

POLITICAL ECONOMY OF LIBERIZATION

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The Nehru-Mahalanobis model of growth without the implementation of widespread land reform was bound to hit a demand ceiling, which it did in the late sixties. A persistent irony, bordering on error, was the insistence on import substitution. The first corollary of the Nehru Mahalanobis model without land reform should have been an export orientation of the industry. That it was not so can be explained partly by a confusion of rhetoric for reality by the liberal left and partly by the fact of politics succumbing, as always, to the powerful economics.

Capital was identified as the input that was most scarce. Thus investment decisions had to be regulated. The Industrial licensing Act 1956 sought to channelize the allocation of scarce capital into uses in accordance with national priorities. The 1956 Act was thought to be essential because market signals were regarded as unreliable in guiding investment to appropriate activities. For its time and place, the 1956 Act was a rational response to the circumstances which then prevailed. The problem was the same rules continued through bureaucratic inertia even after the circumstances had changed.

Changed Circumstances

The logical end of the dynamics of Mahalanobis model was reached in the late sixties when a general shortage of industrial demand led to widespread capacity underutilization and a fall in public and private investment. A fall in the industrial growth rate culminated in industrial stagnation. The change in the circumstances was of the following kind : By late sixties and early seventies, the availability of capital was no longer the binding constraint on the consistent growth model; the lack of demand was.

From a given national income increased demand could have been generated by asset redistribution, most plausibly through land reform. This is because the rich consume a lesser proportion of their income than the poor. In the absence of such redistribution, foreign market remained the only recourse. It is our task here to understand why emphasis continued on the domestic market even though it was not expanding fast enough. The second question is : was it a plausible assumption that the Indian state was interested in implementing land reform?

We start with the second question, Historically land reforms have been implemented by two altogether different agents: in China, USSR, Cuba and Vietnam land reform was implemented by the communist party whose constituency consisted of, amongst others the landless agricultural labourers. In these countries, the ruling party, in responding to the interest of its constituency, undertook land reform. An altogether different agent was responsible for land reform in Japan, South Korea and Taiwan where foreign occupation forces were responsible for implementing land reform. In the post war Japan, the communist party was gaining widespread support in its rural areas, particularly amongst the landless. Douglas MacArthur, then the U.S. occupation force Chief in Japan, wrote to his friend, the great Talcott Parsons, asking his advice on ways to control the growing popularity of the

Communist Party. Parsons advised land reform. What is often regarded as a radical reform measure was undertaken to control the growth of radical politics. In India, the British were not interested in implementing land reform as the continuation of feudal agrarian relations contributed to colonial stability. The Congress party, the main ruling party after independence, had landlords as its chief constituency or, in any case, its chief power brokers. The landlords were the state level leaders of the party. They could not have been expected to implement land reform.

Emphasis on Domestic Market

As the existing power structure in the village explained the failure of the Congress Party to implement land reform, so the then existing power relations in the industry explains the maintenance of monopoly privileges. The existing big industrialists enjoyed monopoly privileges under the all forgiving Infant Industry protection. The same monopoly houses prevented greater freedom of entry in the domestic economy through Industrial regulation Act. Successful tapping of international markets required that our industries produced commodities at internationally competitive prices and that the products performed at the level of internationally available technology. But, cocooned under the infant industry protection the Indian monopoly houses moved lazily in their long infancy and felt no need to grow into dynamic, technologically self-propelled industrial giants, capable of competing in international markets. It must be noticed that competition from foreign capital was not necessary to bring about the above changes. Competition from within would have done the job equally well. But it was not to be since it did not follow from the existing power structure.

Why Liberalize Now

As the industrial system had run out of demand in the late sixties, so twenty years later we find the system incapable of exporting an equivalent value of good which it needs for itself from abroad. Important in the list of imports is capital goods of current, technology. One may ask : Since Nehru-Mahalanobis models' basic thrust was self sufficiency in capital goods sector, why, after four decades of planned development, do we still have to rely on their imports? Why is our performance in R&D in this sector so abysmal?

Our liberalization is not autonomous; we are forced into it because the alternative regime has run out of steam. Liberalization would have been autonomous if, instead of Nehru-Mahalanobis plan, the Bombay plan had been accepted. But now, like in most of East Europe, liberalization reflects not the accomodation to a changed power structure but the failure of that structure to maintain itself.

Reasonable Expectations from Liberalization

Liberalization should not be thought of as providing a magic instrument capable of solving the problems of poverty and unemployment, inflation and stagnation in one long heave. Domestic liberalization can plausibly be expected to increase the number of firms where monopolistic or oligopolistic profits are being made. As the supply of the commodity increases, the text book prediction, demand remaining same, is that price of these commodities will decrease. This decline in price can be expected particularly in manufactured

consumer durables such as washing machines, ceiling fans, electronic gadgets, etc. An increase in competition will result in firms competing for customers not only by reducing prices but also by way of providing better technology. This technology sensitivity amongst firms, a phenomena conspicuous by its absence till now, can be expected to lead to better quality products in automobiles, electronic equipments, kitchen-wares, etc. Delicensing and deregulation of industry would lead to the emergence, for the first time, of venture capital in our economy.

Liberalization of industry will lead to exit of loss making firms. Liberal economists of unclear thinking jump at this prospect. However the continued running of these loss making firms is possible only when the rest of the economy supports this firm period after period by providing surplus to it. But this has opportunity cost : the same surplus could have been used elsewhere with more productive end-result creating more viable jobs. In an economy where largescale general unemployment prevails, it is not clear why employment in the loss making firms should get a greater premium than employment elsewhere. Exit of loss making firms, entry of new firms with latest technology and general technological sensitivity in the economy will lead to an overall increase in efficiency and thus in productivity of factor use. This increase in productivity is bound to result in decline in prices.

What cannot be expected of liberalization however is immediate and general decline in poverty. To the extent that rapid industrialization will increase employment in industry there will be some shift of labour. However not much should be expected on this account. Most of the new employment may be cornered by the labourers released from the closure of loss making units. This will be so even though they may not possess the required skills. This is because they have a skill which a fresh labourer does not have-the discipline of factory work. Thus the overall increase in employment because of liberalization will not be substantial.

Dangers

Since liberalization will create general increase in productivity, via increases in efficiency, it will result in increase in the prosperity of the population dependent on industry. If a part of the prosperity is transferred to the agricultural sector in terms of lower prices for agricultural inputs and wage goods, the agricultural sector too would share in the general increase in prosperity. However, this may not happen to the extent desired. Then a wider gulf between the urban and rural life style will result. The analogy then will be not with S. Korea but with Mexico and Brazil. This in fact is a real danger. Conventional wisdom was that land reform would result in egalitarian distribution of income and though there would still be an overall rural-urban divide, land redistribution took care that there did not exist a large group of dispossed who were likely to be attracted to the politics of extreme left. Land reform, however, is not on the agenda now. Thus Naxalite politics will continue to hold attraction to the landless agricultural labourer. However, direct govt. programmes meant to alleviate the living conditions of the poor have enormous scope and this should now be heavily relied upon. Opportunities to improve the health and educational facilities in the villages abound. Public works programmes can offer employment in lean seasons. Assets creation through IRDP can be better targetted and mechanism should be designed to reduce the risk element in the assets. High priority must be given

to making available clean drinking water. Female literacy could be a mission programme. In the absence of all this rapid industrialization without land-reform may give impetus to the politics of extreme left and in this, as another irony of life, IMF would have played a leading role.