THE NEW ECONOMIC POLICY AND WOMEN

A COLLECTION
OF
BACKGROUND PAPERS
TO
SIXTH NATIONAL
CONFERENCE
1993

INDIAN ASSOCIATION
FOR WOMEN'S STUDIES

THE NEW ECONOMIC
POLICY AND WOMEN

THE NEW ECONOMIC POLICY AND WOMEN

A Collection of

Background Papers for the

Sixth National Conference of

the Indian Association for Women's Studies

1993

INDIAN ASSOCIATION FOR WOMEN'S STUDIES

This publication was made possible by funding from the Ford Foundation. The views expressed are those of the authors

Edited, printed and published by Sheilu Sreenivasan, Managing Editor, Tata Institute of Social Sciences, Bombay 400 088 on behalf of Indian Association for Women's Studies and printed at India Printing Works, India Printing House, 42, G. D. Ambekar Marg, Wadala, Bombay 400 031.

CONTENTS

PREFACE

The Indian Association for Women's Studies at its Executive Committee meeting in February 1992 felt that the Association must do something to face the New Economic Policy, the implications of which were going to be serious for women. The meeting was followed by a Round Table discussion on the same theme sponsored by United Nations Development Programme. Devaki Jain suggested that the background papers prepared for the Round Table by the Institute of Social Studies Trust should be widely disseminated to members of the Association as well as to other women's organisations before the next conference and a special panel on the same theme could be included in the conference. The members agreed to this suggestion and thought that in addition to the ISST papers, other papers, if any, on the theme and the report of the Round Table could be added. The IAWS resolved to meet the expenses of this publication. Armaity S. Desai, also a member of the E.C., who was present at the meeting offered to have the printing, editing and publication done at Tata Institute of Social Sciences.

The IAWS is grateful to TISS and Sheilu Sreenivasan in particular for undertaking this work on behalf of IAWS. The volume contains some review and discussion papers as well as a dossier of documents assembled by Women's Studies Resource Centre, ISST. Maithreyi Krishnaraj and Ratna Sudarshan have prepared reports of the UNDP Round Table for inclusion in the book. It is hoped that this publication will stimulate discussion, and help in evolving agendas for action and intervention by women's groups, concerned scholars, administrators and social activists. It might be asked whether it is not too late in the day when International Monetary Fund-World Bank conditionalities have been accepted by the Government. We do not think so. It is important that all of us, first of all, understand clearly what really are the policy shifts and how they will affect different sections of society. To be equipped with information is to be enabled for action. As the papers in this volume indicate, the accent is on what can be done now; they do not stop at merely sounding the alarm bell.

Maithreyi Krishnaraj

REPORT OF THE ROUND TABLE UNDP/ISST MEETING ON THE NEW ECONOMIC POLICY AND WOMEN
7-8 February, 1992

Ratna Sudarshan

These documents were prepared as a basis for discussion of the possible and likely impact on women, particularly those employed in the informal sector, of new economic policies recently adopted in India. Growing and persistent macro-economic imbalance, reflected in balance of payments deficit and internal fiscal deficit, have been responsible for a new direction to India's Economic Policy. This includes policies directed at increasing foreign exchange inflow and stimulating private sector activity, such as devaluation, delicensing and removal of fiscal and other controls to the growth and development of foreign trade. While, as an immediate explanation of these new policies, reference is generally made to IMF/Bank conditionalities, these do not entirely explain them, nor substitute for a sense of urgency among analysts of the Indian economy, that new directions are needed to shake off the stresses in which the country seems to find itself. There is some doubt, however, whether the new economic policy directions are sufficiently informal and alive to all the major stresses and constraints faced by the Indian economy and consequently, whether the initiatives/remedies are not concentrated on a narrower range of ailments which can create their own distortions on a wider socio-political-economic front. The experience of other countries with policies aimed at achieving stabilisation (correction of macro-economic imbalance in the short run), and structural adjustment (modifying structural parameters of the economy so as to control imbalances as well as stimulate growth, in the middle term) do suggest that there are some groups which take the brunt of these policies more than others: one such group being poor women.

The discussion, therefore, took as a starting point a review of the experiences of other countries, particularly in Africa and Latin America. It has been seen that, the process of adjustment sometimes leads to decrease in nutritional standards, increased morbidity/child mortality rates and a drop in percentage of girls in school. To some extent this is a direct impact of reduced public expenditures on health and education. The withdrawal of food subsidies has often resulted in food shortages and riots. In the labour market, it has been observed that there may be an increase in the incidence of child labour, and a drop in real wages. Export oriented policies have had a range of impacts including diversion of land from food to cash crops.

Even though different countries have adopted a similar policy package to address questions of macro-economic balance, the implementation of these policies has had different results. This draws attention to the importance of understanding the process by which macro-economic policy affects households, and specially vulnerable groups like women. Macro-economic modeling and analysis by itself is simply inadequate to understand the reasons behind success or failure of macro-economic policy. This meeting, as an attempt to try and understand the likely pattern of response in India, and the policies and programmes that might be needed to achieve 'structural adjustment with a human face', raised many questions, and while it could not hope to come up with a definitive charter of demands, nonetheless it was able to highlight some areas which need quick action and/or research.

The net impact of the new policies on specific groups of women, or the poor in general, can be difficult to predict, because while the withdrawal of subsidies and price controls is likely to lead to greater hardship, it is also true that freeing the market will create opportunities. (For instance, it seems that women in embroidery may benefit, since much of the work is for export). Enabling legislation that encourages enterprise would be welcomed by the entrepreneurs of the informal/first sector (which accounts for the greater part of all employment). Repeal of oppressive co-operative legislation was cited as a specific instance of positive action, in tune with current thinking, but also designed to stimulate enterprise among informal sector entrepreneurs. The emphasis on more effective exit policy, as a means of increasing efficiency and productivity, needs to be balanced by such enabling legislation that will facilitate entry into new employment. Very often, emphasis on 'productivity' and 'efficiency' can conceal the shifting of work burdens from paid (male) workers to unpaid (predominantly female) workers.

The National Renewal Fund provides for relief and social security primarily for the "new poor" i.e. those who lose their jobs as a direct consequence of restructuring. This will help only those who are in the organised sector. A focus on poor women underlines the need to develop a parallel mechanism for assisting in addition to those similarly affected, but in the informal sector of employment. (Attention was drawn to house based and rural textile workers, whose products will not be competitive without some subsidy.) It was, therefore, proposed that a National Work Security Fund be set up for the unorganised sector, with multiple functions including help for skill upgradation and training; insurance in case of loss of livelihood; providing infrastructures for better access to food, child care, health insurance and education; sector specific research to identify the micro impact of macro policies.

To make the Fund independent in operation it should be an autonomous corporate body, working through people's organisations and committees, and accountable to the Ministry of Finance. To make the programmes manageable, they should concentrate on the geographical and occupational areas which are most backward and most affected. Special attempts should be made both to reserve certain areas of work for women (e.g. nursery raising, small building construction, ownership and managment of fair price shops, nutritional and educational support projects) and to enable women's entry into new work areas through training in new skills.

Economic decentralisation and liberalisation, through appropriate legislation and reduction in bureaucratic controls, can have only partial success without a corresponding political decentralisation. The Panchayati Raj system of local self-governance could form the basis of planning and resource mobilisation. The experience of mobilising women in Karnataka suggests that this can be a way of introducing sensitivity to both local issues and gender perspectives.

Structural adjustment policies can be expected to affect the social sectors — health, education and basic services — and direct subsidies such as that given through the Public Distribution System. In the IMF/World Bank terminology, all such expenditures get subsumed under the catch-all category of "safety nets". However, these expenditures need not be seen as welfare measures, but as productivity raising and essential to future growth. India's public policies need to be positive, to improve elementary education, rural economic opportunities and public health facilities. The Public Distribution System needs to continue (although opinion was divided on whether there should be an income criterion or not, because dual pricing may be difficult to implement), should be well targeted and available to the most needy, and a suggestion was made that women be entrusted with the management and delivery of the PDS goods. Any reduction in health and education allocations should be strongly resisted. Both from the point of view of long term growth, and social peace essential to the success of SAP, these expenditures, in fact, need to be increased and the quality of provision improved. Special attention must be given to child health and child care services.

While many concerns were voiced at the meeting and some specific recommendations made, there remains a need for sustained research, dissemination and policy advocacy, if micro issues relating to women are to have adequate input into macro policy formation. It was suggested that the Indian Association for Women's Studies is well placed to disseminate information, organise regional dialogues and co-ordinate research studies (particularly household level analysis and sectoral studies with economic and sociological perspectives). The formalisation of such a role would be a major step in making "women's studies" an integral component of mainstream economic analysis.

List of Abbreviations

EC	—	Executive Committee
UNDP	—	United Nations Development Programme
ISST	—	Institute of Social Studies Trust
TISS	—	Tata Institute of Social Sciences
IAWS	—	Indian Association for Women's Studies
IMF	—	International Monetary Fund
UN	—	United Nations
ARTEP	—	Asian Regional Team for Employment Promotion
APDC	—	Asia Pacific Development Centre
INSTRAW	—	International Institute of Research and Training for the Advancement of Women
ILO	—	International Labour Organisation
UNESCO	—	United Nations Educational, Scientific and Cultural Organisation
SAP	—	Structural Adjustment Programme
DA	—	Dearness Allowance
PDS	—	Public Distribution System
ICDS	—	Integrated Child Development Services Scheme
SEWA	—	Self Employed Women's Association
BOP	—	Balance of Payments
SDR	—	Special Drawing Rights
IDA	—	International Development Association
GNP	—	Gross National Product
GDP	—	Gross Domestic Product
b	—	billion

IBRD	—	International Bank for Reconstruction and Development
NIPFP	—	National Institute of Public Finance and Policy
OGL	—	Open General Licence
DAWN	—	Development Alternatives for Women in a New Era
WID	—	Women in Development
UNCTAD	—	United Nations Commission for Trade and Development
IFAD	—	International Fund for Agricultural Development
BPL	—	Below Poverty Line
ESAF	—	Enhanced Structural Adjustment Facility
BIFR	—	Board for Industrial Financial Reconstruction
N.R.I.	—	Non Resident Indian
CWPR	—	Crude Work Participation Rates
NSS	—	National Sample Survey
ET	—	Economic Times
EPW	—	Economic and Political Weekly

SECTION I

1

INTRODUCTION

THE NEW ECONOMIC POLICY : SAFEGUARDING WOMEN'S INTERESTS

Maithreyi Krishnaraj

(1)

Report of a round table discussion organised by UNDP at New Delhi, February 5-7, 1992.

Some senior economists, members of the Planning Commission, voluntary organisations and Women's Studies scholars met in February this year to examine the implications for women of the new policies related to structural adjustment. The deteriorating economic status of women in India had been highlighted by earlier discussions and reports of several United Nations bodies : the International Labour Organisation — ARTEP'S seminar on Female Labour in India, whose proceedings subsequently appeared in the publication; "Limited Options" the UNESCO-APDC workshop in Banglore in January 1992; the World Bank's report "Gender and Poverty in India"; and UN-INSTRAW's "The Worlds's Women" in mid 1991.

The threat of further marginalisation for the masses of women in India looms large, in the face of policies that seek to expand privatisation and the role of the market. The group urged all concerned people in India to mount an advocacy lobby that would be anticipatory and pre-emptive rather than compensatory and ex-post. The lines along which these could be done could be spelt out. The slogan of deregulation is rather ironic in as much as the major part of the economy is in fact non-regulated. Nevertheless the impact of the new policy is going to be far reaching. Should one really allow the government to carry out actions that will be irreversible merely to overcome a temporary crisis? We need to build a platform to ensure that women's interests are not eroded.

Time and time again, it has been shown that the absence of gender analysis leads to a misallocation of resources. While the protagonists of 'Women in Development' generally fail to analyse the macro policy issues including the effects of structural adjustment on women in the Third World, the literature on adjustment policies rarely addresses issues of gender. Despite all the noise made by women's groups and some international agencies like the International Labour Organisation, women's productive contributions to the economy are yet to be adequately recognised. What gets reiterated are the vulnerabilities of women, with the result that policy response tends to be compensatory rather than cognisant of their rights and entitlements. Cost, productivity and efficiency are words much bandied about as rationale for policies, but one must ask, at whose cost, whose productivity and whose efficiency? SAP is antiworker, antipoor and antiwomen. Bipolar categories like the State versus the market are not helpful at all. These are not always diametrically opposed. The market is not necessarily always unfavourable nor is the State always favourable. There can be various contexts in which there are other possibilities. What happened to Botswana and Zimbabwe are worth recalling. The emphasis on export implied that more and more of non-tradable goods of the community had to become tradable and this transition was far from smooth and hurt women badly, as it was women who dealt in non-tradable goods. The sustainability of non-tradable goods will be severely affected by export oriented production. It is not only women who would be victims of liberalisation but the poor in general in the Third World. The nations that preach liberalisation to us take care to guard their markets through protectionist policies. While the expected boost to exports does not materialise because of the North's protective stance, imports do not decline and predictably debtor countries fall deeper into the debt trap. That the North-South inequality widens under these adverse conditions has been too well documented to be a matter of dispute.

Government subsidies have been the favourite whipping boy for supporters of deregulation. Admittedly, some subsidies were a wasteful drain on government resources and were instituted with an eye on the elections. In the debate about subsidies we must not forget that the small and marginal farmers are not purchasers of food. High food prices will hurt them severely. A policy of export at all costs will reduce domestic availability of essential food items and raw materials. In giving a fillip to foreign investment in the wake of liberalisation, women's interests must not be jettisoned. The condition of women workers in the export oriented industries has been disquieting for the blatant violation of rights of workers and it is possible that this tendency would be further accentuated.

Talking of wasteful expenditure, in the resistance to pruning perks, pay and allowances of the government employees, our legislators make a mockery of pious pronouncements. The government has just declared two additional Dearness Allowance instalments that will drain it of a whopping amount, namely rupees two thousand crores in 1992-93. The present budgetary adjustments are no longer sustainable and revenue and expenditure are unlikely to match. Adequate measures should have been taken ten years ago. "Deregulation" is a myth if we look at our financial system where 54 per cent of all bank resources are pre-empted by the government. Secondly, given the way devolution of revenue from Centre to States takes place, there is no way by which the Central pattern can be replicated by the States. As things stand today, there will be no major shift in allocation to the Social Sector in the Eighth Plan.

