day. It cannot be reversed but right thing is for the industry to re-structure and to reduce the cost in terms of their inputs. If our power costs are high how can we reduce that, if our input costs are higher how do we become globally competitive by other methods and not by tariff wall. So now it is the market related growth and it is market dictated clubs or whatever you call it.

Now whatever they are all thinking is in terms of how to survive these. It is true that nobody bothers about iron dealers. That is why we are suffering so much and that is the biggest need today. Neither public sector did it so efficiently nor private sector did anything at all in terms of iron dealers. Confessing this thing, we have made full presentation to the Government and I am trying to convince my friends in industry also that we have to go in a massive way to have our own iron dealers. Atleast if we cannot afford that type of money which is the requirement for massive iron dealers, the minimum is that the laboratory skill could be here, it could be developed at a particular cost but the country should benefit 100 per cent out of that. We should get into this in a massive way at the earliest otherwise if we don't get on to the technology ladder fast, we will have lot of problems.



### **On speculations and cheating**

I would make humble submission. As I have admitted in the very beginning that in any section of society we have good and bad people. If we have the enlightened leadership, it is their job to weed out these bad elements. There is talk about obsession of the industry about profit. I think it is a human weakness, may be the industrialists are most obsessed it is a human weakness. But I think if we have a real good education, we would find that obsession is perhaps less. I know of so many people who have huge wealth in this country and they are migrating to America. I have questioned them that you have such a huge wealth, you live like a King; In America you cannot afford one servant, one car and one house. You have a palatial house, you have so much of comforts why are you migrating and there you are going as an employee of a company. Why? He said I do not get any self-satisfaction, here; I am bogged down under the systems here. I feel there is corruption; I cannot put up with this type of corruption; I do not like this type of rules which has got no meaning." There is an enlightenment and lot of hopes are there which will be necessary for our younger generation. I feel this obsession of profiting would go away and that is how a new country and a new nation would emerge with proper thinking. You have mentioned about several bad practices in the public place, in the capital market. I have set up again in FICCI a Committee on 'capital market reforms' to ensure what we should do in the capital market and that we cannot promote cheating of the people; Pure cheating is going on in the market; the prices are raised; investors are taken for a ride; the money is not refunded; so many bad practices but they are not universally applicable. Good people are also there, but you know many people are hand in glove. It is not only the industry, the merchants, so many people are involved in this game which is very bad. I have formed eleven Committees on various subjects which I feel are most crucial for this country and one of which is again Capital Market Reforms and there I have people who are on the Board of the Stock Exchanges and the investors and chartered accountants who understand this subject to come out with a scheme and the meeting was held only two days back and I

made very strong plea to them, to draft their rules in a manner that it leads to hundred per cent investors protection. The savings of this country should get invested in a manner that it brings larger returns and gives back the return to the investors. But the objective is a balance and the balance should be in favour of the investors. We should see their money is protected and then ensure that their money gets proper return. Industry can fail if it is not a genuine industry. It may grow or it may fail but no cheating should take place in the market place because if that is there we will be wiped out. Who would trust the industry, how can industry thrive? It is the bad deeds of a few due to which the genuine needs of the people are not taken care of. You can do good to the country and it should not suffer. Let us not allow that. I am entirely with you, that this thing should stop and I am one with you as a leadership that you want to stop these practices.

But I feel if we are in the process of trying foreign investment, we should also highlight good points of both in trade unions and industrial movements. They are good things. Let us do these good things; let us do these things jointly. This will give a different message to the society. It will give a different message to the management, it will give a different message to the industry, it will give a different message to the working class; this should be the change. If we can give that message both to the management and the workers it will bring a laudable change in our society which is the need of the day.

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## **Reforms & Bipartitism**

◆ *Subodh Bhargava*

For me personally it is a privilege and honour and to CII a great privilege to have this opportunity of this inter-action at the invitation of leaders of our very important segment of economic activity, the work force, I am especially grateful to All India Trade Union Congress for having given us this opportunity. The Parliamentary processes and statutory procedures are certainly affecting all of us but on the other side I think the only thing where we are all unanimous, is that we have a national consensus and this is a most valuable treasure and we would like not to give it up at any cost.

In December, the Minister of Industry and Trade from Israel Mekha Harsh was in Delhi. His delegation had members of the industry and he also had leading Opposition Leader. I asked him, "Mr. Harsh how is the Leader of the Opposition accompanying you." On this he said, "You know in Israel also we have as fair a democracy as in India. We have a coalition government with a majority of three and if I have brought one vote to India I thought I will bring the opposition vote with me to India, so that if there is a vote, my Party would not lose out." So they find a solution by such methods.

Just now, let me talk about the outlook of C.I.I., the entrepreneur and industry. I have no hesitation in saying in one word that the C.I.I. membership is very clear about

building up bi-partite partnership because I think a tri-partite mechanism though enforced should be used only in exceptional circumstances. In fact, if you look at any situation within the family, or even business associates, between partners it is only the bi-partite relationship which works. The Qazi, the Mullah or the priest comes to perform your marriage but then leaves the rest to yourself; he comes back into the picture when there is a dispute but does not teach you every day how to build your relationship. The relationships are built only when two people on a bi-partite basis try to understand each other, try to work with each other and if I may use the word, try to compromise with each others outlook because that is the only way we can find a common ground to work.

I think some thought sharing on the process of liberalisation is very important. Before the changes came to our mind what was the environment? The only thing we talked about was protection. Protection to the industry by licensing, by import controls, protection to small scale by reservations, protection to public sector undertakings through different measures, protection to industrial relationship, whether it is unions or the laws. When we have talked about protection, have we ever asked a question protection against whom? Protection from whom? Is it right that Indian industry was being protected against foreign industry? My humble submission to you is that this protection was against only one person, the consumer, the common man. You enjoy as if we had the good fortune of buying power whether at hundred rupees a month or one thousand rupees a month. We were not a happy customer because we were not being given protection when the government was giving protection to everybody else.

If we once again look at what the protection has achieved finally at the end of it all it made many businessmen and entrepreneurs rich, wealthy, it made many organisations rich, wealthy; many sick; but as far as the common man and the consumer in the street was concerned it meant misery. It meant lower value for his money which he was able to spend, which he earned, which he might have inherited. He always got cheated because in the market place he did not get the

right value. The industry had vested interest not to expand activities and remained in shortsighted situation because there was nobody else who could compete, who could come in and because of which industries' interest was not to expand activities. The economy did not grow; the employment did not grow.

We might talk about employment: but gainful employment did not grow because everyone's interest, vested interest was not to produce more, but to keep shortages, whether it was milk or butter or scooters or motor cycles or anything else. In other words growth was hampered; growth did not take place. The country paid for it. They had protection for all of us but the country failed. Country could not achieve the objectives which we had in mind. So my first submission is that we have to see that this time when we want to change the process we keep the customer in sharp focus. Is he going to get value? If he is going to get value, he is going to buy more. If he is going to buy more we are going to get more investment. If we have to get more investments we are going to get more jobs. If we are going to get more jobs we will be able to, on a competitive basis improve our incomes. To my mind the objective of liberalisation and reforms is only one and that is to improve the quality of life of our countrymen.

The second dimension is that income available is not good enough. You can have any amount of money. There must be easy availability of products and services. Whether you want to buy vegetables, whether you want to buy anything, whether you want to get municipal services, whether you want to get production, or education or health, there must be easy accessibility to production, products and services. If for every small thing you have to stand for three hours in a queue as it happened in some economies, including ours at a point of time, the quality of life is not as good as it would be. If you did not have to wait for it quality of life would not be the same.

The third thing you should have the money: you have the availability: you must have value for your money. You spend the money and you are given what the dealer wants to supply to you because you don't have choices. You thank him for

having delivered a bad quality product and you say fine. So I think when we are looking at improving the quality of life of people, I really need not get into economic theories of market growth, employment, trickle down effects.

I would like to share my doubts about how the industry is transforming itself because this is very important. The whole process has started by industry recognising that we have to live with competition. The competition is very well defined by Mr. Jairam Rameshwar, that "competition is only when there is threat of entry and fear of exit." It is only a threat of entry and fear of exit which makes industry to bring about best performance to its potential, to its capability. As long as that threat does not come into the system we may have tens of suppliers of products, we become cartels, we become syndicates, we do price fixing, everything goes wrong. When competition comes in, the market forces get in. Our family ladies when they go out to the neighbourhood shop to buy vegetables, they see the competition. She has choice of buying from anyone as she wishes. Has she ever complained to you? In fact, competition is so fair that the 'Thelawala' comes home bringing exactly those vegetables of quality, the price you want and she is able to exercise options. So competition is not something which India is asking for the first time. To my mind this competition has always been there and therefore the managements, the entrepreneurs have recognised that if that is the scenario then either we have to change our way of working or we have to be changed.

The workman is not seen as two hands and feet. He is seen as a human being, as a capable human being. A workman who was illiterate and worked for 30 years, is very very valuable perhaps more valuable than the engineer who comes out of the college and sits down on the drawing board. This process of building partnership between workman, the government and the management and entrepreneur is very important. I think in the past we did not think we had no competition, we had unions sitting across the table as our competitors. Today we have recognised that competition is in the market place. If I cannot face that competition I cannot

survive. Therefore workmen, the union and the management have adopted an approach of productivity, efficiency, quality, technology through a process of partnership, not through a process of confrontation.

