A High Cost Low Income Economy

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The mantra of the votaries of economic liberalisation is growth and growth rate. The market is the only factor which should guide the economy, market competition is beneficial to consumer, producer and society at large and growth is the only way to achieve economic prosperity. Missing from this argument is the word equity. Under the present government till about a couple of years ago a projection of 8, 5 percent per annum growth of GDP has been touted. What is not mentioned is that with this high rate of growth the increase in employment is less than 0.3 percent. Normally one would have thought that as more money is generated a commensurate number of jobs would also be created, but the fact is that the formal sector rate of growth of jobs indicates a state of stagnation in this sector. If a very healthy growth rate does not generate jobs, where is the money going?

The western economies, especially the United States of America have always used consumption as the means of promoting economic growth. The theory is that money which goes into consumption finds its way to the productive, secondary sector and encourages both the growth of the sector and additional employment. This is the model that India has opted for. When Rajiv Gandhi was Prime Minister on one occasion Manishankar Aiyer boasted that India was now a nation of a hundred million consumers. Our population then was eight hundred million, which means that Manishankar Aiyer inadvertently admitted that we were a nation in which seven hundred million people were outside the consumer market. I told the Prime Minister that Manishankar and government both should be thoroughly ashamed of the fact that they could see only a miniscule section of middle class consumers and the seven hundred million people outside the market had no place in their reckoning.

In 1949, after the revolution, China opted for a policy in which manufacturing, that is, the secondary sector, received the highest priority. This included the backyard furnace which produced small ingots of pig iron, uneconomically, at high cost and at the risk of spreading pollution. But it did create a mindset of produce or perish. China decided on domestic austerity, reserving production for export. The Chinese adopted labour laws which made labour disciplined and restricted to low wages. This created a competitive advantage and a great deal of industry from the developed world was outsourced to China. A very substantial proportion of consumer goods available in the world market may bear a western or Japanese title such as Philips, Seiko, Nike, Reebok, etc., but they are all manufactured in factories located in China. As offshore production picked up the United States, unwisely, decided to increase the share of the tertiary sector and a situation soon developed in which manufacture took place in China but consumption was done in America. In the long run China has proved that he who controls the means of production can call the shots on any economic issue. That is what makes China such a strong economy today. India, on the other hand, had an open society and whereas there has been very substantial investment in infrastructure development, by and large our post liberalisation growth has been in the service or tertiary sector, with information technology being the main provider of jobs. The net result is that our manufacturing capacity as compared to China is very low. The internationalisation of the Indian economy, though still limited, has exposed us to global fluctuations and added to our vulnerability. In any case a tertiary sector driven economy, including the financial market, is bound to be severely affected by global trends. One of the reason why we had a healthy foreign exchange reserve is because of fund flows to India from abroad which, however, largely went into the financial sector rather than long term investment in infrastructure or manufacture. Our present woes about a rapidly devaluing rupee are because of changes affected by the Federal Reserve in the United States which have caused foreign investors in India to withdraw funds. Y.S. Reddy, as Governor of the Reserve Bank of India, because of his conservative policies was able to cocoon the Indian banking system from global meltdown. Our present policies have only exposed our weaknesses.

Government's response to the crisis has been totally populist and is not based on sound economy principles. The two main culprits are the NREGS in its present form and the new Food Security Ordinance. Investment in generating rural employment is an excellent idea, provided the money is used to create permanent gainful rural assets. The scheme as presently framed aims at providing a hundred days of employment to those below the poverty line, with the result that the programme is entirely muster based. If assets are created that is only consequential. We have no well planned priority list of assets which must be created. The watershed management programme has succeeded in reducing seasonal migration in tribal areas, improving water availability and generally boosting agriculture in tribal areas. There are few leakages in this programme because of its tight design. Instead of such programmes government has opted for a highly corrupt and wasteful muster based employment programme in which not more than thirty percent of the money is going into any productive use. The rest is wastage.

Malnutrition as a problem and the scale at which we find it in India it is bound to be the product of poverty. Creating gainful employment which generates income is the only way of ensuring adequate nourishment for our children. Instead government opts for the so-called food security programme which is aimed at covering the majority of the population through supply of food grain at a highly subsidised rate. Estimates of what this will cost range from Rs. 1.25 lakh crores to Rs. 3 lakh crores. Whatever the figure it is so astronomically high that if the money were to be wisely invested in creating gainful employment we would break the back of poverty within the next few years and people would have enough money to buy grain and other food stuffs. By creating infrastructure and giving a boost to the manufacturing sector India's economy could be strengthened to a level higher than that of China.

Most of the money which boosts inflation comes from the parallel economy, which includes corruption. This is not amenable to Reserve Bank control. The white economy, from which industry and business draws capital, is now subject to so much regulation and the cost of that money through interest rate hikes has risen so high that it is beyond the capacity of legitimate business to borrow or repay, it has pushed cost of our manufacture to levels where the product is now not competitive in the global market and it has caused a massive economic slowdown. Is this what we mean by financial management?

A falling rupee, rapidly increasing fuel cost and the growing cost of energy have all pushed prices through the roof. Incomes, however, continue to stagnate. This high cost, low income economy whose rulers cannot look beyond populism for electoral purposes, is poised on the brink of disaster.

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