Restructuring of our economy is necessary but what kind of restructuring is the point at issue. Let restructuring be done to protect the interests of the poor and women. There is not much doubt about the fact that structural adjustment will bring into sharper relief, gender inequality which is already inherent in our model of growth. What is likely to happen when exports and the share of exports in national income rises is that this will not automatically improve the prospects for a faster output growth. As evident from the liberalisation set in motion since the eighties, imports will continue to grow and borrowing to meet balance of payments deficit will have to be under stricter and stricter conditions. To sum up, the overall impact will be: (1) a reduction in the absolute size of the distributive shares of the national cake; (2) a severe cut in social development expenditure like housing, health and education; (3) greater unemployment for women, given the built-in gender discrimination in the labour market; (4) adverse effect on women's economic activities in the rural areas, with the further accentuation of female poverty demonstrated already in the increasing proportions of women turning to casual wage labour for survival.

(2)

The participants after discussion, formulated a set of *preconditionalities* for structural adjustment.

— Ensure food security through strengthening Public Distribution System.

— Increase investment on health and education, particluarly ICDS.

— Prevent displacement of women workers under exit policies.

— Formulate an entry policy; the informal sector be declared the First Sector and given priority. Protections of intellectual property rights and the environment should be preconditions for entry in the organised sector.

— Bring about genuine decentralisation and democratisation.

— Evolve rational land use patterns that ensures a balance between food crops and cash crops and between exports and domestic market to ensure domestic availability of essential goods.

— Undertake research to evaluate the impact of SAP on women.

(3)

Participants shared their experience of what is already happening to women. SEWA, Ahmedabad noted that the soaring prices of food grains have hit poor women members of SEWA. Besides rising prices, what is serious is the non-availability of food grains. Growing food crops has become unviable for many farmers in Gujarat. The prices of raw materials on which SEWA members rely have gone up — bamboo, waste paper and metal scraps. On the other hand, the sale price of their own products have not gone up and in some cases, actually gone down, cutting into the very narrow profit margins they have. For example, the price of resin in desert areas which women collect has fallen with the withdrawal of the Forest Board which used to be the main buyer and the turning over of this trade to private dealers. Wage rates for home based workers have fallen. In some parts of Gujarat even agricultural wages have fallen. With the closure of 25 textile mills, male workers are entering the informal sector and are taking on "women's jobs", like rolling papad or pounding spices. This may be breaking gender stereotypes but it is also cutting into income opportunities for women. The most tragic development is the increasing privatisation of dairying. Decades of cooperativisation and Amul's spectacular success are being undermined and with it dairying women are losing out. The one bright spot is the boost to exports of leather, *zari* and embroidery work where women are employed in large numbers. When women in the unorganised sector get organised they have to face stiff competition from the male dominated trade unions of the organised sector. Nationalised banks have done pretty little for women in the unorganised sector. In this picture of mounting *immiserisation*, the future for girls is bleak. When their labour is desperately needed by their families, schooling for them is low priority. There is increasing frustration among men facing severe unemployment that inevitably expresses itself in domestic violence and alcoholism. The number of abandoned wives and children is on the increase and the rising proportion of female headed households is not a matter for congratulation, because what it reflects is economic distress and not female liberation.

(4)

The strategy the group proposes is to reach out to the poor and women. The first important step is to revitalise the Public Distribution System (PDS), make it target oriented and allow women's groups to take control of distribution. Delivery must be at the village level to minimise chances of traders disposing of stock in towns. PDS must guarantee the supply of essential commodities in proper quantity and quality and increase the number of items. Many other countries have experimented with food stamps that can be encashed weekly. In Venezuela, the school system is used to pay $10 per child. Vulnerable sections like pregnant women and lactating mothers can be given food stamps through the health care sector. An even better arrangement would be food subsidy, as in Sri Lanka. Midday meals for children, wherever provided, have reduced the cost of primary health care. The Tamil Nadu pattern of integrated nutrition is worth emulating. School nutrition programme will also reduce school dropouts. The proportion of dropouts among school children has increased in several areas in 1989-90 due to economic distress. An effective way to run the PDS is to link it to the District Plan. The Social Sector — health and education — should be strengthened. If cuts are inevitable, they should not be across the board but be selective so as to retain priority sectors. A National Work Security Fund can be created that can offer group insurance for women, children and families. Public works have been the best antidote to poverty. Women have benefited most from public works like the Employment Guarantee Scheme or Food for Work. If retrenchment of women from organised sector is effected, there should be legislation to see that it is in proportion to the number of women employees. There are several sectors where women's participation can be strengthened in the rural areas such as primary education, water and sanitation, waste land development and earth works. These could be managed by creating labour cooperatives. Women's access to existing institutions should be improved. Decentralisation of power should be brought about speedily. The success of the 30 percent reservation for women in panchayat and mandals in Karnataka is an eye opener. Women learnt about "power", learnt to create space for themselves and were effective in voicing their concerns or in seeking redressal. What women need is the provision of space to manage their own affairs; let people conduct their own elections and run their own institutions. The real meaning of deregulation will be in such debureaucratisation. The government should provide technical assistance to women's groups but otherwise leave them alone.

A genuine devolution of power to local bodies for planning, resource allocation and implementation of programmes is what is urgently needed. In this context, non-governmental organisations and cooperatives should be supported and expanded. Usually, the Plan allocation and the budget allocation do not coincide. Alternative mechanisms that ensure the independent authority and autonomy of States is needed. A good example is that of Bihar, where the Planning Commission is thinking of a regionally focussed programme where 125 districts and 1200 blocks that have high female and infant mortality are selected for special social development programmes.

Legislation has always been thought of as "controlling" and restricting. Why not shift the emphasis to *enabling* legislation ? Such legislation can promote social security, protect the rights of workers (male and female) and children and encourage forms of organisation where people can excerise their initiatives. Privatisation need not always be solely investment oriented, it can become producer and user oriented. Decentralised control by users will retain wealth where it is generated. The government can free cooperatives from its control. It is ridiculous that the cooperative department has a fund three times larger than what is at the disposal of sixteen Chief Secretaries.

Our options are indeed limited but there are four critical areas of action — enabling legislation, promoting modes of organisation that are participatory and under people's control, evolving projects and schemes at grassroot level and safeguarding minimum needs of the poor (including women) through regulatory macro policies on prices and subsidies.

2

CAN WE CONVERT THE CRISIS INTO AN OPPORTUNITY?

Devaki Jain and Colleagues

A perspective that is shared by those who are working with the poor is that :

(a) The poor are in the "private" sector anyway — they have always been market oriented in their livelihood strategies. In fact their choice of livelihood strategies has to be "viable", that is steadily earning an income with revenue greater than expenditure (basically of labour), otherwise they would die.

(b) The State and its regulations are a nuisance, an obstruction. They want the State out of the way, whether in the cooperative sector or in employment development. So "deregulation" does not worry them.

Words like privatisation and deregulation have a different response from these constituencies. But the expectations they have from the State are that it should:

— Leave spaces for "private" operation, that is, certain areas of production such as nurseries, plantations, water harvesting, soil conservation, sanitation and primary health.

— Set up by law the bodies of local governance in order to provide accountable institutional mechanisms for designing and implementing transformation.

— Provide financial resources for social security and so on.

In the analysis of impact of adjustment we have several streams. One, those who created the crisis of balance of payments etc. as well as those to whom the new reforms are relevant, are a *section* of the economy, namely the organised industrial and trading sectors. In other words the masses, the poor, the self employed are in another world where the gains of adjustment are dubious. But they stand to lose a lot. There are known indirect adverse effects, for example, spiralling of prices of essential goods — bread, milk, foodgrains, oil (for energy), transport and so on. Increase in the cost of living in their case is not protected by any compensatory rectamism. While living expenses will go up, their wages will go down with increased pressure in the job market. Besides, there will be a cut in social expenditure, a cut in expenditure on civic amenities, that is, the "Public Sector".

The question is: Since the "mainstream" is the small "elite" sector and the "package" required by the masses is required by them anyway, adjustment or no adjustment, can we provide good advocacy, programme, implementation and access and extract resources for the "First" sector, that is those "outside" the "adjustment alliance"? *Here is an opportunity.*

Second, the fear of social conflict which is implicit, leads to political instability. The knowledge that the poor cannot be made to pay the price for the folly of the "powerful" and there is no assurance that they have rendered their ways gives a handle to pro-poor groups. Thus a challenge is before us.

INFORMATION

How does the Bank describe what it has "given" to India?

India will make its economy more market-oriented and efficient through a "structural adjustment" programme supported by a loan of $250 million from the World Bank and a credit of Special Drawing Rights $250 million from the IDA (World Bank, 1991). India's structural adjustment programme includes a variety of changes in the way the country manages the economy. These changes are expected to increase economic growth, promote the growth of the private sector, and improve the country's credit-worthiness in the international capital markets. The programme covers changes mainly in government policies, affecting industry, trade, finance and public enterprises.

In industry, the government will take actions to promote international competitiveness. Administrative changes will make it easier for new firms to enter the industrial sector and for existing industries to expand, modernise or diversify their operations. To stimulate trade, the government will eliminate a number of import quotas and end some parasitical monopolies on exports and imports.

Reforms in the financial section will encourage the growth of capital markets and increase çompetition. Industrial reforms include phasing out subsidies for some industries to encourage them to become more commercially oriented. According to Joseph Wood, World Bank Vice President for South Asia, India's adjustment programme is "critical to the restoration of sustained, faster growth of the economy" and will help reduce the incidence of poverty in the long run. Speaking at a press briefing at World Bank headquarters in Washington, December 6, Mr. Wood described how the programme was set up to put the Indian economy in a position where it could grow rapidly without building up large amounts of foreign debt. As industries are restructuring, Mr. Wood pointed out, some people may lose their jobs. The government is taking action to help these people find new jobs, mostly in public works programmes. The government is also building up India's "social safety net," Mr. Wood said. The adjustment programme will be carried out during the next four or five years.

In the next few months, the World Bank may approve additional lending for adjustment measures in specific sectors of India's economy, Mr. Wood said. He also noted that the Bank's commitments to the country to finance economic reforms and development projects may total as much as $3 billion in fiscal year 1992, which ends on June 30, 1992. "I think the thrust of the programme is sound and that the goals seem well-conceived and well-articulated", Mr. Wood said. "A new government took office in June 1991. Since then, India has launched a number of changes designed to increase competition in the country".

What is the IMF/World Bank "Package"

The immediate objective of an IMF programme is the improvement of a country's balance of payments. An IMF programme essentially consists of demand management measures designed to reduce domestic absorption, with special emphasis on the reduction of the overall deficit of the public sector, including the Central Bank.

It is assumed that a devaluation will shift resources from non-tradable to tradable goods and services, thus strengthening the balance of payments. *Three key prices* govern the macroeconomics of an IMF programme: *the price of foreign exchange, the price of credit,* and the *price of labour.* The latter is controlled by wage guidelines. A high rate of interest and a high rate of return on capital are supposed to attract resources into the country, which, if they materialise, would strengthen the balance of payments.

While IMF programmes govern macroeconomic variables, with special emphasis on reducing the availability of domestic credit to the public sector, the structural adjustment programmes of the World Bank address 'economic efficiency' *at the microeconomic* level. Public enterprises are subjected to profitability criteria: public utilities supplying water, electricity and transportation are required fully to recover costs and show profits; where they are unable to do so, they are to be privatised.

How is Asia different from Latin America and Africa

In the worst years of crisis in Africa, Latin America and the Caribbean, and zero growth in the poorer countries of Southern and Eastern Europe, North Africa and the Middle East, the poor countries of East and Southeast Asia have recorded an average annual increase in Gross National Product per capita of 6.4 per cent in 1980 to 1985. Only one of the 45 countries classified by the World Bank as severely indebted is located in East or Southeast Asia.

Geographically and culturally distinct from East and Southeast Asia is the Indian subcontinent, including Sri Lanka. Although not as spectacular as the growth momentum of China (10.4 per cent) or Korea (8.6 per cent), the countries of South Asia, with a combined population of 1,080 million have all achieved an annual GDP growth (India: 4.6 per cent and even Bangladesh: 3.8 per cent), which was stronger than in the previous 15 years. South Asia as a region with growth in per capita GNP of 2.9 per cent in 1980-85, together with East and Southeast Asia, stand in stark contrast to Africa, Latin America and the Caribbean. They have not been affected by the disorders of the international system of trade and payments and associated debt problems of the 1980s. Not a single country in South Asia is among the 45 severely indebted ones.

How does an Indian Economist (in Government) describe it

The Government of India is presently implementing the now familiar package of stabilisation and structural adjustment policies. In addition to solving the immediate foreign exchange crisis, these policies are meant to restructure the economy so as to stimulate long-term growth. Fundamentally, the restructuring involves *a replacement* of the *import-substituting growth* strategy by an *export oriented growth* strategy and a *radical reduction in the role of the state in the economy.*

At a recently concluded workshop on "Social Dimensions of Structural Adjustment" organised by the International Labour Organisation (ILO), an economist working for the Government of India, hinted at the kind of reforms that the government may think are called for. According to him, the legal job protection for workers should be replaced by hiring workers on contracts. Thus, he wanted to abolish all laws which prevented the closure of firms while at the same time providing minimum compensation to workers.

He also wanted the replacement of the present excise duties and corporation tax by a flat rate value and added tax with minimum rebates and exemptions. Further, the economist argued that custom duties should be levied on a limited scale to protect new industries and not as a source of income. Moreover, the government should also be subjected to stringent budgetary constraints and all capital investment of the government should be routed through mutual funds.

The aim of the trade policy, according to the economist, should be to debureaucratise trade, and to level off exports and imports. Furthermore, price and distribution of agricultural goods should be abondoned with export controls. The idea of bringing in direct foreign investment is neither to tide over the balance of payment crisis nor to bring in the latest technology, but to bring in new forms of management. For this, all regulations should be abolished except making dividends or interest on foreign investment payable out of exim scrips. To prevent foreign investments from achieving control of the economy, a list of the 300 biggest firms in sensitive industries should be drawn up and they should not be allowed to accept foreign investment over 10 per cent of their equity.

As for the distinction between the public and private sector, this should be removed by issuing public shares. The economist feels that the regulations on the stock market should also be minimised. He recommends that interest rates and banking should be deregulated and private banks be allowed to open but close public sector banks that are bankrupt.

What would be the impact of these policies in a country where half the population is still below the poverty line? According to him, the economy should be able to maintain a growth rate of 6.7 per cent, if the capital-output ratio came down to 3 or 3.5. And if, as a result of the reforms, the saving rate would increase by 8 to 10 per cent, giving rise to a per capita growth rate of 6 to 7 per cent, the effect on employment growth would be equally dramatic, the economist claimed.

The policy measures listed, however, are nothing more than a step towards the implementation of the IMF stabilisation and structural reforms in areas of deregulation, privatisation and liberalisation.

(The essential elements have been summarised and mentioned in the Annexure).