This brings me to the issue of industrial relations and how they have been changing. I would say all along, 10 years or 15 years ago also, 90% of the problems, or 90% of the responsibility of maintaining a healthy positive industrial relation climate was that of the owner-entrepreneur-management. The fact is if there is a bad union-management relationship I think 90% of the responsibility and blame has to be with the management because management has a responsibility to create a good relationship. The 10% of the responsibility is shared by other factors. I am not saying 10 per cent are not important; 10% is critical; crucial to management. Therefore I believe that a management has 90 per cent responsibility and 10 per cent critical is elsewhere. It is necessary that we work together to resolve them. It is not possible to just say that unions have to start behaving and looking at things to work out; the management have to give up the old practice of extortion; if the managements are willing to recognise the majority share of the responsibility, partnership of working together can work out so that we can prosper together.

Coming to tomorrow's perception, what do we seek for tomorrow, what is likely to happen? I think the most important perspective for tomorrow is the inter-connection between economics and politics. I mean no aspersion here. I have full respect when I say we believe in bi-partite relationship. I say that it is between workmen and the unions one one side, entrepreneurs and managers on the other side.

I think if you recall historical facts from the days of Ramayana or even earlier period of history, not only in India but world over, it was always politics that served the purpose of economics. No kingdom, no patriarchial kingdom, no democratic system ever worked otherwise but for the economic goals for the society, improving the quality of life of the society. In other words politics served the purpose of

economics. The problem comes when economics is used to serve the purpose of politics. I am not saying politics is not required, politics is very important, dynamic democratic system it has got a key role. But I think in a transition phase this system will become a matured economic society. Atleast let us delink economics from politics. We cannot have economics serving the purpose of the politics. Once we become a suitable economic society when we can take care of poverty, then we can say how we can use politics in relation to each other but for some time we need a holiday and we do need to delink it.

In this process once again I think of two thoughts. First, I think the government has a very key role to encourage more bi-partite relationship between customer and seller, more bi-partite relationship between employees and the employers. The government has much bigger and important, a more sensitive role of being honest, macro perspective and enlightened regulator, enlightened body which will create an environment and climate to promote trust between two players and will arbitrate in a very very honest broker manner.

My humble submission is that the government, the politicians and the bureaucrats in the role creating environment have a very significant important contribution to make. If disputes are there they have to bring about a mechanism, a system because to say that human beings will not have disputes will be wrong. We will work together, we will work hand in hand but ultimately if there are disputes we need mechanism to quickly resolve them before the relations get worst permanently.

One very important issue which has been coming up is that the public sector undertakings have become an area of concern. I repeat the public sector undertakings don't have any problem of quality, of work force, quality of staff, quality of management. I think they can do it. But the basic issue is how to convert these national liabilities into national assets. It is very easy to say that they are giving protection to the employment but again I ask the question at whose cost. Protecting the un-gainful inefficient employment of a few



thousands, of a few lakhs at the cost of you and me as tax payers, because our tax rates go up as they subsidise somebody who do not deserve; on the other hand if it is not the tax payers money it is at the cost of benefits to the poor. The government should be using all that money for creating more health facilities, more education facilities, improving quality of education and health. Perhaps it could be used for giving more pension for old people; perhaps employment to those people who are unfortunate not able to get any job.

Now this money is eaten up somewhere else. We cannot be printing currency, because printing currency means inflation. If we are going to allow the government keep on printing currency because it has to subsidise where it knows his unproductive, ungainful mean you and me pay indirectly for the same thing. So, can we convert public sector undertakings to national asset and I believe in a democratic system it cannot happen unless the government equity holdings ownership comes down to 49%. It cannot happen if it is 51% and above, not because of incompetence but I think because of accountability. A Chief Executive of a Public Sector-Unit sometime is accountable to the Ministry, some time accountable to its Board of Directors, some time to some committess of Parliament, some time to Parliament itself with no disrespect to Parliament. I think what is important is that very often a public sector Chief gets contradictory messages from different people. How does he perform? In my company if the Managing Director was to tell some body to go left and the Chairman was to say go left, can my company proceed? Can it go up? If I turn him 40 degrees and my boss was to say turn 35 degrees, I don't think I will make progress. So from that point of view I believe that we need to convert public sector into a national asset through appropriate change in the accountability which is likely to happen only through change of ownership to 49%. But if there is any other model we in C.I.I. are very open to it because every other model seems to have failed. Am I using the word that everything else seems to be not delivered? We need a model which converts these things to national assets.

***Economic Policies, Development and Social Justice***

Very often you have read and talked about the debate, India versus China. I have no hesitation in saying that India ranks higher than any one else. Yes there are issues within the country. In a democracy that is inevitable.

If you look at the growth of 8% to 9% in industry this year, 5-1/2 per cent in GDP this year and the projection of the next year of a GDP growth of 6%, then it is heartening.

In other words if the GDP grows by one per cent the employment grows by .3%. In 1991-94, the elasticity of employment has gone up 0.5 per cent. The major reason is that service sector has been growing very well and also there is an export sector which has got attended service to it, packing, transportation and so many other things. So if this elasticity of employment of 0.5 per cent is a good elasticity which we have achieved in reliable number then if we grow 6 per cent to 7 per cent next year we can talk about employment growth of three and half per cent next year. If we have this growth going up beyond seven per cent we can then increase the growth in employment much more. I am not saying we have achieved everything. I think what we have achieved gives encouragement to us. We have lot more to achieve. Not only just that target. We have a long way to go and most importantly we can do it only if we work together in partnership with the workers and the entrepreneurs.

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*Replying to a question Mr. Bhargava agreed that corporate sector neglected R & D and now it should pay more attention.*

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## ***Infrastructure Sector and the Withdrawal of the State***

❖ *P.Purkayastha*

It is important to go beyond the politics conveyed through semantics of "reforms" and "liberalisation" and examine the new policy content. Infrastructure, admittedly the key element in future development of the third world, is sought to be restructured according to World Bank and IMF prescriptions. This is not to give an alibi for the third world governments but merely to point out the ideological underpinnings of the current policy initiatives that are largely being shaped by the Bretton Woods twins. This paper subjects these policy prescriptions to a scrutiny, both at the macro-economic as well as at the sectoral level.

The remarkable resonance of the Government of India's policy with the Fund Bank prescriptions has been one of the striking features of the current economics of so called "reforms". The major thrust of the Bank in the 90's is the insistence that infrastructure services should be provided largely through the private sector. The new capital investments in power and telecom should be through private capital and the existing capital base in the public sector be rapidly privatised. Further, the market should be the major instrument guiding infrastructure services, such services being looked at merely as commodities like any other, perhaps

a little more important. And such policy suggestions carry with it the carrot and the stick -- loans only to those who are willing to undertake a time bound program of privatisation through conditionalities. The Indian Government has, in addition to the above, shown some differences with the World Bank -- guaranteed returns on investments as one such "innovation" - - an unerring instinct for the worst of both worlds. While the consumers are to be exposed to monopoly exploitation without any protection, the private investor will have full protection against the vagaries of the market.

### **World Bank and Restructuring Infrastructure**

The World Development Report, 1994 on Infrastructure', (WDR '94), is by no means the articulation of a new found set of convictions. In the Power sector for instance, the Bank had already formulated its current policy in 1992 loans only for those recipients agreeing to wholesale privatisation. The WDR '94 therefore has only brought the World Bank out of the closet and allowed its earlier more closely held views on infrastructure to be subjected to a more detailed scrutiny. Earlier, such policies as the World Bank would have liked all countries to pursue, could only be worked through willing instruments such as the Chilean Government of Pinochet which automatically limited their public advocacy. The WDR '94 therefore represents the Brave New World of the 90's, an increasingly dependent underdeveloped world, finding difficulty in retaining even a modicum of dignity before the imperious Bank.

Before we go into a more detailed examination of the WDR '94, it is important to note one issue that WDR '94 does raise forcefully. Simply put, WDR '94 argues that the poor performance of the existing stock of capital already invested in infrastructure is development foregone. And as the capital stock rises, such loss is a significant proportion of future development. Bank's analysis of why such a situation exists and its remedy is of course a theological one -- privatisation will automatically solve such problems. The real issue that needs to be addressed is how the existing capital assets can be made to deliver maximally so that we do not have to

capitalise to meet demand simply because of poor "maintenance". In the Power sector today, we are unable to meet a peak demand of about 40,000 MW at the load end with an installed capacity of 80,000 MW. Obviously, increasing capacity without addressing such issues is to pump more into a leaking vessel.

In diagnosing the malady in infrastructure sector and suggesting remedial restructuring, the World Bank has worked out a set of concepts to provide the requisite theoretical underpinning. Undoubtedly, investments in infrastructure have to be more effective. The key, according to World Bank, is the introduction of competition in infrastructure and to liberate it from government monopoly. The World Bank argues for more innovative structures of delivery of infrastructure and making the system being more responsive to the stake holders. However, it ends by arguing that if the system is made responsive to costs and prices, it will automatically become more responsive. Therefore the argument that all infrastructural services should be run on commercial lines -- strictly business to be run purely for profit. The argument for competition is however, built very thinly in the WDR '94 as competition is entirely artificial in infrastructure and has to be introduced through regulation rather than the market. Therefore, the admission by the Bank itself that competition and stake holders' involvement could be considered indifferent to ownership. However, based on data available, of course only to the Bank, they conclude that only private sector can provide efficient infrastructure services.

