

THE ELECTIONS AND AFTER

By

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Miraculously following the post-election soap opera, the Indian polity has again confounded the pessimists by generating a government which can be expected to continue the reform process under the new Prime Minister, Dr. Manmohan Singh and the new Finance minister P. Chidambaram. Given the fractious coalition to be managed, they have to chart a tactical course through the diverse pressures they will face, not least from the Left, which remains wedded to antediluvian economic policies, which even the two Communist giants - Russia and China- have repudiated. But the past experience of these stewards of reform in steering past these and other sharks should help. The auguries are favourable. But what should be their strategic goals in whatever time is allowed them by their fractious partners? Second, can coalition politics continue to lead to the hitherto benign outcomes from the viewpoint of economic reform? These are the questions I address.

There is widespread agreement that something must be done about agriculture. But, apart from obvious investments in rural infrastructure, what can be done? The important point to note is that by 1995 the impetus to agricultural growth from the Green Revolution had petered out. Further intensification of agriculture through increasing inputs of labour and capital has also reached its limits. Similarly the irrigation potential is nearly fully utilised. (see the revised and abridged edition of my "The Hindu Equilibrium", Oxford, July 2004). Two avenues are available for future agricultural growth: shifting to high value crops, and the adoption of GM technology. The former is stalled by the various distortions that still exist in agricultural policy, not least in terms of continuing divergences between domestic and world prices and the continuance of various inefficient subsidies. The lack of adequate road, rail and air transport and refrigeration facilities is a continuing impediment.

GM technology like the preceding bio-tech Green Revolution will shift the agricultural production function. It is being impeded by the Greens' agitation, including PIL cases in the courts against Frankenstein foods. Meanwhile, China, which has no truck with the Greens, is happily planting GM crops, as well as setting up cutting edge research centers in bio-technology. As this column has argued repeatedly, the Greens are the enemies of India's rural poor, and must be fiercely resisted.

But, ultimately the answer to rural poverty must lie in shifting labour from agriculture into industry. This original Nehruvian vision was sound. The means adopted- heavy industry biased industrialization - were not. The Green Revolution gave India time to begin this process of mass industrialization. The removal of controls, and the opening of the economy to global forces has given a boost, but in itself is not enough for the massive labour intensive industrialization that India needs to alleviate its rural poverty. This is a lesson China has learnt, as it faces similar constraints on future agricultural growth. Its success in labour intensive industrialization, first in the Southern coastal belt, but now increasingly spreading inland, has converted China into the workshop of the world. India, a pioneer of industrialization in the Third World, should hang its head in shame.

The reasons for this difference in performance are well known. Southern China, and increasingly the interior, has the freest labour market in the world, with employers having complete freedom to hire and fire, despite being ostensibly a Communist country. Foreign direct investment, instead of being subject to all sorts of controls and limits as are still prevalent in India, is welcomed with open arms. Nor are there any restrictions on the growth of what began as small village and household enterprises, as has happened with the reservations for small scale industries in India. It is these Indian policies concerning labour laws, FDI, and SSI reservations- which have hampered India from becoming the workshop of the world. Without their reform little can be expected to dramatically alter the prospects of India's rural poor. Makeshift welfare schemes - whose good intentions are always thwarted by massive leakages through corruption in any public delivery of benefits- will do little for the poor. By making an appreciable dent on rural poverty, these are truly the 'reforms

with a human face', and the Left's resistance to them must be faced down.

The strategic goal of privatisation should also be clear: to get the State out of areas in which it has no business. This is required both for efficiency, and to eliminate the 'rents' corrupting the polity. The fiscal gains are less important. Tactically it maybe prudent to begin by divesting loss making PSUS, but the strategic goal should not be forgotten.

Similarly, as argued in a previous column, given the manifest failure of the Indian state in providing the basic merit goods of education and health, an increase in public spending is unlikely to make any improvement in the educational and health status of the poor. As the PROBE team documented, most of the poor now increasingly rely on private provision of education. One possible reform is to give the public funds available for both education and health in rural areas to the panchayats, who can use them to hire private teachers and doctors who would be accountable to the consumers of these services. This would be one important way in which the classical liberal principle, upheld by all classical economists including Karl Marx (see his Critique of the Gotha Program), that the State should *finance* but not *produce* these merit goods could be implemented.

Thus much can be done even within this fractious coalition. But, can India count on its luck in its coalition governments, when their survival depends on partners with their own often predatory and certainly local and regional agendas. In an excellent book Rob Jenkins ("Democratic Politics and Economic Reform in India", Cambridge, 1999) documents how the political players at the Centre used both a rearrangement of the previous spoils system, and the various conflicts of interest within the numerous rent seekers, to both institute and consolidate economic reforms in the 1990's. Will this continue? The examples of the French Fourth Republic, and post war Italy, with their continual shuffling of transitory coalitions, does not afford much comfort. If the State were not economically dominant, such shifting political fortunes would not be of much economic import- as is the case in Italy. But with a powerful predatory State in place in India, the shortening of the time horizon of any incumbent coalition government would provide an incentive for the temporary custodians of the State to loot as much as in short a time as possible- as has happened in many parts of Africa and Latin America. India is not any where near such dire straits at present, but this outcome cannot be discounted..

Since 1999, the two national parties have jointly polled about 50% of the vote. The remainder has gone to various regional parties. As in a PR system, the smallest partner can name its price for supporting the national party forming the winning coalition. This subverts the principle of majority rule of the 'first past the post' democratic system that India adopted in its constitution. It also leads to political instability, and the shortening of the time horizon of politicians with the resulting incentives to loot. So far, the two national parties have been led by a political elite which is by and large motivated by old fashioned notions of public service. But can this last?

An alternative, touted by Indira Gandhi, was a Presidential system modelled on the Fifth French Republic. But, this would be dangerous. The habitual adherence to a constitution takes time, and if it is continually changed in fundamental ways, the very belief in constitutional government can be eroded. India's respect for the constitution and the democracy it underpins has now become deep seated. To seek to replace it with a Presidential system could undermine faith in constitutional government itself. There is another alternative within the existing constitutional framework. It would be to strengthen the incentives to politicians to join a *national* party, by only allowing parties fielding candidates in all Lok Sabha constituencies to contest the national elections. This might concentrate the mind of the electorate in basing their choices for the Lok Sabha on national rather than regional or local issues. Meanwhile, we can only keep our fingers crossed and hope that Dr. Manmohan Singh can survive for the full term, on the bed of nails on which he has been thrust, to deliver the next stage of badly needed economic reforms.