ANXIETIES

Macro Anxieties on the IMF/World Bank Motives

General Impact:

Negative Net Transfers to Creditors Countries

The net transfer is a cash flow concept and records the difference between capital inflows in the form of new loans and outflows of debt service due on previous borrowing. Debt service is composed of interest and repayment of principal. When debt service exceeds net borrowing, net transfers are negative, resulting in cash flow from debtor to creditor countries.

Negative net transfers (from developing to developed countries) appeared in the year following the onset of the debt crisis in 1982, as a direct consequence of the panic which seized the commercial banks when Mexico announced that it was unable to service its debt. In 1983 the banks pulled out $12 billion from all developing countries, of which $11 billion was extracted from Latin America. In 1984 another $22 billion was withdrawn, of which $16 billion was from Latin America. By 1985 and throughout the remainder of the 1980s, transfers from developing countries to commercial banks have been running at about $30 billion per annum. New commercial bank lending to Latin America has diminished to a mere trickle.

Developing countries have been in a situation of negative net transfer to the industrialised world in every year since 1983, for a total net transfer of $227 billion, on account of long term ($149b) and short time ($78b) debt. The stock of debt however has not diminished, but has increased by $341 billion since 1983. Interestingly, commercial banks were able to capture *a total of $176 billion net transfers,* thanks to the assistance of the *IMF which covers their retreat* by extending loans in excess of repayments and interest charges of $11 billion in 1983 and 1984 — mostly to Latin American debtors. Since 1985, the fund has more than recovered these loans, having received a net transfer of $30 billion from the developing world.

It is not generally known that the IMF operates with relatively small resources. The total outstanding IMF credit of $30 to $40 billion amounts to a mere 3 per cent of the external debt of developing countries. While the IMF expanded the scale of its operations in the early years of the debt crisis, all the major regions of the developing world, including the poorest regions of South Asia and Africa, south of the Sahara, have been in a situation of negative net transfers to the IMF since 1985.

Sub-Saharan Africa has contributed a total of $7.5 billion in net transfers to commercial banks, and further $2.2 billion to the IMF. Positive net transfers into Africa have come exclusively from official sources: $11.5 billion from the World Bank's IDA and $8.6 billion from bilateral donors. Aside from IDA funds — which are available only to very poor countries — the World Bank's International Bank for Reconstruction and Development (IBRD) has made no direct contribution to net resources of the developing world since 1983. In recent years the IBRD, like the IMF, has been in receipt of net transfers — excess of repayments and interest charges over new loans extended. This is true for all the major regions of the Third World, including sub-Saharan Africa, with the single exception of South Asia.

The severely indebted countries fall into two categories: middle income countries, mostly Latin America, and low income countries almost exclusively in Africa and south of the Sahara. Specifically, 12 of the 20 countries now classified by the World Bank as 'severely indebted middle income countries' are in Latin America; while 24 of the 26 'severely indebted low income countries' are in sub-Saharan Africa. (One of the two exceptions is Guyana). It is significant that only one of the 46 'severely indebted' countries in the East or Southeast Asia and the Philippines is in some ways more Latin American than Asian! The poor countries of South

Asia are not among the 'seriously' indebted, although Pakistan, Bangladesh, and Sri Lanka are considered to be 'moderately indebted' — and India is in danger of being sucked into an IMF debt trap.

The pattern which emerges from this brief review of the progression of the debt crisis is that official creditors, both multilateral and bilateral, initially move the funds into the crisis regions to assist in averting a collapse of the international banks. After 1985, when it became clear that private creditors were no longer dangerously exposed, there was a concerted change of policy which resulted in an absolute reduction of net resource flows to developing countries from official sources.

It would be interesting to examine the results of such policies in Africa and Latin America which have been under the IMF regime for more than a decade.

A net positive inflow of $38 billion to capital accounts of developing countries in 1979 was transformed by 1986 into a net outflow of $50 billion. Today, the negative flow has only increased. Taking into account loans, aid, repayment of interest and capital, the South is now transferring at least $20 billion a year to the North. And if one were to take into account the transfer of resources as a result of reduced prices paid by the industrialised nations for raw materials, then the annual flow from the poor to the rich might be as high as $60 billion each year.

The per capita income of the average Latin American was 9 per cent lower in 1989 than in 1980. In most countries the standard of living slipped back to what it was 20 years ago. The GDP per capita in late 1990 was 9.6 per cent lower than in 1980, consumption fell by 6 per cent and inflation soared, reaching an average of 1,500 per cent in 1990. Today, one third of Latin America's population — 130 million people live in dire poverty.

In sub-Saharan Africa, out of 44 countries only 12 have been able to service their debts. In 1986-87 debt service charges amounted to over 20 per cent of their total export earnings. In 1988-89 the situation was such that the debt servicing of $21 billion was so high that there was too little to finance the imports and to promote higher growth. In general, for heavily indebted middle income countries, the rate of growth in 1987 was only 1.6 per cent. In the case of Africa, the ILO has estimated that the number of poor people rose from 210 million to 278 million from 1980 to 1985.

In Latin America, the change in the nature of employment towards less productive activities has meant under utilisation of the labour force from 40 to 42 per cent during 1980 to 1990. Jobs became more precious, and resulted in greater instability in employment, the replacement of full-time employment by part-time employment, and the growing recourse to sub-contracting. The deterioration in the quality of employment was accompanied by a drop in wage income. Real wages fell faster than per capita income. Workers in the modern sector experienced a drop in their wages as a result of higher inflation. In particular, public sector employees experienced wage reduction often accompanied by job losses.

Critique

The old international economic order has disintegrated; the traditional engines of growth of the peripheries are obsolete, and the new ones offered in the form of 'outward looking development' are pushing countries back to the status of export-import economies — without the strong commodity markets or cheap finance. The ultimate purpose of 'adjustment' in highly indebted countries is the phasing out of official international development assistance. Scores of countries caught in a debt trap are being 'adjusted' to a new world order designed by the economic elites of the major industrial countries.

Macro Anxieties — India

The Indian policy makes everyone fully aware of the experience of fellow developing countries. There is no explanation how India will be able to avert these sour consequences. Nor is there an indication of how India, which till as recently as 1985, was not included in the list of debt-trapped countries has walked into the trap. And, even if indebtedness has been enlarged in this short period, to what short and long-term good of the economy has the debt resource been applied and with what success? The anxiety is that in the absence of these elucidations — to itself, and to the people at large — the government may persist on, what in the absence of explanations appears to be, a perilious path.

All we have for the present is the reiteration by the Prime Minister, Mr. P. V. Narasimha Rao, who has made it amply clear that the process of liberalisation and globalisation is irreversible, indeed will soon be speeded up. A good part of the Planning Commission's task has thus been hijacked, and the national objectives, at least for the next five years, have been redefined.

The Eighth Plan, it is said, will focus on: Clear prioritisation of sectors/projects for intensive investment in order to facilitate operationalisation and implementation of the policy initiatives taken in the areas of fiscal, trade and industrial sectors and human development; making available resources for these priority sectors and ensuring their effective utilisation; creation of a social security net through employment generation, improved health care, and provision of extensive education facilities throughout the country and creation of appropriate organisations and delivery systems to ensure that the benefits of investment in the social sectors reach the intended beneficiaries.

Once it is recognised that the initiatives already taken by the finance, commerce and industry ministers amount to transferring the core of development decisions to the private sector and allocation of resources to the market, what exactly does "prioritisation of sectors/projects" by the Planning Commission mean? With progressive liberalisation and involvement of private foreign investment, the selection of projects and investments over a large part of the economy will be "prioritised" not by the commission but by the trends in prices and profitabilities.

The only investment decisions that lie with the government are those relating to that part of infrastructure and social services left in the public sector, more or less as a residual claimant of investible resources. The government's principal concern these days is not planning or finance for public investment, but bringing the fiscal deficit down to 6.5 per cent of GDP in 1991-92, and further to 4 per cent by 1994-95. For this purpose, the means chosen include a cut-back in real investment in the public sector rather than any increase and in the immediate future, whatever remains for public investment will be absorbed by projects on hand — none of which is, if the past is any guide, likely to be suspended or given up.

As regards infrastructure, the commission says that schemes or projects that do not make "economic sense" will be weeded out. With severely limited plan resources, this may be desirable. But what precisely is economic sense in this context? It is just the commercial profitability of the project, its internal rate of return, or the dynamism it imparts to overall development? What, moreover, is the commission's time horizon or value-basis in this regard? If the commission has any specific criteria for investment choice, the document gives no indication.

As in the past, the document lists all the "desirable" objectives namely, employment generation, population control, literacy, health including drinking water, rural electrification, irrigation (including intensive use of watershed management), diversification of agriculture to horticulture and wasteland development with emphasis on promotion of agricultural exports.

Oddly, when there is so much concern about exit policy, closure of public undertakings and foreign competition leading to increased industrial unemployment, the commission has little to say about the strategy for employment generation. Nor is it specific on the programme for small-scale industries. There is also no mention of how the agricultural sector is to be restructured or reoriented to attain higher levels of growth, productivity or exports. Admittedly, a brief document of this nature cannot go into details, but it has surely to indicate the broad features of the development strategy to be adopted in the principal sectors.

The recommendation that for "Human Development" resource allocation be through self managing organisations at the village/block/district level does not by itself alter that much. The Constitution (72nd Amendment) Bill, 1991, before Parliament, does of course envisage that panchayats should be enabled to function as units of self government. But the devolution of authority to them is limited to the preparation of plans, with implementation being limited to only such schemes, "as may be entrusted to them" by state legislature.

Past experiences show that state legislatures are not particularly keen to transfer adequate resource, or endow local bodies with enough allocative freedom. If in terms of strategy, the commission has any idea of encouraging effective area-planning by local governments, the concept of controlling local self-managed organisations through resource allocation measures does not convey that impression. In fact, the decision of the Central Government not to put in the "village development pool", funds relating to Jawahar Rojgar and Indira Awaz Yojna contrary to the wishes of the Planning Commission and the National Development Council, will frustrate area planning and perpetrate infractuous exploitation and leakages.

Chances are that single window operations will become extended arms of the central bureaucracy at district and lower levels, thwarting at one stroke the autonomy of state and local self governments. This apprehension is further enhanced by the Commission's intention to create a 'national grid' of Non-Governmental Organisations whose work is to be recognised, encouraged and supported — presumably by the Planning Commission.

Harnessing of NGOs and individual voluntary contributions are best left to local governments to work out, on the basis of their specific needs and the knowledge of concerned organisations or individuals. To talk in terms of national grids, is to seek to convert them into surrogate bureaucracies.

We have already embarked on structural adjustments which are oriented towards global integration, on the assumption that there will be national development. There is no guarantee that this will happen; nor is there any world body which can, like national governments, use fiscal devices to ameliorate unequal distribution of benefits. It is incumbent on the Planning Commission to explain what concrete measures it proposes to take to ensure that economic development not only gathers momentum but goes with social justice and effective democracy.

Stabilisation cannot be painless especially when it is combined with a programme of structural adjustment. It would be unethical and contrary to all modern principles of welfare if the burden of such austerity and adjustment is allowed to fall on disadvantaged groups and social classes, poor people in general, who are least capable of bearing that burden. Unfortunately, it is precisely such groups which may end up bearing the burden, simply because they are not sufficiently powerful or organised to protect their interests. A democratic government in particular must actively intervene to protect these classes from the impact of stabilisation. Indeed, no such government may survive for very long unless it is clearly perceived as acting energetically to protect the poor during the period of austerity and adjustment.

In practical terms such protection would mean spreading a wider safety net, by way of an expanded public food distribution system, expanded employment programme and so forth, to offset the inevitable increase in unemployment and distress brought on by stabilisation. Admittedly, this should be combined with much better targetting and tightening to reduce leakages or the flow of food subsidies to undeserving recipients. The argument is sometimes advanced that the government cannot spare the necessary additional funds to finance an expanded safety net during a period of austerity. However, it has been shown that large sums of additional money could in fact be made available for an expanded safety net during the stabilisation period. Further, this could be done without any additional burden on the exchequer, simply by economising on expenditures of dubious social or economic merit elsewhere.

How would the government finance such an expansion of the safety net if its cost adds up to around Rs. 4,000 crores? Bagchi, Chelliah and Mundle (1991) have shown that even in the budget for the year 1991-92, an additional sum of Rs. 3,000 crores could have been spent to expand the employment programmes, *within the fiscal deficit target of 6.5 per cent of GDP set for the year,* through feasible economies elsewhere in the budget and better recovery of user costs. For the next year, 1992-93, The National Institute of Public Finance and Policy, (in its recent note submitted to the Finance Minister), has suggested possible expenditure compression measures, excluding defence, which could save Rs. 6,000 to Rs. 8,000 crores (NIPFP, 1991). Allowing for additional economies in defence expenditure, it is evident that just half of the money saved could help in the expansion of the safety net. The balance could be absorbed in containing aggregate expenditure, in order to meet the exceptionally stringent fiscal deficit targets set for the next two years.

The stabilisation and structural adjustment policies at present do not incorporate explicit employment and safety net policies. In the area of employment the only proposal is for the setting up of a National Renewal Fund. This is an 'unemployment' rather than employment fund. As for poverty alleviation, the public expenditure on anti-poverty programmes has been declining in real terms for a while and no effort has so far been made to arrest the decline.

Yet there are good reasons to believe that the recent policy changes would affect employment and poverty adversely. It has been argued in a recent paper that employment will decline at least in the short run. That the Government also recognises this, is reflected in the fact that a National Renewal Fund, designed basically to provide social security benefits to retrenched workers in the organised sector, is proposed to be set up. But there are no proposals to deal with the very serious problem of employment generation emerging in all sectors of the economy. The probable adverse impact of the policies on poverty is not even recognised. Indeed there is a tendency to argue that poverty has been declining in recent periods and that this trend will somehow continue. But poverty has been declining in the 80s precisely because of the emphasis placed on the anti-poverty programmes.

SOME OPTIONS

In the objective situation of India (political democracy, demographic pressures, steeply declining employment growth rate, gruesome dimensions of poverty and disparities) — one cannot even moot an 'exit policy' without first launching an 'entry policy'. The productive engagement of the entire unemployed and underemployed in income earning work is the most crucial and durable basis for strengthening the economy and safeguarding the poor against any assault from the economic reforms.

Entry Policy

Some of the vital steps to accomplish these objectives are:

1. Energising the agricultural/rural base by deregulation, that is, abolition of rural bureaucracy and its replacement by panchayats (elected, accountable institutions) across the

country, which are fully empowered to optimise existing investments, services, plan expenditures; to develop/mobilise additional resources for local development by proper care and careful use of the vast natural resources of soil, water, and vegetation; and maximise, plan and implement, local employment opportunities in productive avenues.

2. Energising especially agricultural/processing/marketing/credit cooperative institutions by deregulation, that is, abolition of control of cooperative bureaucracy and corresponding reforms in cooperative legislation to ensure replacement of bureaucratic control by member control.