It has been widely commented that the World Bank's contention regarding the efficacy of private sector in infrastructure services is not supported by any independent examination of Bank's closely held data. In the absence of such an independent examination, there is little validity to such claims. The Indian experience with private investors in infrastructure does not bear out the Bank's assertion. The Brazilian experience in the telecom sector before the formation of Telebras is also similar -- after the total failure of private

enterprises there, the Brazilian constitution of 1988 allowed only state enterprises to enter the telecom sector. In order to buttress a weak factual position, the Bank propounded the concept of "contestable markets in infrastructure" against the generally held view of infrastructure as "natural monopolies". Following this, the argument that the State should withdraw to a purely regulatory role and leave the actual running of infrastructure to private hands.

There are certain issues that such theories do not address. Is it possible to have a market for infrastructure in the same way that there is a market for other commodities? Given the nature of infrastructure, it is far more likely to grow as either a monopoly or at best an oligopoly. If such a "oligopolistic market" does exist, what will be the impact of a supply constrained delivery of infrastructure on the price of such infrastructure. And finally, if infrastructure is seen as an independent commercial activity, what will be the impact of a high cost infrastructure on the development process as a whole?

The creation of competition in infrastructure is the underlying theoretical premise of the World Bank's case for privatisation. It believes that infrastructure can be unbundled and large sectors within infrastructure brought under a competitive regime. Obviously, it would be difficult to sell the idea of a private monopoly in place of a public monopoly. Politically, it would be difficult to argue on the benign nature of private monopolies -- the memories of the people are not that short that they would have forgotten that private monopolies are even more callous. In the packaging of private ownership, it is imperative therefore that it be sold along with competition. This would allow peoples' alienation from large state monopolies to be channelled for private sector entry. Once this takes place, it is a matter of time before the entire infrastructure sector passes into private hands.

### **Withdrawal of State from Infrastructure and its Impact**

The nature of class forces that seek to privatise infrastructure -- the forces behind the Fund-Bank axis -- has been analysed recently. Briefly put, it has been argued that

there has been growth of liquidity in the West due to a number of factors. This liquid capital seeks to appropriate cheaply assets created in the public domain -- this is the thrust behind privatisation of infrastructure world over. In the third world, the additional impetus comes from the nature of demand. In the 90's, the growth of electric generating capacity in the third world has overtaken that of advanced countries. Similarly, in telephone switches, with a coverage of more than one phone per family in the West, the demand there has virtually saturated. The manufacturers are therefore desperate to expand in the third world.

It is not necessary to repeat the above arguments. The examination here is focused on the implications of the Fund-Bank policies on the infrastructure -- particularly power and telecom. The withdrawal of the State from infrastructural services has serious consequences for the entire economy and in redressing inequitable development both in regional and sectoral terms. Earlier, the provision of power, telecom, transport, irrigation, etc., had been considered pre-requisites for economic growth. Under conditions of large supply deficits, private sector investments in infrastructure does not lead to any competition but only to growth of monopolies and consequently high cost of services. The high cost of such services means that only a handful of people will be able to avail of infrastructure facilities, widening even more the social disparities. Further, such investments will tend to concentrate in areas that are relatively advanced, skewing the existing regional imbalances even further. With high cost of infrastructure, access to vital requirements for industrial and agricultural growth would be further constrained, leading to increase of existing disparities and lower growth. The threat of withdrawal under conditions of shortages would cause the state's regulatory role to buckle. With a high cost of infrastructure, the third world economies would find it very difficult to be competitive internationally. Construction of "safety nets" as advocated, are merely palliatives and no solution to such disparities.

The arguments advanced above are not new. It was with this perspective that the state was forced to intervene in infrastructure services. In India, the power companies were

largely in private hands and had very little will or inclination to expand the electric supply. It was in this context that the Indian State entered power development in a big way from the 60's to enable industrial and agricultural growth. In Brazil, there were a large number of private companies that were active in the telecom sector. However, the abysmal quality of service forced the Brazilian State to intervene and create Telebras which finally took over the entire telecom services sector. In 1988, the Brazilian Parliament passed its constitution, incorporating the provisions that only the state and state run entities can offer telecom services. The South Korean example is also very similar where the private sector in power generation had to be nationalised in the 60's due to its repeated failures. The current World Bank solutions are therefore not a new perspective on infrastructure but the repetition of a strategy that had already failed earlier. The only new element is the proposal of unbundling infrastructure in each area and introducing competition.

The introduction of competition in infrastructure and privatisation will automatically ensure economic efficiencies hitherto lacking in the state run public utilities -- this is the core of the Fund-Bank argument. The degree of competition is therefore crucial to the argument and unbundling of infrastructure is a pre-requisite to the introduction of competition. The utilities have generally been considered natural monopolies and competition has been historically absent in these sectors. The 80's have seen a re-look at some of these fundamental premises and it is now being argued that competition is possible in these areas provided the state and regulatory authorities help in introducing competition. Anti-trust action in US and concepts like "transmission access" have opened the way for more players in power generation, telecom, etc. In UK, ideological imperatives led to restructuring of the power and telecom sectors introducing a certain element of unbundling and competition. The restructuring globally of the 90's, owe their origins to these actions in US and UK. We examine below the current reforms that are taking place in the advanced countries in order to examine the validity of such concepts for India and the third world.



Utilities like power, telecom, etc., have clearly defined economies of scale. Further, the integration of a power grid makes it possible for smaller margins to be maintained in the system and a much greater security of the overall power system. Transmission and distribution networks have generally been a part of such vertically integrated utilities. The transmission and distribution networks require "right of the way" that had to be legislated by the state. It is easy to show that it is prohibitively expensive to duplicate an existing distribution network. The transmission system has very large economies of scale and costs of incremental increases are much lower than putting up independent transmission lines. The ownership of the transmission and distribution networks led to the growth of monopolies, as the owners of the networks could freeze out any new power generator. World wide, the power systems were such vertically integrated monopolies. In US these monopolies were private while in most parts of the world, they were state run utilities.

The reforms in 80's changed the above picture substantially. Under the Thatcherite reforms in UK, the distribution systems, the power transmission system and the power generators were unbundled into separate independent organisations. These organisations were then privatised. Any power generator could then get transmission access and supply to any distribution agency, or even to a large user. In US, the utilities were privately owned and were asked to provide transmission access to Independent Power Producers (IPPs) leaving their original ownership pattern and vertically integrated structure virtually intact. The introduction of a limited competition in generation in US and UK came only after the possibilities of technical efficiency improvements in the system through integration had been exhausted. The method chosen in US was to force the utilities to buy power at avoided costs. In UK, power quotations are given every day for the next day and the regional power distributing authorities choose the lowest bidders for their next day's sources.

The Bank prescriptions and the current drive towards transferring public utilities to private hands have UK as the

role model, even though the market in UK has not developed any real competition. It is dominated by two major generators -- National Power and PowerGen. The resulting duopoly has resulted in high price of power and huge profits to the electric supply industry. As the transmission and distribution are in any case monopolies, the case for competition exists only for the generators. In US, the utilities set up separate companies as Independent Power Producers. Under the PURPA legislation formulae of avoided costs, there were price advantages to newer generating entities if set up under the guise of Independent Power Producers. The case for competition having benefited the consumer is not supported by facts in either UK or US. The anger of the people in UK over the monopoly prices and consequent huge profits made by the power companies are a clear indication of this. Nevertheless, it has now become an article of faith for the Bank-Fund school and their monetarist followers that competition inevitably lowers the prices, even if it is not borne out by events.

However, while the consumer has not seen a lowering of power costs due to competition, the change of the ownership in the case of UK and examination of costs of new power generation in US as a fall out of PURPA Act, did lead to scrapping of nuclear power plants for both US and UK. It became clear that the vertically integrated monopolies had been able to hide the high cost of nuclear power, particularly in the capital servicing and decommissioning costs. Though UK and US had a highly efficient Electric Supply Industry based on technical parameters, they had significantly higher costs due to the uneconomic nuclear option they had both heavily relied on. As these costs were lumped with the rest of the system and not transparent, they could continue on this path for quite some time. The nuclear route was abandoned once the pricing of alternate sources of power became clear and the actual decommissioning costs were taken into account. In economic terms, though the productive efficiencies of the utilities were high, the allocative efficiencies were low. The allowing of limited competition in US and dismantling the existing structure in UK had therefore this unintended benefit. More so, when it is realised that the

arguments for privatisation and competition had been based on increase of productive and commercial efficiencies and not allocative efficiencies. In UK, before privatisation it was expected that the Nuclear Power portion of erstwhile CEGB would attract a large number of bidders. In reality, this proved the least attractive to the investors.

Competition in telecom has again its origins in the economies of scale and "right of the way" legislation created earlier. The telephone companies were vertically integrated monopolies, having long distance as well as local telephony. Apart from North America and a few isolated cases, the telecom sector was generally in Government hands. In US, it was with AT&T, who were also switch manufacturers, introducing an extra element of monopoly. The equipment manufacturing, the long distance and local telephony were all with the same company. The technological changes introduced in the 80's was to change this picture. It became possible to ride piggy-back on a telephone network to provide other services -- E-mail, data services, etc. These were called value added services. Technologically, it also became possible to provide voice telephony through other routes -- wireless, satellites, etc. The monopoly power of the telephone companies was perceived to be a threat, particularly as more and more economic activity hinged upon the new communication methods. Unbundling was the first step. Value added services were offered by others either through leased lines or through dial up facilities. Separation of long distance from the local services was the next step. In US and UK, limited competition has now been introduced in long distance telephony. However, apart from very limited competition in UK, no country has allowed parallel local operators through local land based network. The economies of providing an extra connection in an existing network prohibit such a duplication, apart from the problem introducing another operator with its right of the way.

Competition in telecom services, particularly local voice telephony, is generally being introduced using alternate technologies. Thus wireless, either fixed or mobile (cellular), and the cable network can be used to provide competition to

land based networks. As the telecom sector is regulated, the current regulatory and legal battles are for allowing cable operators to enter telephony and the telephone companies to enter cable TV using their existing networks. Here also, the Indian twist is to try and create a parallel land based local network -- a wasteful duplication of scarce capital resources that has not been attempted even in advanced countries with much higher revenues per line.

### **Unbundling Natural Monopolies and Rebalancing Costs**

The key to unbundling natural monopolies and introducing competition is regulation. Unlike other areas, where one can argue that regulation is required to prevent monopolies, in infrastructural areas, competition can only be enforced through regulation. If prevention of monopolies is a policing task in other areas, here active intervention of regulatory authorities is required to create competition. The introduction of Mercury as a competitor to British telecom was a political decision of the Thatcher Government. Mercury is a classic case of artificial competition. It was created by Margaret Thatcher's Government by bringing together Cable & Wireless, British Petroleum and Barclays' Merchant Bank. It was a planned Government initiative. And to make it succeed, British Telecom was forced to carry all the social subsidies while Mercury secured a segment of most lucrative long distance traffic. Mercury's competitive edge was really the British Government's intervention on its behalf-- intervening in the market in order to prove that markets are best judges of performance. The US regulatory scenario is no different. If the regulator does not impose the terms for competition, the larger and more established operators would easily freeze out the new entrant. Countries like New Zealand, who believed in their wide eyed optimism about the beneficial effects of open competition, have learned to their costs that without regulation there can not be any effective competition either.

Similarly, in the power sector, there is a need to match the grid withdrawals with power generation: Co-operation is a necessity and the natural state for the Electric Supply Industry and competition can only be introduced with

regulation . Thus the regulator must ensure that the power generator is able to get access to the electrical network of others at a reasonable cost. Again, competition has to be introduced artificially in the system.

An essential part of introducing such regulated competition, is to price each sector of infrastructural sector of services and disallow cross subsidies. As competition can only be introduced in certain parts of the hitherto integrated infrastructural services, each such segment must be priced independently. To make for fair competition, each segment has to be commercially viable and using revenues from one area of activity for another area of operation is forbidden by the regulator. Therefore unbundling infrastructure goes hand in hand with removal of cross subsidies.

Cross subsidies are not only a part of state run monopolies but provide the underpinning for all infrastructural services, whether private or state run. There is a sharp difference here between economic sense and commercial sense. If cross subsidies are withdrawn, the rural electrification or rural telephony is not viable. Yet providing these facilities to rural areas is not only a social obligation but makes for hard economic sense. The provision of cheap electricity and extension of the rural electrification program had much to do with the food security we have achieved today. Similarly, if the rural areas and semi-urban areas are connected by a good telecom network and provided with secure electricity supply, the resulting development would correct the gross regional disparities and the pressure on urban areas. However, none of these can be justified commercially from the stand point of the Electric Supply Industry or the telecom sector but have to be imposed externally on the infrastructure provider for larger economic and social goals.

The second sets of cross subsidies pertain to provision of low access costs for infrastructure. Commercially, the larger consumers should get a discount on electricity prices or on their telephone bills. However, generally, the infrastructure services are provided at low initial costs with higher costs for higher usage slabs. Thus telephone connections are provided

at very low costs and the first few calls are charged at lower rates. Similarly, the electricity connection is provided at low initial costs. A commercially viable outlook would make the access costs so high that these would be the privilege of only the elite. This deprivation of services would be a fetter on development as larger and larger sections would lose their ability to compete for development. And this would ultimately hamper the growth of demand in these infrastructural sectors.

Let us take the case of telecom services. Currently, the local calls cost less while long distance calls cost more under a policy of cross subsidisation. This is not specific to India alone but is practised widely. AT&T did this in US when it was a monopoly operator with the logic that a low telecom access is important in generating a higher traffic. A well-off son could call up retired parents and generate long distance traffic only if the parents had telecom access. Therefore cross subsidisation to provide cheap connectivity is not an altruistic measure to help the poor or the needy but merely a mechanism of generating more revenue. When almost all homes are covered, this method of cross subsidisation does not have much meaning and a change in tariff philosophy to reflect true cost is possible without affecting traffic volumes. However, with the extremely low telecom penetration that we have in India today, telephone access at true costs is bound to impinge upon the growth of traffic itself and possibly affect development. However, unbundling of local and trunk operations as is being proposed under the new policy, will have to lead to a re-balancing of tariff -- local tariffs will rise while long distance rates may go down. While cross subsidisation may be continued initially by giving the local operators a larger share of the long distance traffic originating within their network, there is little doubt that such subsidies will reduce over time leading to increase of local tariff. Mexico has seen a four fold growth of the local tariff after such unbundling.

Operating infrastructure commercially is the refrain of the World Bank and similar international institutions. The developmental costs and social costs of these measures are not even addressed by the Bank with its blinkered vision.

While it is not difficult to understand the arguments emanating from such quarters, it is more difficult to understand the logic of their Indian counterparts. The costs of increased social and regional disparities led to the Chiapas rebellion and the Mexican collapse. Social factors in the market place should find a place in economic thinking. Economics is finally political economy and sooner the policy makers understand this, the better it will be.

The other disturbing element of the Fund-Bank policies is that one universal solution is being proposed for all infrastructural services for all countries irrespective of their stage development. Competition and privatisation for the underdeveloped countries on the pattern of UK is being advocated by the Fund- Bank agencies as a universal panacea. The advanced countries moved into selective competition in Electric Supply Industry and telecom after they had achieved the economies of scale and advantages of integration of their systems. It was only when the technical efficiencies of integration had been exhausted that the advanced countries looked towards competition in selected segments to improve economic performance. Here also, they have been careful to restrict duplication of resources opening the sector out to competition either through alternate technical media or unbundling. Thus, in Electricity Supply, only generation has been opened for competition. In telecom, the major competitive avenue is to provide competition through either wireless or cable networks. Such competition has come about when there is already a very high degree of coverage and also revenue per connection.

The underdeveloped countries are distinctly different in this regard. In India, we have yet to achieve 5% of the telecom coverage achieved in advanced countries. The Indian grid is not only not integrated but even with this partial integration, there is no grid discipline. Without first achieving even such basic milestones, how valid is it to talk of competition? In South Korea, the private utilities had to be nationalised not due to any ideological compulsions but out of a sheer inability to impose such discipline on them as required by the grid. To propose a dismantling of the state run infrastructure at this

stage of development would seem foolhardy. Yet this is the solution that is being imposed on the state run infrastructure sector.

### **Efficiency and Infrastructure**

The most important reason for a lack of resistance to the dismantling of the state run infrastructure has been the complete alienation of large state run enterprises from the people. This has led to the argument that state run enterprises are inefficient compared to private ownership. Amongst people suffering from a completely insensitive bureaucracy, any solution that promises to get rid of them strikes a ready chord.

Undoubtedly, if efficiency is to be measured in terms of customer satisfaction, the state run infrastructure services have not exactly covered themselves with glory. And if the policy of privatisation of national assets is to be reversed, measures will have to be devised which provide a better delivery of services. It may not take much time for the people to realise that a private monopoly has no reason to improve services either. This is the reason that while World Bank and other such agencies have held out UK as the model for privatisation, the British people have rejected privatisation as a solution to their problems of infrastructure. A number of sample polls have found that four fifths to two thirds of the people oppose the privatisation of public infrastructure in UK. However, this negative support for state run infrastructure can turn to positive support provided infrastructure services can be made more responsive to people.

Efficiency in infrastructure has various dimensions. One can define efficiency in terms of producing the maximum physical output at lowest cost. Or one can define it as maximum output on a given capacity. One can also define it in terms of commercial efficiency -- earning a maximum rate of return on investments. None of these are entirely satisfactory and if used singly can be quite misleading. Unfortunately, commercial efficiency is held by the dominant orthodoxy of the World Bank variety as the only criteria for measuring efficiency, others presumably being merely derivative of this "fundamental" efficiency.



An example will make the distinctions between various forms of efficiency clear. In the power sector, it is possible to produce power such that capacity utilisation is maximised. As we have generally a deficit in supply over demand, this is socially desirable even if it is not the most commercially sensible decision for the utilities. It is also possible to consider another measure of efficiency -- producing power at minimum costs. Either way, the plants will be run most efficiently in terms of utilisation of existing resources. But in both cases they may still not be commercially efficient if the selling price is kept low. In such a scenario, producing power most economically will be less commercially efficient than producing less power at a higher cost with a high selling price. Considering that power supply is a monopoly as already discussed, commercial efficiency only means the ability to jack up prices rather than an efficient utilisation of resources. Obviously, commercial efficiency as the sole parameter produces systemic distortions without advancing either technological innovation or increased productivity.

In most countries, infrastructure services are monopolies in spite of Bank's belief that competition can be introduced through unbundling. The regulator sets the terms of competition and also fixes the prices. Apart from UK, the prices are generally maintained on a cost plus basis, therefore ensuring that these sectors are commercially "efficient". In UK, the regulator sets a five year price cap adjusted for inflation. In order to encourage efficiency, the companies can keep the extra profit if they can reduce costs. In order to encourage technological innovation, the price cap is not fully adjusted for inflation. The net results of the UK pricing have been huge profits that the utilities have made in the last few years, increasing greatly the popular discontent against privatisation measures.