3. Energising the *first sector* (currently described as the informal sector, by deregulation, that is, abolition of what has come to be described as 'inspector raj'. *The first sector* is large, heterogeneous, resilient and is "populated" with persons and families to whom survival is the strongest draw. This sector bears its own risks and continues to expand itself against all odds. Liberation from inspector raj by itself will give it a tremendous stimulus for optimising, expanding output, employment and owners own investment resources. One can ask why the US $500 million is to be put aside as 'exit' security for industrial workers, who leave; should it not be given first to the first sector, which is three times larger in work force and output, to expand?

Note: The above three steps would have multiple gains for the economy. It would *cut out huge bureaucracy* and pave the way for both optimisation of existing resources, and mobilisation of additional resources outside the budget. More importantly, the institutional frame provided by panchayats/cooperatives (free from bureaucratic clutches) will introduce tremendous dynamism in rural/agricultural development, improve management of environmental concerns, expand output, employment, diffuse purchasing power, improve management of primary education and health and thus curb demographic pressures.

These steps will together produce a self-built safety net through the efforts of millions of workers. Such a safety net will more assuredly serve women and the weaker sections.

4. A fourth step in the entry policy package is the expanding of public investment for universalising minimum needs; and full coverage of the poverty population and other vulnerable sections by expanded PDS.

Exit policy

Comprehensive implementation of the entry policy package must precede any exit policy. Currently, the exit policy is very narrowly conceived. It is confined to workers in the organised sector. It is an oversimplification to assume that workers' wages are the prime factor in impeding industrial health. On an average, the share of wages in the cost of production is minor compared to many other elements. A constructive and just exit policy should therefore have a broader package of reforms and pursued in a discreet order of priority, that is, the Central Government setting an example first, followed by the states, then the corporate management, then and only then, the suggested order of priority:

1. Strict austerity, that is, elemination of wasteful and ostentatious expenditure by the government and the corporate sector.

2. Drastic reduction in Central Government staff and expenditure related to functions to be transferred to panchayats, cooperatives and private enterprises including associations of small entrepreneurs.

3. Disinvestment of public enterprises which are not serving any public purpose or not able to make both ends meet under public sector management.

4. Elimination of obsolete government programmes and services.

5. Freezing of salaries/perks in the entire government sector.

6. Effective lead to be shown by the Central Government in respect of 1 to 4 above, and then for it to persuade/press State Governments to take similar action.

7. Freezing of managerial remunerations and perks in the corporate sector.

8. Curtailment of excessive inventories.

9. Impounding of dividends/bonus above a certain limit.

10. And, only then should curtailment of 'excess' labour be contemplated. 'Excess' is to be determined objectively in terms of excess over a reasonable percentage of cost of wages in the total cost of the product. The enterprises should negotiate with unions/employees for settling the exit package.

ANNEXURE

The essential elements of each Policy are stated below before going onto discuss their likely consequences.

1. **Labour Policy:** The aim should be to replace legal protection of employment by contractual obligation to make separation payments. (a) All laws preventing closure should be repealed and replaced by a law creating a prior charge on bankrupt firms; assets for a minimum level of workers' compensation. (b) The law should be applicable to viable firms as well. For them, a contributory insurance service should be set up which would assume the liability for workers' compensation in the event of bankruptcy and free their assets of the statutory obligation. It would clearly not be in the lenders' interest to lend to an uninsured firm; thus all firms depending on external funds would be induced to insure themselves. (c) The protection against dismissal embodied in the Industrial Disputes Act should be replaced by a contractual obligation to make separation payments. This obligation should also be covered by contributory insurance.

2. **Fiscal Policy:** The keynotes should be: concentration on the provision of public goods, moderation in redistributive policies and nondiscrimination between producers. (a) The present excise duties and corporation tax should be replaced by a flat rate tax on value added with the broadest coverage and the fewest rebates and exceptions. (b) The present income tax should be levied at much lower rates with much fewer rebates and concessions, and should be subject to set-off value added tax paid by an employer. (c) Customs duties should be used on a limited scale for protection of new industries, but should cease to be a source of revenue. (d) The present constitutional division of powers of taxation as well as division of revenue should be abandoned. Instead, there should be a single system of tax administration. State and local governments should be able to piggyback on central taxes, and vice versa. (e) The government should be subject to a hard budget constraint in the form of a public sector

borrowing requirement, and ministries should have a hard budget constraint as well as performance criteria to fulfil. (f) All government investments should be routed through mutual funds which would invest them on the basis of financial return (g) All marketed government goods and services should be sold at economically determined prices. Cross subsidies should be prohibited. All subsidies should be made explicit and paid out of government budget.

3. **Trade Policy:** The aim should be to debureaucratise trade and to level the field in both exports and imports. (a) Eximscrips should be freely tradeable, and should be sold at the counter in banks, post offices and any other institutions who wish to trade in them. The only payments that would not be financed from eximscrips are government obligations for debt and expenses abroad. (b) But as the balance of payments improves and the premium on eximscrips declines, the eximscrip entitlement of wage goods and major exports should be cut and they should be placed on OGL (c) Tariffs should be low on all inputs, capital goods and goods that are easy to smuggle. The present dual price structure should be dismantled by a combination of tariff reduction devaluation, temporary subsidy to high-cost industries and temporary differential allocation of eximscrips. (d) The tax on value added, proposed above, should be rebatable on exports at a flat rate. (e) Price and distribution controls on agricultural goods be abandoned together with export controls.

4. **Foreign Investment Policy:** The point of bringing in foreign direct investment is not to relieve the balance of payments or to bring in technology, but to bring in new forms of management. (a) To guard against foreign enterprises achieving strategic control of the economy, there should be a negative list of 300 biggest firms in the country and firms in sensitive industries which would not be allowed to accept foreign direct investment over 10 per cent of their equity; there would be no limit on foreign portfolio investment.

(b) Dividends or interest on foreign investment should be payable out of eximscrips either earned on exports or purchased in the open market. (c) All regulations, other than the above two, should be repealed.

5. **Public Enterprise Policy:** Separation payments for labour in public enterprises should be governed by the same policies as those we earlier set out for all enterprises. The distinction between the public and the private sector should fade out through closures and public share issues. (a) Once, as said above, the government channels all its investment through mutual funds on economic criteria, public enterprises will have to compete for funds on equal terms with the private sector. They should be free to issue equity or to borrow. If their issue of equity leads them to be privatised, there should be nothing to prevent it. (b) Terminally sick enterprises should be sold and their workers compensated as described under labour policy. Loss making enterprises would not be able to get closure insurance and hence be unable to borrow, unless they cease to make losses. The government should hire professional managers for them at its own cost, and should fund economic assessments liberally, but not finance their losses. (c) Where possible, public enterprises should be divided into a number of competing enterprises. Where it is not possible, they should be subjected to regulation of price and quality of product if necessary. Apart from this, all government controls on public enterprises should be removed.

6. **Monetary Policy:** The aim should be to create a capital market which would stimulate savings and offer savers a much broader choice of investments. (a) All government investments and investment in public enterprises must also pass through mutual funds, so that it is channelled on the basis of economic prospects rather than plan targets. (b) Stock exchange should be allowed to be set up, subject only to a minimum of restrictions, and to high level of computerisation and electronic communication in every stock

exchange; and it should encourage interlinking of stock exchanges. Share transfers should be simplified, and paperless financial instruments should be provided. (c) Income tax law should allow the spreading out of capital gains over a fairly long period. (d) The provision for compulsory government purchase of property suspected to be under-valued should be repealed, but much more extensive provision should be made for compulsory auctioning. (e) Competition in the mutual fund market should be promoted with full vigour, subject only to rigorous disclosure requirements on investments and costs. (f) Interest rates should be deregulated. (g) Banking should be deregulated: private banks should be allowed, bankrupt public sector banks should be closed down and their deposits transferred to other banks, sale or closure of branches should be allowed, fuller disclosure should be required of banks, and banks should be allowed to go into long-term lending on their own or through subsidiaries.

These are not the only reforms that are necessary: for instance, we have left out agriculture, but their basic theme is, clear enough. If these reforms are carried out, what effect would we expect on output and employment? With the current savings rate, the economy should really be able to achieve and maintain a growth rate of 6-7 per cent if the capital-output ratio came down to a reasonable 3-3.5. The aim of the monetary reforms is to make industrial investment more attractive, and to broaden the choice available to the investor. If, as a result, the savings rate went up to say, 30 per cent, there is no reason to expect a growth rate below 8-10 per cent. That would raise the per capita growth rate from the recent 2-3 per cent to 6-7 per cent; the effect on the growth of employment would be equally dramatic. The physical bottlenecks, for instance of agricultural goods or energy, which have limited growth would be much less constraining, once foreign trade is opened up.

These are long-run maintainable growth rates. In the initial years, higher growth rates would be attainable as the inefficiencies into which the economy has got encrusted break up. The magnitude of this initial effect cannot be guessed. An acceleration in growth rate introduces flexibility into the economy which makes structural changes easier.

REFERENCES

Ashok Rao. "No Consensus on IMF Conditionalities", January 27, 1992, *Indian Express*.

3

NOTES ON ISSUES REGARDING WOMEN AND THE NEW ECONOMIC POLICY*

K. S. Krishnaswamy

The essentials of the New Economic Policy are (a) marketisation and privatisation; (b) globalisation; (c) modernisation and (d) concentration on productive efficiency and GNP growth rate. The "structural adjustment" involved in seeking these will be through (i) decontrol and deregulation (ii) freedom of entry to foreign goods and investment (iii) adoption of "market-friendly" fiscal, exchange, trade and credit policies (iv) cut-back in public expenditure (v) limitation of 'fiscal deficit' to low levels (vi) concentration of government investment in infrastructure, education, health and similar "soft" areas (vii) adoption of up-to-date technologies (viii) use of experts as a primary instrument of balance of payments adjustment and promotion of industrial efficiency (ix) "exit policy " measures in industry and (x) withdrawal of subsidies of all kinds. Other minor policy changes are not touched upon here.

* Paper presented on February 7-8, 1992.

There are two ways in which poor women, like other vulnerable citizens, will be affected by the new economic policy, except that in their case the impact is apt to be much heavier. These are firstly as consumers and secondly as working members of society. To take the consumer aspect first, the series of fiscal and other measures which have led to double digit inflation in the year 1991-92, which are likely not only to continue but be intensified after the next budget, will seriously affect the standards of consumption of women — who are discriminated against as workers and generally also in intra-family food distribution. There have been statements of extension of the public distribution system to rural areas and to slum areas in urban concentrations; but given the experience so far of the low quality and irregularity of supplies to public distribution outlets, the likelihood of consumption essentials reaching poor women better than in the past is pretty small.

Similarly, the new economic policy contains as one of the offsets to expected deprivations, a continuation and possible increase in expenditures on education, health and drinking water. How much of this will actually materialise and what part of the programme will be specially addressed to meet the needs of poor women require to be watched. This in any case constitutes one important area in which both additional fact finding and highlighting of women's needs with policy makers are urgently required.

In matters relating to education and public health particularly, there are many obvious lacunae in protecting women's interests which would require specific action. These are all familiar and I shall not dwell at length on them here. However, there is one aspect of the new economic policy of which we should take some advantage, and this relates to a drastic reduction (hopefully) of bureaucratic arrangements for delivery of these services. Locally based and locally supported NGOs have a great possibility in taking up this area of work and strengthening not only the supply of such services but, in the process, the capacity and skills of local agencies for organisation and self-governance.

I shall now turn to the other aspect namely, the question of women as equal participants in the production processes. The government has made it clear enough that the process of globalisation, modernisation and marketisation will involve the closure of a large number of industrial enterprises. The consequences of this will be to create substantial unemployment in both the organised and unorganised sectors of industrial manufacture. Amongst the industries likely to be heavily affected are textiles, especially the handloom sector, construction and construction materials industries; sugar industry; leather industry, and a variety of small-scale industries which are not direct ancillaries of large-scale units. There are also some kinds of food processing industries, which may suffer because of competition from foreign or joint large scale food processing industries, which are being allowed entry by the Government of India, for example, General Foods, Nestle, Cocacola, Pepsicola and Kellogg. However, the likelihood of new food processing industries coming up in the new environment should also be recognised.

Reduced employment as a result of the above will affect women both directly and indirectly. Since in many industries women are employed in the relatively low skill areas, import of modern technology will probably lead to a cut-back in such jobs, proportionately more than in others. Secondly, since large numbers of men will also be without jobs and many of them too old to be re-trained, they become potential competitors with women for the low skill and low paid jobs. In consequence of these changes and the new parameters of judging efficiency in labour, there is a high probability of even those women who do not lose their jobs, having to accept lower wages or undertake more strenuous jobs for the same pay.

The government has declared that the interests of workers will be safeguarded through a variety of safety nets in both public and private sectors. Exactly what these safety nets contain and how they are expected to safeguard the consumption standards of the jobless is not yet clear. If these involve both re-training and re-employment programmes it is important that we direct efforts to secure adequately the interests of women through specifically designed, non-gender discriminatory schemes of action. In addition, given the palpable handicaps that women are subject to, the so-called safety net programmes should make special arrangements for taking care of women who are deprived of their jobs.

In terms of the exercises that should follow this brainstorming session, I would accord priority to the issues covered in the above paragraphs. They are all part of the so-called 'transition' period about which the estimates range from 3-10 years. My perception is that given the inertia of Indian society in general and the resistance to change of the bureaucracy in particular, the transition is likely to be nearer ten than three. Hence these issues cannot be brushed aside lightly as transient adjustment problems; and the need for gathering of information and formulation of concrete proposals for action is urgent.

So far I have looked at the hardships that the structural adjustment process will inflict on poor women as on other vulnerable sections of society. But this is not all. There would also be new opportunities of which we should take advantage. Touching on a very general point first, the expansion of the private sector in industry and other areas will also mean that for a variety of answers to the problems of work and welfare, there would be other agencies besides the State, which we can hope to draw into active participation. How much of this will be possible, of what kind and in what measure remain to be seen. But we should recognise this new situation and think in terms of sensitising and informing decision-makers outside government to the poor women's problems of development.

More concretely, with the import of new technologies and new processes, there will be several areas of new skill formation in which both men and women start with equal advantage or disadvantage. In such cases advance measures to provide training facilities for women — preceded or accompanied by quick and effective methods of general education — would yield very high dividends and some speculation about this is worthwhile. Opportunities would be particularly high in industries based on the processing of agricultural raw materials, forest products, medicinal plants, dairy and poultry products and construction materials based on domestic inputs. There will also be scope in industries in which specific parts, components or processes can be farmed out and later gathered together for minor or major assembly. Technical experts and industry associations conscious of their social responsibilities would be possible sources of help in identifying such areas and organising training facilities.