The costs plus and sliding price caps have been the only two measures that are used to calibrate efficiency in real terms. More esoteric measures have also been worked out to identify improvements in functioning of organisations. Depending on the ideological choice of the authors, these

indices can be made to speak for any set of convictions. Thus in the case of UK privatisation, British Telecom is shown to have made "huge improvements" by these indices while British Gas and power utilities are shown to be on par with state run services like Posts and Railways . A more reasoned approach may identify the cause of British Telecom's improvement to the tremendous pace of technological change in telecom sector. This is particularly reinforced when it is realised that technological change in gas and power has been minimal. It would be interesting to compare the performance of British Telecom and Government run telecom services of other countries to see whether such improvements are due to reorganisation of British Telecom or due to more secular reasons. One would suspect that even the Indian telecom services would show similar improvements confirming that the growth of performance has been more due to technological changes rather than competition and privatisation.

The above is not to argue that efficiency is not a criterion in evaluating the performance of infrastructure but to point out the difficulty in finding one measure of efficiency. If we take the case of power, Plant Load Factor (PLF) is assumed to be a good measure of the physical performance of the thermal power stations. However, the Plant Load Factor depends on the load curve and with a load factor of around 60-65%, can not be more than this in a power surplus system. Efficiency may be measured by plant availability but this ignores whether power is being produced economically or not. And for the consumer, the continuity of supply and its quality are as important as the amount being supplied. Thus in a system, the consumer may be supplied 95% of his needs but face a number of interruptions. This may be considered worse than being given power equal to 90% of his needs but given without interruption except with advanced notice. The problem of finding a measure of efficiency is one of reducing a multi valued parameter to one specific number. In the case of World Bank and others, it is commercial efficiency while the Indian Government has tended to view the PLF as a sole criterion of efficiency. The consumers view of efficiency is quite different and is concerned with how well his needs can be met by the

system and at what costs. A solution that provides a high cost power or power cuts can not be attractive to the consumer.

In large scale re-organisation that is now being introduced in the power and telecom sectors, the concern for the consumer is not even on the agenda. The Electric Supply Industry is being restructured to make it commercially viable with guaranteed profits for the private investors. Similarly, the entire thrust in telecom is how to make private entry more attractive. Obviously, the overriding consideration is one of ensuring profits, the consumer being merely a cipher. It is this mind set and these interests that are setting the framework for the reforms in the infrastructure sector.

The task before us is not merely to revile the current reforms as pro monopoly and pro multi-national as they undoubtedly are, but also project the true agenda for reforms. In such an agenda, the workers and the consumers have to come together to chart out the future. The existing rulers have surrendered their prerogative to formulate future paths, mired as they are in policies meant to bankrupt the nation. The Government has started shouting from the roof tops of their inability to run the infrastructure sector. Instead of handing these over to private and foreign capital, why do not they agree instead that they are unfit to rule? At least history will then remember them more kindly than as a set of carpetbaggers who helped dismember India.



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## **Growth, Structural Adjustment, Food Security and Hightech**

❖ *K.N. Kabra*

For a long period, broad national consensus on economic policies and plans have been managed and a common reference point for development debates has been obtained on the basis of a near universal acceptance of economic growth, i.e., growth of per capita output flow. This has been fortified by maintaining that its benefits trickle-down to the neediest, or else, the resources generated by growth can be used for pulling up the weak and the poor to acceptable levels of living.

Neither theory, nor facts support this view. What the market does by way of spreading out the growth dividend is more than compensated by the centralisation and concentration in the economic sphere and its impact on other spheres, like politics which weaken the trickle down. In any case, with the continuance of existing institutions, there has not been enough of growth to trickle down. In addition to similar factors inhibiting "pull-up" of the poor through the McNamara-Mahbul-ul-Haque variety of anti-poverty programmes, the administrative, cultural and fiscal factors place several limits on these programmes to light up the lives of the poor. These programmes then remain part of the democratic deceit through which power is legitimated and preserved.

Growth of output is not an end in itself. It is inextricably tied-up with the control over savings, credit, capital markets, investment, technology, organisational and managerial skills, which are highly concentrated and used for narrow, sectional interests making growth involutory. Growth as prime and overriding objective, then, becomes a means for furthering the existing structures of inequity, differentiation and the resulting marginalisation of the masses.

This has implications for the sectoral pattern and commodity composition of growth, which breeds inequalities, excessive degradation of natural resources, dependence on those countries which are early industrialisers and are presently looking for markets for their finance, life styles, outgoing technology and consultants. Little wonder, the US has pleaded powerfully for making the third world accept per capita output growth as the guiding star of so-called development policies and plans and treats the nationalistic urge to respond positively and powerfully to the needs of the poor masses as a threat to her domestic interests and global hegemony.

The social forces committed to justice and welfare must move away from the primacy of growth and treat it only as a consequence, and a necessary one which must come as a result of the policies and plans which directly empower the poor masses by means of regular and growing participation based on their own decision-making, in economy, polity and culture and in a gender and ecologically sensitive manner.

The unprecedented growth of financial resources in the hands of the MNCs and the financial markets of the OECD countries has created a built in stake on their part for making the third world follow the path of structural adjustment. This gives primacy to the external sector, generally a tiny one, in determining the third world policies which lead to (i) creation of capacities to repay the external debt and (ii) continued borrowing from the OECD countries on unilaterally favourable terms.

Thus the structural adjustment programme (SAP) is basically a means for ensuring debt servicing and continued

growth of the unilaterally dominated international financial markets.

Coming to the question of food security, it must be realised that the Green Revolution (industrialisation, marketisation and kulakisation of agriculture) implied primacy of national level food production by new technology under the control of the big farmers in areas of assured irrigation. It increased the cost of production and combined with price support policies, made the food prices unaffordable for the poor who had but marginal and declining participation in this growth process. Hence national or macro food security was obtained by at the same time endangering micro or household level food security for the poor households.

The PDS was thus a necessary by-product of the Green Revolution strategy of unleashing unbridled capitalism in the farm sector. It is well-known, how a variety of interests came together to sabotage the PDS and thus make it a mere top-down, tout ridden token programme. The PDS has failed but the PDS must succeed.

**High Tech** : High value for high-tech is a by-product of the growth first strategy discussed and exposed above. Technology too is a means and not an end in itself. It is absurd to think that the latest is the best. It becomes perniciously absurd when the latest is also the costliest and the most exclusive. Technology must answer the needs of the people, produce use-values in the most effective way in order to give people the means to enjoy what they produce. To treat the latest and the most grandiose as the most desirable one is the very anti-thesis of science and scientific thinking, which is supposed to be the foundation of technology. Infact, the very term high of tech implies that it is contrasted with 'Low' technology presumably the out-dated and obsolete as also less complicated, less sophisticated, smaller in scale and less grandiose. None of these features have a bearing on the relevance and utility, the benefits and costs of technology and their sharing as also the manner in which it changes the social relations and social power balance.

Technology implies application of the scientific advances to practical problems and for their use in a variety of ways. Obviously, it must have appropriate social problems and propose their practical solutions. The R & D organised by the MNCs and the military-industrial complex is highly sectional and profit motivated or geared towards destruction. It may be the most sophisticated technology-with a high degree of complexity which accomplishes bewildering feats of great complexity. But it may not have anything to offer to the common man. On the contrary, such high tech leads to mis-allocation of resources, ecological degradation and pollution and exposes humanity to several risks. One must say thank you, we do not need such an asocial and antisocial high tech. No amount of admiration and obsession with the development of productive forces can justify such a blind faith in technology. Let society determine the uses or applications of science i.e., technology. That would be the right, the appropriate technology. We know the sputniks, satellites and space travel not to speak of ICBMs could not ensure the survival of Soviet Union-nor are the MNCs with high tech going to be the saviours of humanity. Let us not be averse to appropriate technology but rather join the grand social debate about specific appropriate technologies for specific purposes and times. Otherwise the Frankenstein of technology may destroy its own originators and admirers.



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***Economic Policy, Development and  
Social Justice  
Creeping Crisis of "Free Market"***

❖ *Kanai Banerjee*

We are exercised over the so called New Economic Policy of the Government. We have been carrying on agitation against the policy in view of its disastrous consequences for the working class and the nation as a whole. We have successfully observed several general strikes, have mobilised other sections of population and together we have observed Bharat Bandh, held massive conventions and militant demonstrations. There are instances of successful resistance in specific cases of govt measure in implementation of the policy. No doubt our opposition has succeeded atleast in retarding the pace of implementation of NEP. But can we claim that we have succeeded in stalling altogether its implementation or to force the govt to reverse the policy? No, we have not so far been able to develop that kind of massive struggle which might force the govt to abandon this policy. Is it due to lack of response from the masses? Looking at the participation of workers and others in successive strikes and various other programmes it would not seem reasonable to conclude that there is real lack of response on the part of the masses. Serious review is called for before we reach any conclusion. Again, is the possibility of doubt, confusion and

lack of confidence on the part of leadership totally ruled out? It seems some soul searching on their part is in order.

### **No cause for diffidence**

To be sure this workshop is not the place for the review or for self searching. Yet I believe that the question I have just raised will not sound quite irrelevant to my trade union colleagues. I feel it is possible, at least I do not think it entirely impossible, that some over-estimation of the potentiality of the so called free market gives rise to doubt in the minds of some, undermining the confidence in the possibility of success in our struggle. I therefore propose here to substantiate the proposition that the inherent contradictions of the so called free market are pushing it at the global plane towards the brink of catastrophic disaster. Whatever may be its position in the very short run, serious vulnerability is developing to overtake it on world scale in not very distant future and therefore we need not allow our confidence to be undermined by any assumed invincibility of free market forces at the national or international level. While growing poverty, unemployment and inequality with all attendant social ills are sufficiently indicative of the approaching crisis, sudden alarm in a section of the free market camp itself provides strong confirmation.

### **Policy, Development, Justice**

The free market blues of today want us to forget history. But history does not forget. The slogan of free market is not new, it is history that this was the birth cry of capitalism: no govt interference in economic process, let the "invisible hand" work in freedom, it will take care of growth. This was their philosophy. Policy would simply aim at ensuring uninterrupted working of market forces. This worked for quite some time. What the free market heros want us to forget particularly is the fact that free market policy did not and could not work forever. The logic of free market itself inevitably landed the capitalist economy in crisis ultimately culminating in the great crisis of 1930s, and in order simply to survive capitalism sacrificed the so called freedom of the free market. The govts were given a positive role in economic affairs and

the world got counter cyclical policies with the goal of stable growth for full employment. it is only govt's positive role that could lift the capitalist world from the morass of crisis and state action alone could sustain growth and maintain employment. When there is world wide orchestrated campaign to sell this free market ware, can we afford to forget the lesson of history as to where does free market lead to?

During the free market phase, the idea of growth measureable in terms of National Income and per capita income dominated. When the term development was used, it was used practically inter-changeably with growth. Growth of national income invariably meant growth of profit in free market structure, growth of property for the propertied classes. What more and what else did the free market wallas care for. However when crisis began to break out employment became a matter of concern.

Development acquired distinctive content later in the context of planned effort to raise an economy at a low level of development to higher levels. It will perhaps not be an exaggeration to say that the idea of economic development with its present content owes its origin to Soviet Union with her socialist planning. Development became synonymous with development planning . Many colonial countries which emerged as independent countries after the second world war adopted some variety of development policy for raising the level of their economy from colonial stage to higher level. Direction of the process could not but rest with the govts of the respective countries.

Originally development in these countries was also being measured in terms of indicators like National income and per capita income, etc. But in poor countries unemployment, poverty and inequality caused concern. In Soviet Union and partly in other socialist countries, by developing the concept of development to its logical end could effectively solve the problem of unemployment and gross inequality. But the non-socialist countries, unable to take decisive step to eradicate vested interest and subjected to neocolonialist pressure failed

to solve these problems. National income started growing but unemployment and poverty also grew. In the mean-time recession in developed capitalist countries was also aggravating unemployment, poverty and inequality. These began to grow as potential threat to social stability of the capitalist world. In this background the concept of development was to be given new content. Human development, that is, development with social justice was replacing the simple concept of development.

With the collapse of socialism in the USSR and in other East European countries, the rich countries led by the US launched a new offensive with a degree of aggressiveness not seen in recent past to solve their own problems at the cost of weaker countries of the third world, though the effort with relatively less intensity had always been there. The IMF and World Bank are the most powerful weapons in their hands. But thanks to the inherent contradictions of the system, this aggressiveness has only further aggravated the situation. Known facts about the situation that has developed, and is still developing, in the countries where the IMF-World Bank liberalisation and globalisation policies have been imposed together with the situation in the rich countries themselves are indicative of the crisis towards which the capitalist world with its so called free market economy is heading.

Almost sudden awakening of institutions like U N, ILO and similar others to the problems of humanity, — the institutions which are ardent advocates of the so-called free market policy, to the misery of millions, their concern for development with social justice, all this are in the set historical pattern: When serious threat develops to the system they stand for, certain sections, some agencies and institutions from within the system come out with palliatives. One cannot fail to observe that for several years the UNDP a wing of the UN has been publishing Human Development Report. Human development indices have been evolved and the document is reporting annually the situation in countries in respect of 'human development. In national arena also we hear of structural adjustment with human face. Unique in this regard

is the holding of the social summit by UN, the forum which stands almost completely hijacked by the United States for using it for its purpose of world domination. A wide network of so-called NGOs are also being developed for use in defusing explosive potential that is being generated in the world. Recently the ILO which had been, and still is, making strenuous efforts to sell the structural adjustment programme has now suddenly become alive to the plight of the world working class in the free market regimes not only in the poor countries but in the richest as well. This, if not anything else, confirms that the capitalist world is being fairly rapidly pushed to the brink of a disaster. It is the historical task of agencies like these to sound alarm before disaster overtakes the system. We should not fail to take the message. Not only the system has not grown invincible, it is developing extreme vulnerability.

### **Today's World in ILO's Image**

In a recent ILO publication many aspects of today's reality, the impact of the liberalisation, globalisation programme, has come in sharp relief as was never seen before. "Never before have the means of producing consumer goods been so successful. Never has the number of those excluded from sharing the enjoyment of these goods and services been so high. This statement prefaces the report of an interview with Gerry Rodgers, Director of the ILO Multidisciplinary Team in Santiago-de-Chile. Perhaps the impact of accentuation of the inherent contradiction of free market could not be better expressed. The interviewer asks: All around the world including in the economically advanced countries, the gap between rich and poor seems to be widening. What in your opinion are the reasons for this evolution?" "One of the reasons" said Rodgers in reply, "is intensification of competition in the World Economy which tends to lead to polarisation of income. Gains from success have been growing, but there are many losers who remain enclosed from the benefits of economic growth."

All societies have rules and institutions to control the adverse social effects of unregulated market forces. But such

institutions aimed at basic standards of security, for instance face increasing criticism on the grounds that they lead to economic inefficiency. The increasing influence of this view has surely contributed to increasing inequality"

Apart from the report of the interview the magazine also contains wealth of information regarding the state of the world which, though not quite new to us, nevertheless present a complete picture of the free market world rushing towards doom. It is difficult to resist the temptation for presenting the picture. Let me quote:

At the end of 1994, some 1.3 billion persons in the World were living in absolute poverty; half of them were in South Asia, a quarter in East Asia, and 16% in Africa. It is estimated that half the population in Africa lives below the poverty line.

The absolute number of poor in the world has in fact increased, as well as the differences in income. The gap between 20% of the world population at the bottom ladder and the 20% of the richest has increased from 1 to 20 in 1960 to 1 to 60 in 1990.

The most deprived populations are mostly rural. They are victims of chronic under-employment, constrained to survival activities and generally working long hours for paltry salaries.

One should not be mistaken. This situation is not entirely confined to the Third World. Let us have a look at the richest country of the world: "Although the US economy has rebounded from the recession and unemployment rates are relatively low, jobs are precarious in nature and the average income is falling.

Upward swing in poverty continued in 1992 despite recovery. Poverty rate of blacks reached 33.3% in 1992 Hispanic rate 29.3%. In 1992 one out of five American children were poor. For children in general the rate was black 46.6%, Hispanic 39.9, white-16.9. or black children under 6, the rate reached an alarming 53.4%.

In late 1993 the rate of unemployment was Black 12.9%, Hispanic - 10.6% and White-6%.

### **Former USSR and East Europe**

We get some information about condition in Eastern Europe after demolition of socialist economy. It is worsening in the former USSR due to rising unemployment, official or hidden, and the absence of social protection system. Real rate of unemployment is five times higher than official 2%, one third of the employees are hidden unemployed, victims of practices such as employment without pay, long term leave, production stoppages and short term work. About one out of every five worker is on administrative leave ... In the industrial city of Ivanovo 40% of the workers have been laid off without severance pay. Employment in industrial sector dropped by 8% in one year and 40% of the production capacity is idle. Poverty has risen alarmingly.

In 1994 in 12 European Union Countries, 15% of the population is living below poverty line, about five million people are homeless.

World Bank special correspondent reports from Argentina:

Notwithstanding two positive features, viz, stability of currency, inflation under 4% and GDP growth 32% in 4 years, "Serious paradox is casting its shadow over what some venture to qualify as an economic "miracle"—highest unemployment level in history; May '94 10.8% of economically active population(40% of total population); beginning of '95 -13%. Under employment 10.2% of active population. 40% of 14 million active population facing risk of losing their jobs or other problems. Marginalisation is on the rise and a segment of middle class—traditional bastion of Argentina society is becoming poor.

Nobel Laureate Perez Esquiral states, a veritable social polarisation is in progress. Esquiral says, no lack of financial resources but concentration of wealth.

### **The latest ILO Publication World Employment 1995 states!**

Absence of policies to help minimise social cost and maximize social and economic benefits puts at risk the potential benefits of globalisation placing them beyond the reach of millions of workers around the world.

Unemployment in most industrialised countries has reached levels not seen since 1930s and an increasing percentage of that unemployment is long term. Developing countries with the exception of the most dynamic Asian Countries - and transition economies are even more severely affected by poverty, underemployment and unemployment. An entire continent - Africa- has been marginalised. Social exclusion has become a fact of life in both rich and poor countries.

In the view of the ILO, "The current world employment and social situation does not provide a favourable starting point for embarking on the gigantic process of transformation".

The picture presented by ILO is itself a loud proclamation of the approaching doom of capitalist free market. If one has any doubt, the fact that hue and cry of a sort has been raised in the camp of free market itself is a confirmation of it. Even the forums of defenders of so-called free market, liberalisation and globalisation are not themselves feeling secure, they have raised an alarm. This is a sure index of vulnerability of the system sought to be brought about all over the world. There is no valid reason for lack of confidence in ultimate victory.



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## **An Agenda for The Indian Trade Union Movement**

•♦ K. Ashok Rao

### **The changed co-ordinates**

Since 1991 the most significant change has been that not withstanding the fact that India is a sovereign democratic Republic, assertion has replaced debate; national perception of the internal developmental strategies have been replaced by international perceptions.