The new agricultural policy is not clear about how the problems of development in the agricultural and service sectors will be addressed. Keeping in mind the impact that developments in bio-technology abroad may have on Indian agriculture, we should expect the trends in land based activities — such as dairy, poultry, sericulture and commercial forestry — to gather further momentum. In all these areas the scope for employment of women will be substantial and it is necessary to ensure that opportunities are not denied to women in rural areas. On the other hand, there is little doubt that a number of cottage industries in which women are engaged, will be adversely affected by changes in both technology and market structures. This will be further intensified by the stagnation or reduction in the fiscal support that may be available to protect employment in cottage and handloom industries. In crop agriculture proper, policies so far have tended to accentuate the disparities between large and small or marginal farmers and agricultural labourers. Under the new policy in which equity occupies a residual position, it is unlikely that this trend will be altered or mitigated by any effective land legislation measures. Similarly, regardless of government statements about enforcing minimum wages, the climate is adverse to affirmative notice in such matters. There will thus clearly be a crying need for a safety net, at least for an interim period of 6-10 years, for the benefit of poor women in rural areas and this has to be vigorously promoted in different quarters.

As regards the service sector, the present paucity of essential services together with the accepted need to augment their supplies rapidly, constitutes a favourable platform for both research and action. The provision of such services affords the further advantage of flexibility in matters of hours of work, modes of operation and organisation arrangements. Basic to women's involvement in these essential tasks would be the provision of literacy, general education and appropriate training facilities in accessible areas and forms. Health, family planning, nutrition and child care are other areas of high potential for remunerative engagement of women. Such activities are best organised on a local decentralised basis, supported by an infrastructure of information and technical resource agencies to be utilised as necessary. (The Planning Commission's idea of constituting a national grid of NGOs or a national roster of experts would be both impractical and unhelpful). Much of what is required can be achieved through a harmonisation of modern techniques with the large store of traditional wisdom available in rural society. The trick lies in achieving a balance between modernisation and traditional culture.

For any effective handling of the problems of poor women as of other vulnerable sections of the community, we have to move rapidly towards genuine decentralisation of governance. As in respect of land and other natural resources, a satisfactory deployment of human resources requires that we deal with communities at the local level, taking into account their specific resources, needs and potentialities. Much of Indian labour is not mobile enough to fit into the traditional concept of perfectly competitive market factor. Moreover the experience of the last four decades has made it amply clear that it is vital to involve people directly in development rather than treat them as entities to be administered by a bureaucracy. This is possible only by taking as much of decision making as possible to the people, and near the people. And for effective decentralisation of government to local levels, it is necessary that we have action programmes to strengthen awareness and the desire to participate vigorously in the processes of local government.

All of the above assumes that we tailor our programmes to suit the New Economic Policy, rather than strive to modify economic policy to serve better the needs of poor women. I do not see why we have to just go along with the present policy. Long after the so-called transition period, we shall still be stuck with gender-discrimination and social injustice, unless we make redressal of these specific objectives of policy at all levels — national, state and local. Likewise, we shall find no lasting solution to unemployment and deprivation, unless we make their minimisation, if not their eradication, the clear aims of economic policy. At this meeting, we should at least initiate thinking on what paradigms of policy are possible in our context, as potential alternatives to mere fire-fighting operations under the New Economic Policy.

4

EFFECTS OF ADJUSTMENT: A REVIEW OF EXPERIENCE

C. P. Sujaya

Women are most affected by price movements in basic foods, resulting from removal of subsidies and deregulation of prices. The Jamaican dollar was devalued between 1983 and 1986 by 207 per cent. This was accompanied by removal of subsidies and control on the prices of food. A "least cost basket of goods" in 1984, covering food items for a household of five was costing J$ 120.63 as against the minimum wage of J$ 40.00 per week. If a household had 2 adults, they would have to spend 75 per cent of their income on food in order to be able to pay 50 per cent of the total cost. This excludes consideration of other minimum requirements of housing, fuel, clothing and water transportation.

The decline in the nutritional status of children under 4 years, between 1978 to 1985 in Jamaica was confirmed by admissions to a major children's hospital of children in various stages of malnutrition. Women found ways of coping even during the period of stabilisation in Jamaica. They used domestic net works for exchanging goods and services. These women included factory workers (Antrobus, 1987).

In Brazil, as part of the strategy to meet the huge external debt, emphasis on export-oriented agriculture led to the decrease in per capita production of basic foods, in spite of Government's promises to fill people's pots. The rise in food prices reached alarming levels. Wages were pushed down, and could not suffice to meet the costs of transport and housing. The share of income for buying food was reduced. Poor workers had to put in increasing number of working hours to buy the same basic items of food each month — 120 hours in 1981, 262.3 hours in 1983. Poorer families ate less. Younger girls ate less when the family income dropped or when relatives visited them. In the Amazon region, malnourished women exceeded men in the proportion of 2 to 1. The balance previously maintained in the rural areas between cultivation for the market and for subsistence needs was broken.

Many nutrition aid programmes being copied out in Brazil focused on particular groups, using a number of strategies. Evaluations have not found satisfactory coverage of target populations. Defects noticed include poor nutrition inputs, high operational costs, financial irregularities and lack of targeting on the poorest (UNICEF, 1987).

An analysis framework prepared by UNICEF shows some of the causal linkages between various social, economic and biological factors relating to child welfare and development. The variables change during recession and economic adjustment. Some of them respond quickly to external charges, some tend to impact in the long run. The first danger signals are seen in the higher incidence of child labour and of school dropouts, especially of girls. Malnutrition, morbidity and mortality become evident after some time (UNICEF, 1987).

Some of the crucial linkages/relations are:

- Food prices — household food availability — nutrient intake — nutritional status — mortality.
- Income — food availability — nutrient intake — nutritional status — mortality.

- Food subsidies — food availability — food intake — nutrition.
- Availability of health services — personal illness control — disease — infant mortality.
- Unemployment — income — food and prenatal care availability for the mother — prenatal mortality.

In Zambia, the period of adustment saw the devaluation of the currency and the removal of food subsidies in 1987 when the price of maize meal, the country's staple food, nearly doubled. The subsidy was resorted after a weekend of fierce rioting in which 15 people were killed. Riots in Venezuela, claimed 375 lives, which the Government attributed directly to adjustment policies (JUNIC, 1990). A World Bank Mission recommended that food subsidies could be phased out gradually, only if a carefully designed, targeted Food Ration Scheme were introduced, in which vulnerable families would be identified and NGOs involved in the distribution work.

There has been a sharp decrease in nutritional standards in Zambia during the 1980s when the debt crisis started looming over the country's economy, and the IMF and the World Bank were approached for help. According to UNICEF estimate, the percentage of child deaths due to malnutrition rose from 29 in 1977 to 43 in 1983. The education budget in Zambia shrunk between 1976 and 1981, with very adverse repercussions on girls's education. The Government could afford foreign exchange sufficient to import only one-seventh of the country's requirements of essential drugs (JUNIC, 1990).

In Sri Lanka, nutritional status of children improved between 1976 and 1979, ostensibly due to a rice ration programme covering almost 50 per cent of the population. In 1979-80 the programme was restricted to only low income groups, followed by the food stamps programme, and the withdrawal subsidies. Daily per capita caloric consumption for the lowest two deciles declined during the period 1975-76 and 1981-82, and there was an increase of 50 per cent in wasting for the rural areas. The absence of a gender frame in the analysis of country responses to stabilisation and structural adjustment policies leads to inefficiencies in resource allocation. This will adversely affect the chances of achieving a sustainable growth. DAWN (1985) and UNICEF (1987) were the pioneers in their diagnosis of the world economic crisis from a gender and poverty perspective.

A major part of the literature on stabilisation and adjustment, however, still make no reference to gender and women. On the other hand, WID literature has tended to look at women's need as a special interest group, detached from the changes taking place in the economy. The small number of documents which look at the economic crisis from the gender perspective, highlight mostly, the adverse impact on vulnerable groups, the greater work burden on women, intra household distribution of resources and income.

The importance of identifying gender based market distortion is highlighted. Gender factors have pervasive influence on adjustment and stabilisation outcomes. Blanket terms such as 'cost', 'productivity' and 'efficiency' may well conceal the shifting of, say, for example, work burdens from paid (male) workers/economy to the unpaid economy (being predominantly female) (Palmer, 1991). Since stabilisation and adjustment programmes place great emphasis on market forces, the relationship between women, the market and the state is also important. The market, under certain circumstances, may operate in the interests of women, the State may not. In order to tap the market, women may need state-provided services (Commonwealth, 1987).

Palmer lists four gender based factors which are important in studying markets.

1. Gender discrimination in access to resources or outlets for produce.
2. Women's multiple role in productive, reproductive and maintenance tasks.

3. The appropriateness of market analysis in looking at the "market" within the household economies.

4. The distribution and absorption of resources within producing households through incentives and responses.

Gender issues have been raised in a general way for all developing countries, in the context of economic crisis, though the context may be very different. It is also important to look at women in different situations and in different parts of the same economy (Palmer, 1987).

The experiences of three countries — Botswana, Zimbabwe and South Korea — with their adjustment packages show that, growth could be resumed after very short periods. Reallocation of resources in these countries were made to basic health and education, employment creation through public works, and credit programmes for small scale farmers. Share of recurring expenditure in defence decreased. Such targeted interventions did not succeed where there was prolonged economic stagnation as in Ghana and Jamaica. Therefore, restoration of economic growth must be a medium term priority (JUNIC, 1990). Adjustment should also takes place in the industrialised countries. At the national level macropolicies, mesopolicies (that is, at an intermediate level), sectoral policies, social sector policies, compensatory programmes and monitoring should form part of the adjustment package (UNICEF, 1987).

The IMF policy package in Egypt has been found inappropriate for raising productive capacities and output levels. It sought to curb demand and achieve equilibrium at a very low level. The package sought reallocation of resources so as to decrease domestic absorption, expand exports and fill the BOP deficit. It was based on hypothetical assumption that overlooked innate features of Egyptian economy (Korayem, 1987). Some of these features were: uncertainities of locating post devaluation real value of currency, immobility of resources, (specially in the short term) and the contrary effect of skewed income distribution on targeted decreases in imports.

There is some reference to mismatch between IMF's short term perspectives (instabilisation) with regard to temporary balance of payments and the problems of developing countries, arising from deeply entrenched, long term structural weaknesses. Even the adjustment programmes are seen as short term, incomplete and mechanistic (Khartoum declaration, 1988) and responsible for rending the fabric of African society. Such programmes should be made to complement the efforts of national governments to attain their long term development objectives and should also preserve basic human rights and fundamental freedom. Policies that discriminate against minority and vulnerable groups should be eschewed.

Directing resources towards poor women, especially to strengthen productive activities within the informal sector of the economy, is one part of an alternative approach to economic crisis proposed by Antrobus in 1987. The resources should also be made available to those organisations which support poor women and provide infrastructure for poor women's initiatives and represent their collective capacities to deal with crises. The analysis on problems facing the country should be dealt separately both at household and community levels, rather than at the level of the economy as a whole. It is not possible in this analysis, to separate the public (the economy) from the private domain (the household). There are intricate links between the two.

Two differing political prescriptions were adopted during the crises years in Jamaica to meet the IMF/World Bank conditionalities. One approach places emphasis on economic growth and the other recognised the need to address issues of structural inequalities, including gender inequality. One is profit oriented and the other, a people oriented approach (Antrobus, 1987). In Jamaica, as in many other countries, the IMF/World Bank package of measures included, a greater emphasis on exports, cuts in social sciences, devaluation, removal of food subsidies and price controls. This contrasted with the rhetoric of the stated objectives and the strategy of the objectives and the strategies of the structural adjustment programme which seemingly sought to protect the vulnerable groups from its adverse impacts, as well as achieve, through agricultural transformation and rural development, food self sufficiency. These laudable objectives remained on paper, while the real preoccupation was with efficient economic growth, development of new foreign exchange resources and making the economy competitive.

Increased resource allocation to exports affected women in two ways — one, it *withdrew* resources from the productive factors employing women, and, two, it gave rise to certain conditions of work for women within the export sector. These labour force features had long term policies impact, which discriminated against women. In Free Trade Zones, on account of lack of labour laws and the consequent case of entry and exit, the net additions to female labour was probably not significant. However, wages earned by women though low, were still very crucial for survival of families. The insecurity of jobs and the lack of unionisation were the result of deliberate government efforts to raise investment and production for exports.

There is considerable comment on the origins of the world economy crises as emanating from an unsustainable, "borrowed" model of development, campaigned by readers of the Third as well as First world. This model has made the countries more dependent on the world financial systems (DAWN, 1987). The debt trap in which many Third World countries find themselves, has resulted in annual repayments of higher magnitude *to* the international institutions than the total current aid flows to these countries. In the last ten years, the net flow of resources has shifted from the First to the Third World (JUNIC, 1990).

Between 1982 and 1988, the total debt of the developing world has, according to the World Bank, nearly doubled and repayments amount to more than 25 per cent of their export revenues. At the same time due to decrease in commodity prices, the income went down. Debt relief has by now figured on the agenda of many international events. (The Toronto Summit in 1988, The UNCTAD Trade and Development Report (1988), UN Secretary General's Report on the External Debt Crisis and Development and debt-for-development swap programmes have been suggested by IFAD and UNICEF.

Palmer refers to the tension between the theme of impact of adjustment on women and the impact of women's activities on the adjustment process. There is a danger that, given the preponderence of documentation depicting women as a particularly vulnerable group in the face of adjustment programmes, the policy makers would seek solutions in enhancing social or welfare sector expenditure, so as to 'protect' women and make their lives more comfortable. They would neglect important links between women's economic roles and the success of adjustment programmes. And why it was necessary to remove the impediments to women's participation in the labour force, so as to ensure sustainable growth. These impediments could be cultural and socio-legal. They would also arise from the way resources force women to spend more time on producing goods and services for their families. Palmer's expectation of greater economic participation by women could be set at naught if government expenditure on basic needs (water, health services, sewerage and communication) was to be slashed.

Elson (1987) paints a grim scenario where women's unpaid contributions are taken for granted in gender-neutral policy approaches, and resources are further drawn away to augment efficiency on productivity sectors. A breaking point or a collapse of women's capacity would then occur. This can be corrected only by empowering poor women to make an economically efficient contribution to adjustment. This brings the importance of investing in human resources for economic reasons (UNICEF, 1987). The interdependence of economic and social sectors dictates the inclusion of support services in the adjustment package which will help women to raise their labour productivity. Cut-backs and privatisation in the formal public sector could affect women's employment not only in terms of numbers, but also in the *quality* of services and facilities offered. The public sector's track record in adhering to labour legislation is better than that of the private sector (more jobs as well as job security), especially at skilled and professional levels. Trimming the public sector could, therefore, affect women's employment and wages adversely (Joekes, 1988).

Palmer questions the implicit assumption in the literature on adjustment, that women are likely to benefit (in terms of numbers) from increased emphasis on and allocation to export-oriented industries, since women are already there in this "women prone" segment, and that, this will offset the expected decline of women's employment in industries aimed at the domestic market. In fact, the question of women's employment increasing or decreasing in domestic versus export-oriented sectors can be answered only at the level of each affected country, since it is dependent on the gender based division of labour as well as protective tariff levels, import substitution content and extent of contraction of domestic demand. Some generalisations could, however, be made about changes in the age and gender composition of the female labour force. It may be more difficult for women to find work in the informal sector during the period of economic crisis. Employment in the informal sector is, however, partly dependent on demand for goods and services from the formal sector enterprises and employees. Any contraction in the latter, by way of lower investment/participation is bound to affect the former. Female headed households form a considerable part of the informal sector, in the production of tradeables as well as non-tradeables. Services, such as domestic help, child care, may be no longer demanded by professional women holding formal sector jobs following falls in real income. Since informal sector women workers are disproportionately crowded in the service sector, reduced demand for services may affect them more adversely than men (Joekes, 1988). At the same time, it is also argued that reduced demand for goods works in favour of women workers in the informal sector, as they produce relatively cheaper products (Sen, 1985). In either case, survival strategies and resourcefulness on the part of the poorest women are likely to play a crucial role in maintaining them in the informal sector during crisis periods.

INDIA

Since July 1991, a large number of articles have appeared in the English press on the subject of structural adjustment, stabilisation, conditionalities and their impact on the Indian economic scenario. The only article to focus squarely on the plight of poor women during the adjustment by Ela Bhatt (1992), raises a series of questions. She notes that the possible adverse impacts on poor women have not yet been considered in official quarters. The anxieties reflected in this article are the following:

— Poor women should not become poorer.

— Food availability and affordability should not be compromised.

— Poor women's livelihoods should be protected.

— Poor women should have better access to markets.

— Relief and wage programmes should not have adverse effects and show an increase in child labour.

— Women's need for enterprise management should not be ignored in gender-neutral policies.

— Decentralisation and devolution of power should empower women at a local level and allow greater resource allocation.

The article, in reality, is a plea for gender-and- poverty-sensitive approaches to designing of adjustment programmes.

Most of the other articles deal with the poor as a priority group, with no reference to gender, or even to women as a subset of the poor. Rao (1992) reports on the meeting of eminent economists and their consensus that the adjustment period will be a very painful process and will increase poverty in the short run. So safety nets are important for the poor. Freezing of military expenditures will release sufficient resources for anti-poverty programmes. Market losses on account of protectionism in developed countries are of an extremely high magnitude. Dismantling of global trade policies, therefore, would help in raising resources.

Sen and Ghosh (1992) berate the Government for accepting the Bank-Fund advice in its entirety, and promising more to the IMF than was warranted for a stand-by loan. Larger loans under more stringent conditions are in the offing. The reduction of fiscal deficit as the main condition of the stand-by loan can be achieved either by increasing taxation or decreasing expenditure. The IMF condition does not differentiate between the two. Decreasing expenditure could mean cutting down productive investment or cutting down unproductive public expenditure. Cutting down public expenditure could mean removing food subsidies. Or it could mean contraction of employment programmes. These actually need to be protected and expanded if the safety nets are to be in position. Leaving the public sector to fend for themselves might mean a rise in output prices and may prove counter productive, leading to higher inflation and increasing trade deficits. Bureaucratic flab deserves to be trimmed, however, and there is a near universal agreement on this. But signals from the top give rise to the suspicion that austerity may be the regime for sectors other than the Government owned.

Ghosh (1991) sees the process of stabilisation and adjustment as benefitting only 10-15 per cent of the population — the same people, he says, who had benefited during the earlier economic regimes. He also holds out the distinct possibility of rising social discontent and internal disorder, as a result of the adjustment programme coupled with the awesome reach of the media. This situation is fraught with danger for those in power today. Ghosh echoes the apprehensions expressed in other quarters about the speed of execution of the package. He holds out a gloomy scenario for the unorganised sector, because 'globalisation' of the Indian economy would mean cheaper imported substitutes for indigenously manufactured goods. The adjustment programme is not, Ghosh says, aimed at helping the approximately 43 per cent of below-poverty line households, since it is not concerned with the revitalisation of the rural economy and raising the productivity of degraded lands. He speculates on what could be done in case the ESAF loan, expected in February 1992, is not received by us. In that case, we should encourage indigenous design engineering and Research and Development efforts and with proper planning, should be able to restructure the economy on our own, without any short term borrowings from abroad. We should also direct Government investment in sectors which will increase mass domestic demand but have also an export potential.

L.C. Jain (1991) sees inflation or price rise as the primary concern (along with the unemployment problem). Dornbusch (1992) thinks that inflation is not the number one problem in the country. But both feel, from different vantage points, that reforms undertaken in July last year, were minimal. Jain states that the package deals with only one end of the spectrum, that is, foreign investment. Dornbusch says that the fiscal deficit should be controlled, and that inflation is not a part of the fiscal problem and therefore need not be addressed directly. He advocates structural reforms such as, bringing down subsidies, enabling ease of entry and exit, improving BOP and attracting foreign investment. Jain feels that subsidies on food and fertilisers can be brought down by encouraging deficit areas to improve food productivity and planning for dry-land farming practices which are not heavily reliant on chemical fertilisers. He advocates the need for such creative rather than clerical interventions. Dornbusch, a votary of the Big Bang theory of structural adjustment, wants a sudden, total, targeted freeing of all prices and controls.

Mahbub Ul Haq (1992), while commending India's initiatives for economic growth through deregulation and privatisation, notes that when markets are freed, there is even a greater need for social action because, "markets are not particularly friendly to the poor and the vulnerable". He calls for a new ideology of the market in which efficiency and equity will march in step. Amartya Sen (1991) admits that market forces cannot be uniformly decried since they do create opportunities for some people. But he agrees that they do very little for the vulnerable sections that cannot participate in the market. He calls for public policies to correct the bias against the aged and women. The debate in India, according to him, should be about the form that public policy should take. So far, India's public policies were "negative", they prevented people from doing something. Positive intervention through public policy is needed. Thus, policy interventions for improving elementary education, and rural economic opportunities and public health facilities could be made. Sen does not see any contradiction between cutting down on the license-permit raj and state interventions. He also feels that enough money has not been spent on education or public health in the last 44 years.

The view of Patel (1992) regarding markets is different from that of Sen and Haq. He feels that we have underestimated the role of the market and relied excessively on the State. The kind of state intervention we have gone in for, consists of direct controls which have worked as an unconscious agent of vested interests. Market-friendly fiscal rewards and punishments were never attempted, as it was held that the markets are often rigged and imperfect. However, in reality, markets are less prone to risk and error. As far as the poor are concerned, Patel feels that they should be empowered through free and compulsory education, text-books, training and skill developement and not through permanent subsidisation of inputs or consumption, or through reservation. He sees some role for village or cottage industries supported through elitism, or patriotism or public procurement, but not indefinitely. He also sees the proposed expansion/extension of the public distribution system as another tap for Government hand-outs and larger benefits. On the whole, the IMF reasoning and conditionalities are sound and shared by most Indians. It is not the IMF that insists on adjustment without growth or without a safety net for the weaker sections. He blames the nation for having been remiss on these counts.

One pervasive area of debate in the press is not so much the Fund-Bank programme in itself, but the mix, the sequencing and the speed. While the Finance Minister has assured the Parliament that fears of large scale unemployment and closures are wholly unfounded, the IMF/World Bank seem to be insisting on an immediate announcement of an exit policy (Sen, 1992) which is an essential ingredient of the adjustment programme. The opposition to this move by many groups is seen by some (Tendulkar, 1991) as a deliberate scuttling by organised interest groups. Chakravarti (1992) sees the assurance given by the Commerce Minister to the agitating employees as an indicator of the severely restricted scope for making any substantial economy by the Government in the face of political compulsions. Sen feels that the mounting opposition to this issue should not be narrowly viewed as being motivated by workers' self interest only. It could be that closure and exit are only facile solutions to the fundamental problems of industrial sickness. Sen warns against the dangers of proceeding too quickly with the exit policy.

He terms the Fund/Bank package as crude, as it does not take into account the roles that dishonest and incompetent managements play in creating sickness. Evidence from other similarly affected Third World countries shows that low income countries take a much longer time to achieve high growth rates as compared to middle income countries. It is therefore necessary to make provision for negating the adverse impacts by cushioning. The experience of countries which have gone in for a series of adjustment loans, and which have shown deterioration in their social welfare indices, could be usefully noted here.

The Prime Minister has made clear pronouncements on the necessity to protect vulnerable groups from the costs and burden of restructuring (1991). He has referred to the National Renewal Fund in this context. Speaking from the BIFR experience, he has also said that the maximum difficulties in restructuring are not always created by labour. An indication has also been given in the speech, that the restructuring programme will increasingly prioritise family planning and welfare, education and skill development. Subramaniam (1992) refers to the World Bank offer to finance a social safety net for protecting those likely to be displaced and warns the Government not to be distracted by these ploys. "Contingent" programmes of dealing — with poverty as a by-product of the Fund-Bank package — should not divert resources away from our central objective of eliminating "chronic" poverty. The poor could be categorised into *the new poor*, that is, those directly affected by the reforms, such as retrenched Civil Servants, *the borderline poor*, that is, those who were just above the poverty line before the reforms, but are now affected by rising prices, and *the structurally or the chronic poor*. Safety nets should be designed specifically for these different target groups. Food subsidies for those in distress and food for work programmes for those out of work temporarily could be thought of. In this context, the Prime Minister's announcement of the National Renewal Fund could be taken as an instance of targeting one particular affected group.

The article goes on to describe the current approaches to contain contingent as well as chronic poverty. Social security of the *protective* variety, inspired by Western models, benefitted a very small number of persons, usually belonging to the formal public or private sector. For the unorganised sector, the Indian prescription consisted of a direct attack on poverty along with programmes for minimum needs and public distribution of essential commodities etc. Describing these as *promotional,* the article goes on to blame their thin spread and loose targeting for their insignificant impact. However, in a State like Tamil Nadu, the concept of *protective* resources has been extended to the unorganised sector, with considerable success, and at less cost. Seventeen per cent of the State's poverty households have been covered (57 per cent of the beneficiaries being women) at 1.5 per cent of its annual revenue expenditure and 0.4 per cent of its net domestic product.

REFERENCES

Antrobus, Peggy: "Gender Implications of the Debt Crisis in the Common Wealth Caribbean — The Case of Jamaica", paper presented at the Conference of Caribbean Economists, Jamaica, July 5-7, 1987.

Bhatt, Ela: *The Economic Times,* Bombay: January 15, 1992.

Chakravarti: *Economic Times,* January 16, 1992.

Commonwealth Secretariat: The impact of structural adjustment on women, conceptual issues. Memorandum submitted at the Second meeting of Commonwealth Ministers Responsible for Women's Affairs, Harare, 3-6 August 1987.

Dornbusch: *Economic Times,* January 14, 1992.

Elson, Diane: The impact of structural adjustment on women — concepts and issues. Paper presented to the Development. Studies Association Annual Conference, Manchester, 1987.

Ghosh, *Economic and Political Weekly,* November 30, 1991.

Haq, Mahbub-Ul: *Indian Express,* January 13, 1992.

Jain, L. C.: *Pioneer,* January 21, 1991.

Joekes, Susan: "Gender and macro economic policy." Paper prepared for Association for Women in Development Colloquim on Gender and Development Cooperation, Washington DC, April 11-12, 1988.

JUNIC/NGO: Women and the Economic Crisis: Women and Development Kit no. 6: Pt. 3. Case Studies. Geneva, 1990.

Korayem, Karima: The impact of economic adjustment policies on the vulnerable families and children in Egypt. UNICEF, 1987.

Palmer, Ingrid: "Gender and population in the adjustment of African economies: Planning for change." Geneva ILO, 1991.

Patel, *Economic and Political Weekly,* January 4, 1992.

Prime Minister: 'India Forum Meet' of the World Economic Forum, New Delhi, 1991.

Rao, L. T.: *The Economic Times,* Bombay: January 5, 1992.

Sen, Gita Caren and Groun: "Development, Crisis and Alternative Visions: Third World Women's Perspectives. New York, Monthly Review Press, 1985.

Sen & Ghosh: *Frontline,* January 17, 1992.

Sen, Amartya: *Indian Express,* December 12, 1991.

Tendulkar: *Economic Times,* September 16, 1991.

The Toronto Summit, 1988.

UNCTAD, Trade and Development Report, 1985.

UNICEF: Adjustment with a Human Face. Oxford, Clarendon Press, 1987. 2V.

UNICEF: The Americas and the Caribbean Regional Office: The Invisible adjustment: Poor women and the Economic crisis. Oxford, Clarendon Press, 1987.

5

NEW ECONOMIC POLICY AND DEVELOPMENT OF WOMEN
THE ISSUES AND IMPLICATIONS*

Maithreyi Krishnaraj

Before talking about women, it is important to understand what the policy direction and content are. As the subsequent speakers are all presenting the likely impact on women in much detail, I spend a major part of the presentation on the policy details so that the implications for women can be drawn automatically as it were. This is needed particularly because, the issue has got projected as a tussle between pragmatism and ideology where opponents are dismissed as those enmeshed in ideological cobwebs. Informed opinion, analysis and facts that help to give a better, clearer diagnosis of the problem and enable us to take a more objective critical outlook of the issue will be pressed into service here.

* Background paper presented at the Seminar on New Economic Policy and Development of Women, Dept. of Economics, SNDT Women's University, Bombay, January 28, 1991.

The questions that we need to ask are : What exactly is the New Economic Policy? What was it in response to? Why is there a chorus of praise on the part of some and serious disquiet on the part of others? What are the expected consequences and likely consequences? How will different groups in society be affected? Do we have alternatives?

The New Economic Policy's Package of Reform

The package consists of 4 strategies: Devalution, Privatisation, Liberalisation, and Globalisation (Reddy, 1991). Devaluation is already a *fait accompli.* The value of the rupee in terms of other currencies has been brought down by more than 20 per cent. Privatisation has been announced and will be sought by making the existing public sector go private and enlarging the scope for private enterprise in sectors previously excluded for its operation. (Industrial Policy Resolution of 1956, its subsequent revisions in 1966, 1973 and 1980.). Liberalisation is the deregulation of the economy of all kinds of control previously exercised through licensing, reservation of sectors, price control, restrictions on size, restrictions on investment, both of scale and product and allowing free market forces to operate unfettered. Lastly, globalisation opens up the economy to international trade by abolishing import duties, removing restrictions on quantity of imports and allowing foreign capital in the domestic economy so as to stimulate the free flow of goods and capital. The steps to achieve this are redesigning import policy with only a small range of goods on the restricted list and allowing freely the import of raw materials, intermediate goods, capital goods and consumer goods (Ghosh, 1991).