Increasingly structural adjustment has come to imply the changes imposed on Third World countries by a consortium of powerful capitalist countries acting through the IMF, the World Bank and now the WTO - institutions which are by statutes controlled by the powerful capitalist countries.

Since 1980, more than 600 programmes of stabilisation and structural adjustment, stagnation, misery and indebtedness has been imposed on 70 countries.

### **What is structural Adjustment?**

Structural Adjustment programmes have to be looked at within an analytical framework. The Center keeps on constantly optimising its interests in response to various economic crisis, caused by various factors such as new technologies or worldwide finance capital, and the peripheries are forced to "adjust" themselves to ensure this optimisation.

The history of the periphery is increasingly becoming the history of a never ending "adjustment" to the demands and constraints of dominant capital (the center). And by definition priority and precedence should be given to "development" primarily for providing a market for the goods and finances of center instead of distribution on which is dependent the very life and existence of the people of the periphery.

The post Reaganite - Thacherite belief that governments should as the operational philosophy "let the free market work its magic". The operational philosophy is based on the premise that concentration of wealth was seen as a positive thing, for only with the incentive of being able to accumulate and enjoy more wealth would individuals be made to invest more in productive activity, to keep the engine of economic growth chugging along. As for the rest of humanity, they would have to wait for the wealth to trickle down. The IMF and World Bank have taught the **Third World leaders to talk the same language. Therefore our Finance Minister Manmohan Singh says:**

**"We have to create more wealth before we talk of more equitable distribution "**

### **Who has benefited ?**

The consequences on the people of Sub Saharan and Latin America is well documented. For example, between 1960 and 1987, the real per capita GDP of Sub Saharan Africa declined from 14 % of the industrialised countries and that of the 'least developed countries' from 9 % to 5 %. Interestingly, IMF's own survey reports, " the growth rate is significantly reduced in programme countries relative to the change in non programme countries".

However, there is a popular misconception that the people of the North/ First World are gaining from the losses of the South/Third World. The 'gains' of the people of the North/First world are summarised below.

- \* Despite 60 months of continuous economic growth in Europe during 1980's, the level of employment in 1994 remains the same as in 1980.

- \* Europe has more than 35 million people unemployed, which represents 11 % of the labour force.
- \* It is estimated that in Europe, as a result of privatisation of 120 companies, 800,000 people would be losing jobs by 1998.
- \* Since 1974 Europe has created only 3.1 million jobs in the private sector. \* Real disposable income in households has increased by only 0.7 % 'per year in Germany, 0.6% in France and 1% in the U.S.
- \* In U.S. 7% of the labour force is unemployed and since 1974 only 30 million jobs have been created.
- \* Between 1973 and 1992, blue collar workers in the United States lost 15 % of their purchasing power. Real compensation per employee which reached a peak of \$ 24,000 (1982 dollars) in 1976, is barely at \$ 23,000 today, 16 years later. Between 1980 to 1992, the average real wages before taxes declined by 8 % in the United States.
- \* In 1993, three percent of New York's population i.e., 23,000 men and women slept on the streets or in public shelters (New York Times 16.11.93). In 1989, in U.K. 400,000 people were officially classed as "homeless".
- \* In 1993 the net public debt stood at 27.5 % of the GDP in Germany; 35.6 % in France; 39.1 % in the U.S.: 41.9 % in U.K.: 106.7 % in Italy and 123.4 % in Belgium.
- \* In U.S. in 1989, the top 1 % of the families earned 14.1 % of total income yet owned 38.3 % of total net worth and 50.3 % of net financial assets. The wealth distribution has also become more unequal over time. The wealth holding of the richest 0.5 % of the families grew by 1 percent over the entire 21 year period 1962-83 but grew by four times as much in just six years between 1983 and 1989. Meanwhile, the bottom 6 % of families had lower wealth holdings in 1989 than in 1983.
- \* In Russia for the first time since Tsarist rule the death rate is exceeding the birth rate.

The next logical questions are - Why these programmes? and Whose interests are reflected in the concerns of the World Bank/ IMF and the powerful capitalist countries? It is not difficult to see that the determining factor in shaping the policies of capitalist countries is the interests of the large financial and corporate bodies, which Eisenhower called the Military Industrial Complex.

**What does "a human face" mean ?**

We can logically conclude that structural adjustment means that all societies must be shaped, moulded and evaluated by a single criteria—to enhance the wealth of the powerful corporations and their local fronts in various countries. In other words, it means that it has been decided that the welfare of the entire human race depends on how well all societal processes adjust themselves to enhancing and optimising the welfare and well being of the shareholders of the large corporations of the world, their collaborators and fronts. In fact those who advocate structural adjustment acknowledge this reality when they talk in terms of structural adjustment with a human face. What does this mean ? It means that since, by definition, the majority has to be reshaped into achieving a single objective - that of optimising the well being of a minority, dissent is inbuilt. The problem then becomes one of managing dissent.

We can conclude that the term "human face" implies

- i) the management and control of dissent,
- ii) external (North's) control of internal (South's) resolution of social conflicts,
- iii) the narrowing of space for concerns such as national development, balanced social and regional development, interest of the socially disadvantaged groups,
- iv) And that concessions in these area of concern would be based on the terms set by the North as well as powerful local interests.

Therefore the concern of those who are imposing the structural adjustment are :

- i) How can dissent be kept within limits and the dissenters co-opted, or marginalised ? Human rights and social sector funding are considered the tools to achieve this.
- ii) On the social front of welfare concerns like child care, gender issues, poverty etc. the emphasis is to dilute the role of the government in favour of the Non Governmental Organisations (NGO), which in the Third World are under the financial support and tutelage of the agencies located in the capitalist countries. The proposal to privatise the Anganwadi (integrated child development) programme in India is a pointer to this. We have the example of Bangladesh where the total foreign exchange inflow into the NGOs exceeds aid.
- iii) On the issue of development we have the complete marginalisation of those that cannot contribute to profits in any meaningful way, like the tribals, indigenous people and those below the poverty line whether they are in the Third World or USA, as they belong to the non monetised sections of society. Such people will be appropriated.
- iv) Marginalisation of Trade unions. This approach is already being applied In India. The government has set up a Committee to examine the questions of 'Labour Standards, Social Clause and Trade' without consulting the Labour Minister and all the Central Trade Union leaders declared that the committee is illegitimate. This is proof of the fact that not only the Trade Unions but even the Ministry of Labour have been marginalised. The falling membership in the organised Trade Union movement in USA and Europe indicate a certain measure of success in this direction. The brutal repression of Trade Unions in most of the Third World is well documented. (Last year 92 Trade Unionists were murdered in at least 14 countries. Latin America remains the most dangerous region for unionists where death squads, para military groups and hired killers murdered at least 60 Union activists last year).

**The Structural Adjustment package.**

The Structural adjustment package of the Bretton Wood twins is a complete package with an internal logic and cohesion. It consists essentially of the following building blocks:

- \* radically reducing government spending, in order to control inflation and reduce the demand for capital inflows from abroad, a measure that in practice translates into cutting spending on health, education and welfare;
- \* cutting wages or severely constraining their rise to reduce inflation and make exports more competitive;
- \* liberalising imports to make local industry more efficient and instituting incentives for producing for export markets, which were seen both as a source of much needed foreign exchange and as a dynamic source of growth than the domestic market;
- \* removing restrictions on foreign investment in industry and financial services to make the local production more efficient, owing to the presence of foreign competition;
- \* devaluing the local currency relative to hard currencies like the dollar in order to make exports more competitive; and
- \* privatising state enterprises and embarking on radical deregulation in order to promote allocation of resources by the market instead of by government decree.

In this context the author recalls an informal discussion (subject to inaccuracies of memory) with the eminent Third World economist Mr. Samir Amin. He said the future of the world would consist of two sets of nations, the haves and the have-nots. The haves are seeking to establish five monopolies.

**Monopoly over :**

- i) natural resources,
- ii) financial services,
- iii) intellectual property.

- iv) weapons of mass destruction and
- v) culture.

### **The Indian Package**

As soon as the Government of India accepted the Structural Adjustment Loan conditions package they translated it into the Indian context and spelt it out for the benefit of the Indian Trade Unions, through a paper presented by the then Economic Adviser to the Government, Mr. Ashok Desai.

- \* Legal job protection for workers should be replaced by hiring workers on contract;
- \* All capital investment of the Government should be routed through mutual funds;
- \* Customs duties should be levied on a limited scale to protect new industries and not as a source of income;
- \* Excise duties and corporate taxes should be replaced by a flat value added tax with minimum rebates and exceptions;
- \* Trade policy should be debureaucratized including that related to price and distribution of agricultural goods to encourage exports and level off imports and exports;
- \* All regulations should be abolished except making dividends or interest on foreign investments payable out of the exim scripts (a scheme that was abandoned in favour of partial and later full convertibility of the rupee);
- \* To prevent foreign investments from achieving control of the economy a list of sensitive industries would be drawn up and in such industries only foreign investments should not be allowed to exceed 10%;
- \* The distinction between the public and the private sectors should be removed by selling off the public sector shares;
- \* Regulations on the stock market should be minimised;
- \* Interest rates and banking should be deregulated and private banks allowed to open; the public sector banks that are "bankrupt" should be closed.