Nature and Extent of the Crisis

What is the policy prompted by? It has been reported as a kind of surgical measure to cure an acutely ailing economy, in its last throes of death. What is the nature of this crisis? The crisis is two fold: the Balance of Payments Deficit and the Fiscal Deficit (World Bank, 1991). The external debt of the country had reached an elephantine figure of Rs. 97,000 crores in 1989-90 which pushed India into the comity of Debtor Nations, jeopardising its credit-worthiness among the international creditor countries. Loans also carry interest payments. The size of our interest payments too has reached a new high, and the amount of foreign exchange earned through exports that has to be channelled towards interest payment, called the "debt service" ratio, has reached an intolerable limit of 50 per cent.

How did this happen? The media and the Government lay the blame on the Gulf Crisis and the mounting oil prices. No doubt that contributed to the worsening of the situation, but it did not precipitate it. The truth lies elsewhere — in the policies that were followed by the Government whose alarm signals were ignored. First our imports have been increasing due to import liberalisation and promotion of industries that had a high import intensity. Added to this were the withdrawal of Non-Resident Indians' deposits and reduction in remittance. Imports of defence equipment alone was worth Rs. 20,000 crores, an achievement Saddam Hussain of Iraq could not match. Investment in Consumer Durables — TV, Refrigerators and Washing machines — catering to the upper middle class, that constitute a small percentage of the population (hardly 12 per cent) expanded and most of them were also import-intensive. For every rupee spent by the Indian consumer, the import content is 10 paise. Our exports too have failed to grow, making it necessary to finance the yawning gap between exports and imports by borrowing, mostly on unfavourable terms. As a proportion of our Gross Domestic Product, the external debt is as high as 21.46 per cent.

The "Fiscal" crisis is the unbridgeable gap between government expenditure and government revenue, both on current account and capital account. Earlier such deficits were met by drawing long term loans on Reserve Bank of India directly or short term loans through treasury bills. Increasingly the government has resorted to drawing on high interest bearing Small Savings and Provident Fund. The internal debt of the Government rose from 35.6 per cent GDP in '80-'81 to 60.67 per cent in 90-91 (Economic Survey, '91). Interest payments total a whopping 21.49 per cent GDP (Reddy, 1991). On the revenue side, the low tax base and the disinclination to raise direct taxes, ostensibly to provide incentive for private investment, but really speaking, because of effective pressure from the corporate lobby, makes the direct taxes form only 2.5 per cent of total taxes, a proportion that is in actuality lower than even that figure if we make allowance for tax evaded black money and tax-free agricultural income. Populist programmes and subsidies contributed their share to the dificit. The crisis is a creation of governments in power — a crisis of the government because it wants to stay in power and not a crisis of the economy (Vyasulu, *et. al.*, 1991). Paradoxically, this was precisely the period when the Indian *economy* was doing rather well. Indicators of industrial growth, agricultural growth, gross domestic product, domestic savings, domestic investment all recorded substantial growth rates (Economic Survey, 1991, Vyasulu, 1991). Food production touched 170.6 million tons and it is no mean achievement that we are self-sufficient in food and despite unrelenting population growth, have managed to keep stable the per capita availability of foodgrains. The peaks in agricultural production have been higher in each phase and the troughs have been smaller — in other words, the agricultural cycle with good years and bad years following our rain pattern, have smaller loops. The industrial base that is built up is impressive and the country can boast of a foundation that few other Third World countries can lay claim to — heavy chemicals, heavy electricals, heavy engineering goods, coal, power, oil, transport and communication have created substantial industrial capacity. Industrial production grew around 8 to 9 per cent in late eighties, savings were 24 per cent GDP and Investment was 22.6 per cent GDP.

Will the Package resolve the Crisis ? Will it airlift us into prosperity as approving voices in naive faith seem to believe?

Devaluation makes imports costlier by making the Indian buyer of foreign goods pay more rupees per unit of foreign exchange, and make exports cheaper to the foreign buyer of Indian goods as he has to give fewer units of foreign exchange for Indian rupee prices. This is expected to reduce imports and increase exports, but the chances are none too bright. Our exports too are unlikely to expand.

The chances of exports increasing are not bright because our exports are still largely of primary commodities. There are quota restrictions for things like garment exports and we also face competition from countries like China and Taiwan. In engineering goods, our quality is not enough for the international market, as many of them have high import intensity. In a period of world recession, markets are unlikely to expand. After all, devaluation can correct only trade imbalance; it cannot do anything to improve our industrial productivity which can be achieved only through lower costs and technological modernisation (Shroff, 1991). India's foreign trade is only 0.5 per cent of world trade. Possessing cheap labour will not necessarily attract foreign investment. Industrialised economies are instead thriving on immigrant labour (Baru, 1991). Deficits and surpluses are two sides of the same coin. Structural debts in debtor countries reflect structural surpluses of creditor countries. Stabilisation should also address how the surplus earning countries can "adjust" by permitting more imports (Sarkar, 1991).

Will deregulation help ? The main arguments for privatisation and lifting of controls is that the performance of public sector has been very poor and the bureaucratic stranglehold has stifled investment in the private sector. Both these are undeniable facts but one has to avoid a priori judgement and comparison from this into a statement that *all public sector units* will *always* be bad and that *all private sector units* will *always* be good (Rudra, 1991). There are examples of successes and failures on both sides. There is no real competition in Indian industry — family businesses and monopolies form coalitions and conglomerates and with the removal of Monopoly and Restrictive Trade Practices, the tendency will be accentuated. The assumptions underlying privatisation and deregulation are unrealistic and belie facts (Arun, 1991).

First of all, liberalisation as a means of boosting economic growth is unlikely to take place because it is limited to industry and foreign trade. What will be the situation in agriculture? Will agricultural production keep pace? The reduction of subsidies and the rise in agricultural prices, announced already will induce contradictory changes, and definitely promote inflation, because few farmers have a marketable surplus that can profit from higher food prices, the majority being net buyers of food. The contribution of agriculture in combating inflation is uncertain. If the past is any guide, in 1989-90 and 1990-91 despite bumper harvests, prices rose.

Deregulation is talked of only in terms of dismantling controls on industry, but what about relaxing central government control and bureaucratic functioning in relation to all other aspects of governance? (Krishnaswamy, 1991). It is blindly assumed that if the state becomes market-friendly, democratic institutions will automatically come into being. Decentralisation of planning, decision making authority and power in all matters — education, health and political functioning — first needs to be systematically built up to create a climate, an ethos, a tradition wherein economic freedom and political freedom can function. Within the given social and political institutions where many democratic institutions have been systematically eroded through centralisation and encouragement to coterie-influenced functioning in the post-Nehru era, it is hard to see how the market can function freely. It is no secret that political influences and patronage have asserted their extra-economic pressure in the past and despite the deregulation which is limited in many ways, "free" market forces are not going to emerge as if by a magic wand (Swamy, 1991).

That subsidies have been a substantial drain on the government's resources cannot be contested by anybody. The total subsidies by the Centre and State ran into Rs. 91,276 crores in 1987-88 of which the share of the Centre was Rs. 48,599 crores. While this is true, an analysis of the subsidies shows that 60 per cent of them have gone to back up economic units where the recovery has been very low and the critical inputs into social services like education, health, rural development receive not only a smaller share of total subsidies but as a proportion of Gross Domestic Product is far below levels in "Capitalist" countries (Mundle; Rao, 1991). Even the services provided do not reach the targeted population. The Public Distribution System which provides minimum safeguards for the poor, though extremely inadequate has served both a political and a social function of ensuring some modicum of distributive justice (Mahendradev, Suryanarayana, 1991). Scrapping subsidies to loss making economic units may be sound economic logic because private industry, especially big industry has fattened on public resources, but if the axe falls on social services as it is likely to do, the system will become even more iniquitous than it is today.

As for the argument that opening up the Indian economy to foreign goods and capital will make the Indian Industry 'competitive' and "efficient", this is subject to a lot of *ifs* and *buts.* If the experience of economic history is anything to go by, all the developed countries that cry themselves hoarse about free trade consistently followed protectionism in their heyday of industrialisation — be it Britain, Germany, France or USA. Even the Asian Tigers (South Korea, Malaysia, Singapore, Taiwan) achieved an economic miracle through plenty of State support and building a sound social infrastructure like education and health (Bagchi, 1991).

The problems are manifold. Restructuring in the way that is being attempted is unlikely to achieve even what it attempts namely the end to the debt trap and emergence into the sunlight of economic growth. The countries that have accepted the IMF-World Bank inspired package have, far from getting out of debt, have sunk deeper and deeper into debt (Levitt, Polanyi, Kari, 1992). A study reveals that more than 60 countries, mainly from Africa, Latin America and the Caribbean, who attempted hitching their wagon to the engine of world trade and through structural adjustment replaced inward looking development to export-led growth, induced price distortions and replaced basic human needs as development strategy with a concern only with foreign trade. Many forfeited airlines and TV stations to the creditors in exchanging equity for debt. The World Development Report (1991) itself sounds notes of caution and declares that openness and competition are inefficient by themselves. "Investment in people provides the firmest foundation of lasting development and the proper economic role of the State is larger than merely standing in for markets if they fail to work." Harsh reduction in real wages (to cut costs) may result in excessive decline of aggregate demand, jeopardising recovery of output, and fiscal cuts in productive investment in infrastructure and education which will hurt long term growth. The prophet himself admits that his prophecy is flawed.

Are the fears of consequences of restructuring unfounded? While granting that bureaucratic controls were excessive, that they bred corruption, that the public sector performed badly, it does not *automatically* follow that the market will work wonders. The market functions within a given social structure. Where wealth, income and entitlements are grossly unequal, market-power is also unequal. There is absolutely no uncertainty that the poor who form a sizeable section of our country will suffer extreme privation. The signs are ominous. The Public Distribution System is experiencing acute shortages. While the well-to-do can buy in the open market whatever the price, the less advantaged can afford only what is available through PDS (Indian Express, January 1, 1992) because they are not protected by either wage or price index. Their consumption consists predominantly of cereals and they now face a double difficulty — scarcity plus higher prices. Public supply gets channelled into private hoards. Inflation is gaining ground from several sources — through escalation in import costs consequent on devaluation, new excise duties, reduction of subsidies and hikes in administered prices. The main instruments for disinflation are augmentation of output through deregulation with a reduction in price controls, licensing, and restriction,. and procedural simplification. It is clear that the expected augmentation of output will be subject to gestation lags and time over runs (Indian Express, January, 29, 1992). Even what is attempted, for example, privatisation by diverting 20 per cent equity of public sector into mutual funds will not help much, because efficiency is not only a matter of ownership. Financial institutions are very much controlled by the government. Besides this, the deregulation promised is being stalled by the bureaucracy (Ghosh, 1991). Each industry needs specific solutions.

There are other difficulties. The very success in the BOP front will push up domestic inflation. A big export drive will reduce domestic availability. Export earnings spent at home will push up prices. Adjustment programme will improve BOP but can negatively affect investment and output.

"Indian economy does need to be made competitive, more productive, internationally competitive, technologically upgraded and freed of over-centralised controls. What is in doubt is whether these objectives can be met by a plethora of onesided action, which places the burden of adjustment principally on the poor, while promising the local and global elites with fuel efficient cars by General Motors. The New Economic Policy has this dichotomy: a desire for a prosperous economy but fear of an antirepublican polity" (Times of India, January 20, 1992).

The poor will be hit by higher prices, greater unemployment due to closures of units in the name of efficiency or reduction in employment through replacing labour by machines, dying of millions of small units due to lack of protection, cuts in welfare expenditure, cuts in antipoverty programmes and reduction in social infrastructure.

Structural adjustment may have limited impact in terms of augmenting growth; it will have disastrous social consequences on the long term development of the nation. It raises the issue of what development is and for whom. The ills of the economy and the remedies are well known — land reform, land regeneration through land, soil, water management, building social infrastructure, employment promotion, sound democratic political institutions, reforming archaic, feudal relations, breaking the nexus between politics, corruption and crime, curbing black money, tax reform, curtailing non-plan and defence expenditure, development of indigenous R&D and so on. It is these that will lead to an improvement in the living standards of 600 million Indians who do not enjoy basic comforts like the wealthy 250 million. It is not only a matter of "growth" and "output" but the composition of that output. The media expenditure on advertising for soaps, soft drinks, toothpastes, teas, detergents, textiles, cosmetics ran into Rs. 2000 crores in 1991 (Economic Times, 1992). These luxury consumption articles accounted for 75 per cent of total company advertising.

What is it that will ultimately raise us in the eyes of the world? Credit worthiness to an international cartel of creditors or the ability to hold one's own as a proud nation, with the dignity of real *achievement* in tapping the roots of popular creativity, of empowering its people in exercising their intelligence and their individual and collective efforts to achieve a better life, and joining the comity of nations on that basis?

It is not as if those who sound these warning notes are all radicals. (See for instance Sandesara, 1991; Patel, 1992.) The first mentions the ignoring of social objectives, the second the need for sound political leadership.

Women and New Economic Policy

Against this scenario, the prognosis for women is not very optimistic. The general recessionary effect on employment will hit women more, given the bias of the employer, the social constraints placed on them and their obligatory domestic responsibilities. The organised sector will shrink more and there will be more and more 'information' with less and less "protected" workers. Women workers who already work more in sectors that offer casual, temporary, insecure, discriminatory wages will, if offered jobs, be invited only into these sectors. The chances are that they may even replace male workers but at what cost? Inflation will hit women, especially the masses of women who have to provide for their families and stand for hours in queues to fetch grain, sugar, kerosene from ration shops. Many who scrounge for bare survival will be forced to do more of it. The inevitable concomitants of poverty will be abandonment by men and increase in prostitution. Poverty which already the world over has a female face will intensify. As social tensions increase, violence will escalate and given the subordination of women, they will be the first victims.

These are not mere alarm bells. The subsequent papers will detail these likely effects by facts and figures.

REFERENCES

Arun, T. K. "Structural Reform: A shot in the dark", *Economic Times*, Aug 13, 1991.

Bagchi, Kumar Amiya. "From a Fractured Compromise to a Democratic Consensus? Planning and Political Economy in Post-Colonial India", *Economic and Political Weekly*. March, 91. Vol. XXVI, Nos. 11 and 12.

Das, Arvind. "Economic Double Speak". *Times of India*, Jan 20, 1992.