### **The transformation process**

While radical changes have been made in the regime of capital there have been no corresponding changes in the regime of labour and measures like introduction of an exit policy or legislative changes in the industrial relations laws are only being talked about. Threats are held out and quickly withdrawn to give the opponents an illusionary feeling of success and a false sense of security. The logic of this approach is that the ensuing contradictions are likely to be so sharp that even dissenters can at best hope to compromise within the framework of the new economic policy rather than hoping to reverse it. This will thereby create a politically acceptable basis for bringing in the changes set into motion.

Another aspect is that almost all the laws relating to economic administration are being amended to facilitate the implementation of the new economic policy. Parliament is being presented with a *fait accompli*. Notwithstanding the fact that amendments to the laws relating to economic administration have serious implications for public investment, millions of consumers and employees, the practice of referring Bills to Joint Select Committees of Parliament, for serious consideration, has been given a complete go-by.

### **The contradictions**

Having accepted the Structural Adjustment Package and the WTO and given the extent of external and internal debt as well as adverse balance of payments the Government of India has now rendered itself into an implementing body. The Indian capitalists have decided that they cannot build an autonomous and independent industrial base. They have therefore to be subservient to the dictates of international capital. And that they should as far as possible grab public assets at throw away prices by pushing through an accelerated programme of privatisation of the vast Indian public sector.

On the other hand the people are also demanding their share of the economic cake. Since India is a democracy on the



principle of one man one vote and numbers decide, in the recent elections, people have voted for direct food and other subsidies. Contradictions are also growing between Indian and Foreign Big Capital.

The role of subsidies in the Indian economy needs to be put in its proper perspective, particularly in view of the fact that agricultural subsidies have a direct bearing not only on food security but also in the employment of large sections of the people. Where the majority of the population is poor and is unable to meet its basic needs, ineffective subsidies are unacceptable irrespective of any macroeconomic policy compulsions. In a developing nation subsidies have always been a tool for providing a social net for the poor.

Structural reforms is a consistent package with removal of subsidies as one of the corner stones. Naturally the question that arises is, will the Government continue with the reforms? Besides the Indian leaders, the leaders from various countries have come and asserted that India has no alternative to carrying on with the reforms. Various Chambers of Commerce and Industry and spokesmen of the Bretton Wood twins have threatened dire consequences if the reforms are slowed down. The members of the American President's cabinet have come in droves, accompanied by CEOs of MNCs to quickly get legally enforceable contracts signed before the people throw out the ruling party or demand a larger share of the economic cake.

### **The options**

There are therefore three alternatives :

- i) reject the Structural Adjustment package. Rework the economic policies to meet the requirements of a specific society in order to accommodate the poor and their requirement
- ii) implement both the structural adjustment package and the subsidy and thereby allow the economy to fall between two stools,
- iii) just get rid of vexatious democracy and replace it with an authoritarian regime.

The Latin American countries have chosen the third option and dictatorships are in command. For the present, India seems to have chosen the alternative ii) and its economy will fall between two stools.

### **The agenda for the Trade Unions.**

#### **The basic framework**

The option before the nation and the people is not between the present economic policy and its alternatives, but a choice relating to value systems. A value structure cannot be imposed, but must be evolved by a collective. People must decide to optimise the welfare of society as an entity and not the optimal benefits that individual sub-systems can derive. An earlier generation opted for optimising societal welfare and struggled to make India free of colonial rule. What are the obligations and responsibilities of the present generation? That is the question that must concern our generation. They must therefore concentrate on evolving an alternative and organising the people to force the ruling class to implement the alternative.

#### **The issues**

From the above analysis we can derive the following issues of priorities for the Trade Unions. (The word Trade Unions has been used in an all encompassing sense to include workers unions, central trade unions, officers associations and whatever other organisations that may exist representing employees)

There has to be a recognition of the following facts. That :

- a) the national Government and the local elite are a conscious and willing party to the imposition of the structural adjustment package and that the policy changes are NOT dictates of World Bank and IMF but a mutually beneficial agreement between the World Bank/ IMF and the national Government/ local elite. Already the talk of global governance has started. It is a matter of time before the South/ Third World will be

asked to make compromises with their sovereignty and their concept of a nation state.

- b) the offensive is very formidable and is not limited to the national government or employers.
- c) the consequences would be 'colonisation without occupation' through a process of 'auto colonisation.'
- d) the struggle has been internationalised and there is a need for international solidarity. India is a very large country and its working class must play a bigger role, with imaginative initiatives, at the international level.
- e) the opening up of the national markets would result in increased number of national enterprises being rendered sick due to a variety of reasons including the choking of flow of technology.
- f) the trade unions will be attacked and efforts made to marginalise them. The process of marginalisation will be multi-dimensional for example it will range from, i) it will include usurping trade union demand as is evident from the manner in which the WTO and not the ILO is to become the nodal focus for demanding the implementation of ILO conventions, ii) use of foreign funded NGOs to initially organise the unorganised sections and later make forays into the organised sections of the working people, iii) to keep national trade unions divided, to violence and physical elimination of trade union leaders.
- g) the trade unions need new weapons and techniques to deal with the offensive
- h) the Indian working class has been completely divided both horizontally and vertically. (Horizontally as politically divided Trade Unions and vertically as workmen, supervisors, officers etc.). In spite of the nature of offensive, there is neither a conscious attempt nor even a strong need felt by the Central Trade Unions to change their narrow partisan approach, dictated as they are by competitive politics.
- i) the nature of the struggle requires that the Trade Unions have multiskills. The skills must range from

an ability to prepare specific critiques of the policies to physical occupation of factories and street fights.

- j) there is a need for a recognition of the fact that the survival of the Public Sector and Central Planning is not an ideological issue. At the present stage of India's development, given the inequity, Public Sector is the only instrument of policy to ensure balanced regional development and cross subsidy. Adhoc privatisation would result in the privatisation of profits and nationalisation of losses.

**Agenda for Trade Unions.**

1. Indian Trade Unions must decide i) whether they are political organisations within a trade union framework or ii) they are trade unions within a political framework. This decision cannot be delayed any more. It must be resolved now, tomorrow will be too late.
2. Irrespective of the Trade Union's political and partisan concerns they must evolve a consensus and form a united front to oppose the process of 'colonisation without occupation'.
3. On mutually agreed issues the Trade Unions must pool their resources to form a critical mass. It must be realised that sub critical struggles do not produce any results but have a danger of demoralising the cadre.
4. India is a large country and till recently it was in the forefront of supporting liberation struggles of the people of the Third World. There is a need for Indian Trade Unions to play a vital role in the international arena. They must call an international meet and invite the different international trade centres to evolve a clear, definite assessment of the World Bank, IMF, WTO, Structural Adjustment and MNCs. The common ground must be consolidated through a programme of international solidarity and the differences identified and spelt out.
5. Indian Trade Unions should similarly map out the areas of agreement and differences amongst themselves with specific reference to i) the World Bank/ IMF/ WTO, ii) Structural Adjustment, iii)

Policies of the Government of India and the States, iv) Role of the Indian Elite and iv) Role of foreign funded NGOs. They must evolve a common framework and cannot merely have a unity on issue to issue, otherwise events will overtake them. They must recognise that reversal of policies means a very heavy social cost. If the Trade Unions lag behind, events they are prescribing on the people a heavy burden of social cost and misery.

6. The Trade Unions must evolve institutional mechanisms by which they can bring together all nationalist and patriotic elements be they retired eminent professionals, workers or professionals to analyse and prepare the critique that will give muscle to the Trade Union struggles. The National Working Groups on Patent Law and Power are shining examples of what can be done.
7. Trade Unions have access to the people through the services they render such as Postal, Electricity, Banking etc. The Trade Unions must educate the rural people and the weaker sections that the defence of the public sector is in their interest since that is the only means of their getting goods and services in a market economy where the purchasing capacity of the elite will go against their interest.
8. Trade Unions must evolve institutional mechanisms to deal with industrial sickness. Industrial sickness is a very complex problem and can be dealt with on, the basis of evolving i) specific alternatives in ownership, managerial structures ii) well worked out financial packages. Trade Unions must resource and fund a well organised institution which has a team of full time professionals from various disciplines. Resolving the problems of industrial sickness cannot be a part time activity. Since the resources required are large the institute will have to be funded by all the Trade Unions.
9. Trade Unions must achieve industry coordination (industry means all enterprises engaged in the engineering, consultancy, manufacture, erection and operations) cutting across the affiliations of the

industry related unions or the ranks represented by them, i.e., all the affiliates of central trade unions in an industry say power, telecom etc should come together with the officers, associations in order to analyse and arrive at a consensus on the changes taking place in an industry (or identify the differences) and chart a common course of action. This implies changes in alignments. So far alignments were based on wage agreements i.e., all unions whose service conditions were governed by pay commissions as against those governed by the Dept. of Public Enterprises. Such alignments can still remain for the purpose of service conditions but industry level integration for policy level issues is a must in today's context.

10. Trade Unions must have full time professionals (either collectively or individually) who can monitor the changes being made in the laws of the country relating to economic administration and evaluate their long term implications for employees. Similarly, the documents and studies made by the World Bank, IMF and WTO must be studied since they would be the future policies of client Governments like the Government of India.
11. Trade Unions must demand that the Government of India ratify and implement (in letter and spirit) the Conventions of the ILO, particularly those relating to the Freedom of Association and Collective Bargaining.

### **Conclusion**

A time comes in the destiny of every nation and organisation when its leaders are called upon to rise above partisan considerations. Such a time has come for the Indian Trade Unions. The Structural Adjustment Package and the linkage between the finance capital of India and the World are sinister portents, staggering in their immensity. Not to recognise this, either wittingly or unwittingly, is to demand that the future generations pay the price for our failures.

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