Ghosh, Arun. "Trade Reform for Restructuring the Economy", *Economic and Political Weekly*. June 15, 1991.

Ghosh, D. N. "Incoherent Privatisation Indian Style". *Economic and Political Weekly*. Vol. XXVI, No. 21. May 25, 1991. *Indian Express*. Jan 29, 1992.

Krishnaswamy, K. S. "On Liberalisation and Related Matters", *Economic and Political Weekly*. Oct 19, 1991, Vol. XXVI, No. 42.

Levitt, Polanyi, Kari. "IMF Structural Adjustment. Short term Gain for Long Term Pain", *Economic and Political Weekly*. Jan 18, 1992, Vol. XXVII, No. 3.

Mundle, Sudipto and Rao Govind M. "Volume and Composition of Government Subsidies in India", 1987-88. *Economic and Political Weekly*. May 4, 1991. *Economic Times*. Jan 19, 1992. Report of a study done by the National Institute of Health and Family Welfare.

Mahendradev, S. and Suryanarayana, M. H. "Is PDS Urban biased, Pro rich?", *Economic and Political Weekly*. Oct 12, 1991, Vol. XXVI, No. 41.

Narasimha, Reddy, D. "Political Economy of Crisis in Indian Economy", Centre for Economic and Social Studies. Hyderabad Paper. Aug, 1991.

Patel, I. G. "New Economic Policies: A Historical Perspective", *Economic and Political Weekly*. Jan 4-11, 1992.

Rudra, Ashok. "Privatisation and De-regulation," *Economic and Political Weekly*. Dec 21, 1991, Vol. XXVI, No. 51.

Shroff, Manu. "Devaluation and Exports", *Economic Times*. July 4, 1991.

Sarkar, Prabirjit. "IMF/World Bank Stabilisation Programme. A Critical Assessment". *Economic and Political Weekly*. Oct 5, 1991, Vol. XXVI, No. 40.

Swamy, Dilip S. "Recessionary Impulses in New Economic Policy Package", *Financial Express*. Aug 1991.

Sandesara, J. C. "New Industrial Policy — Question of Efficient Growth and Social Objectives", *Economic and Political Weekly*. Vol. XXVI, 31, 32. Aug 3-10, 1991.

Vyasulu, Vinod et. al., "Towards a Political Economy of the Economic Policy Changes", *Economic and Political Weekly*, Vol. XXVI, No. 38, Sept. 21, 1991.

World Bank. India — 1991, Country Economic Memorandum. (Chapter-I) August, 1991.

6

FEMINISATION THROUGH FLEXIBLE LABOUR IN INDIA : EVIDENCE AND FUTURE PROSPECTS

Sudha Deshpande

Section I

FEMINISATION THROUGH FLEXIBLE LABOUR

In the 1960s economists argued that growth of modern sector in developing countries contributed largely to marginalisation of women as workers (Boserup, 1983). As the seventies and more so as the eighties rolled out it was evident that modern industrial growth led to informalisation of employer-labour relations in almost all sectors of the industrialising and industrialised economies. This probably is the root cause of feminisation of labour activity in all countries, developed and less developed. Feminisation globally has resulted in a notable rise in female labour force participation in the face of fall in male employment. Further it has resulted in feminisation of certain jobs that were traditionally performed by men. This process in all countries has weakened their bargaining capacity and threatened their employment security (Standing, 1989).

Feminisation as a process should be understood however in the wider context of labour market processes in the 1980s, a decade which labour market analysts regard as a decade of deregulation. The decade marks a shift away from a regulatory regime that tried to regulate working of labour markets by recognising a number of labour and social rights. The changing world economic situation of the seventies however forced policy makers in many countries to accept the supply-side strategy of "structural adjustment and stabilisation". The strategy entails opening up economies with trade liberalisation and regards export-led growth as the only viable development strategy. Since cost effectiveness is of utmost significance here, labour market regulations are viewed as "rigidities" as they raise costs and have a harmful effect on growth of future employment. This changed perception of protective labour legislation and social security measures ushered in an era of deregulation. Consequently, some of the formal regulations that governed the working of labour markets eroded, while those which continued to exist were less effective in reality either because they were not implemented whereby they continued to remain on paper or were systematically bypassed.

These changes altered the nature of employment making labour markets more flexible, where firms employed flexible or disposable labour. Increased use of casual, temporary, contract and other types of non-permanent labour and of female workers are some of the dimensions of this change. Though employment increased in most of the countries that accepted the export-led growth strategy, it has been mostly employment that is low-paid and insecure (Standing, 1987).

This paper argues that the 1980s was a decade of deregulation in India too and the consequent process of feminisation did set in during this period. We then try to explore the likely future trends in feminisation, in the light of the New Economic Policy (NEP) in 1991. Since the NEP is likely to affect essentially the non-farm sector, we have restricted the analysis to this sector in general and female employment within it in particular.

The paper has four sections, the first discusses feminisation as a process indicating the underlying factors that cause it, the second looks at the trends in female employment in the rural and urban sectors of the Indian economy and at recent changes in the nature of female employment in the non-farm sector. We argue that the process of feminisation is likely to have set-in in the Indian non-farm labour market. The third section enumerates the broad implications of the strategy underlying the NEP and indicates the likely changes in the pattern of industrial growth in the near future. An attempt is also made here to understand the effect of this on female employment. The last chapter highlights the conclusions emerging from the earlier analysis.

Section II

TRENDS IN FEMALE EMPLOYMENT IN INDIA

Table 1 gives the crude work participation rates (CWPR) for females estimated from the four quinquennial employment and unemployment survey rounds of the National Sample Survey (NSS) along with those derived from the population censuses 1961-1981 by rural/urban residence. The data clearly show that the much talked about "decline" in female participation rates in the 1971 and 1981 censuses is more definitional than real. The NSS data based on the uniform definitiôn of usual status workers show stability. CWPRs of rural women were around 32-34 per cent while those for their urban counterparts were around 13-15 per cent, starting from early seventies. While the near stability in the female participation between 1977/88 and 1987/88 suggests an increase in female workers in absolute terms during the decade, an increase, though marginal, for urban females in the eighties (between 1983 and 1987/88) could be construed as an improvement in their share in the total urban workforce. When these changes are considered along with those in the daily status unemployment rates in Table 2, we find that the employment situation improved for both rural and urban women between 1977/78 and 1987/88, though more so for the rural women in the late eighties than for their urban sisters.

Table 1

Crude Work Participation Rates of Females by Rural/Urban Residence, India

	1961 Census	1971 Census	1972/73 27th Round	1977/78 32nd Round	1981 Census	1983 38th Round	1987/88 43rd Round
India	28.0	13.9	27.8	28.9	19.8	29.3	28.0
Rural	31.4	15.5	31.4	32.6	23.2	33.7	32.3
Urban	11.1	7.1	13.2	15.3	8.3	14.9	15.2

Source: Adapted from Visara Pravin and Minhas, B.S. "Evolving an Employment Policy for the 1990s. What do the Data Tell Us?" in *Economic and Political Weekly* April 13, 1991, Table 2 p. 971.

Table 2

Incidence of Unemployment for Females by Daily Status and Rural/Urban Residence, India

Year	Daily Status Unemployment Rate	
	Rural	Urban
1972/73	11.2	13.7
1977/78	9.2	14.5
1983	9.0	11.0
1987/88	6.7	12.0

Source: Sarekahana, Journal of the National Sample Survey Organisation, Vol. X1, No. 4, Issue No. 35, April 1988 pp. 22, 42; Special Number, September 1990.

In Table 3 we look at the employment status structure of female workers. The changes in the employment status reveal that while rural women were increasingly moving away from self employment to the other two statuses, urban women were increasingly taking to self employment and regular salaried work in the eighties. In order to understand these changes further, in Table 4 we have given crude estimates of female underemployment derived from the NSS data. In each survey round, the usual status workers were asked whether they were available for additional work if it were made available to them. Percentage of such workers to total workers by usual status is taken as a crude estimate of the extent of underemployment. Table 4 shows a secular decline in underemployment irrespective of their status among rural women between 1977/78 and 1987/88. The near stability in the percentage underemployed among urban women in the same period can hardly be a cause for complacency. The most disturbing is the deepening of underemployment in the eighties among urban women who were self-employed and casual workers. These together formed nearly 73 per cent of the urban female workers in 1987/88. In other words nearly three fourths of the urban female workers were probably subjected to insecurity of either income or employment but most probably both.

Table 3

Distribution of Female Workers by Employment Status and Rural/Urban Residence, India

Year	Rural			Urban		
	Self employed	Regular employees	Casual Workers	Self employed	Regular employees	Casual workers
1972/73	64.5	4.1	31.4	48.5	27.8	23.7
1977/78	62.1	2.8	35.1	49.5	24.9	25.6
1983	61.9	2.8	35.3	45.8	25.8	28.4
1987/88	60.9	3.6	35.5	47.1	27.5	25.4

Source: Planning Commission Working Paper "Employment Past Trends and Prospects for 1990s" New Delhi, May 1990, Table 7, p. 10.

Table 4

Percentage of Usual Status Female Workers Available for Additional Work by Status and Rural/Urban Residence, India

Employment Status	Rural			Urban		
	1977/78	1983	1987/88	1977/78	1983	1987/88
Self employed	11.0	7.6	5.4	12.1	9.0	14.1
Regular employees	14.2	11.8	11.0	9.7	8.3	9.4
Casual workers	49.6	32.1	22.9	46.8	27.6	43.5
All workers	26.6	18.1	12.7	20.7	14.6	20.3

It is important to know in which sectors of the economy these women were working. But since the New Economic Policy (NEP) is likely to affect employment in the non-farm sector, we shall consider the sectoral change in female employment in urban India.

Table 5 relates to industrial distribution of urban female workers in India. Comparison between 1977/78 and 1987/88 reveals (a) near stability in the share of urban women in wholesale trade and transport. (b) notable decline in the share of those working in Agriculture and allied industries and in Manufacturing 2 which consists of industries like food, beverages, tobacco and textiles, industries which have been traditionally regarded as women's industries in India and c) increase in the share of women working in all other industry groups.

Table 5

Distribution of Female Workers by Industry: Urban India

Percentage shares

Industry Groups	NIC Code	1972/73	1977/78	1983	1987/88
Agri. and Allied	0	33.0	31.9	31.5	29.4
Mining and Quarring	1	0.7	0.5	0.7	0.8
Manufacturing	2	21.2	25.3	21.9	21.6
	3	5.0	4.3	4.8	5.5
Public Utilities	4	0.1	0.1	0.2	0.2
Construction	5	3.3	2.3	3.2	3.7
Trade	6	9.5	8.7	9.5	9.8
Wholesale		0.6	0.4	0.5	0.4
Retail		8.8	5.3	9.0	9.4
Transport	7	1.0	1.0	1.5	0.9
Finance Insurance	8	8.4	0.6	0.8	1.2
Services	9	25.8	25.3	25.8	25.6
Education and Scientific		5.5	6.0	6.9	7.3
Sanitary		3.2	3.2	3.4	3.2
Personal		13.0	12.7	10.8	9.7
Repair		2.6	0.1	0.1	0.2
Others		4.6	3.4	4.6	6.3
Inadmissible		0.1	—	N	0.3
All		100.0	100.0	100.0	100.0

Notes: N = Negligible

Sources: Same as for Table 1. Table A2 p. 977.

The emerging pattern is encouraging in the sense that we could say that urban female employment structure in 1987/88 is much more diversified than it was a decade ago. Relatively larger proportion of urban women were now in Manufacturing 3 consisting of modern manufacturing industries, Finance & Insurance and Educational and Scientific Services than in 1977/78. Also a much smaller proportion was employed in personal services. However this complacency is shortlived when we find that their share improved in construction, retail trade and other services in which they could at best work as casual or as self-employed workers and thereby get mostly intermittent employment and low income.

In Table 6 we give how the quinquennial increase in the female workforce in urban India was absorbed by industry. Compared to the early eighties urban women in the later quinquennium were absorbed in a big way by manufacturing industries. In this table other services comprise of services that are regarded as menial services. Here workers necessarily work in informal capacity as domestics, in laundry service, as rag pickers and in innumerable other such occupations. Since their distribution by education is not available we can only say that between 1983—1987/88 the better educated possibly may have entered regular jobs in Finance and Community Services. These fortunate ones formed barely 3 per cent of the incremental workers. Of the rest 97 per cent possibly again women with some education may have entered manufacturing while the less educated were forced to enter Agriculture and allied industries and other services.

These charges are supported by micro-level studies undertaken regionally. Banerjee reports that women were increasingly absorbed as wage workers in manufacturing in the eighties. They were also making their way into modern manufacturing industries like rubber, chemicals, engineering apart from the traditional ones like food, beverages, tobacco, textile, wood and ceramics which were their forte in the past (Banerjee, 1988). It is noted however that this increase in employment in modern industries was not in modern processes on high wages but in traditional processes in low wages. Women were employed instead of men mainly to reduce wage costs (Banerjee, 1985). Very often women in these manufacturing units did work that was an extension of house work (Shaw, 1990). Even when employed in the formal sector they were more likely to work as casual, contract or piece-rate workers or in ancillary units that were small home-based enterprises. They were not covered by labour laws and since they were not unionised were paid low wages and faced insecurity of employment (Mukhopadhyay, 1987).

Table 6
Distribution of Incremental Urban Female Workforce by Industry, India

Industry Group	Percentage Shares 1977/78—1983	1983—1987/88
Agriculture	29.4	20.0
Mining	1.5	1.4
Manufacturing	13.1	29.3
Public Utilities	0.6	0.3
Construction	7.5	6.3
Trade	13.3	11.4
Transport	4.3	—2.2
Finance and Community Services	1.9	3.0
Other Services	28.5	30.4
No. of workers ('0005)	2,108	2,619

Source: Adapted from Visara Pravin and Minhas, B.S. "Evolving an Employment Policy for the 1990s. What do the Data Tell Us?" in *Economic and Political Weekly* April 13, 1991, Table 2 p. 971.

In the service sector while the educated took to teaching, nursing and clerical work the less educated were absorbed in menial services as domestics and cooks. As self-employed they worked in livestock, dairying, as home-based workers in bidi making, handlooms, handicrafts and garment making and also as piece-rate workers for firms that "put-out" work (World Bank, 1991). It was not surprising then that they were not only unprotected but since they earned inadequate income were prepared to accept additional work.

The urban labour market in India thus was slowly getting feminised through flexible labour over the eighties. Women were increasingly absorbed by the urban economy but mostly in low-paid and insecure employment. In most jobs where they replaced men, they were forced to accept wage discrimination. Yet their incomes though low were precious for their subsistence. It was their poverty that left them with limited options. They lacked either education or skills or both and were forced to accept any work either at home or outside. A large majority of the new entrants to urban female workforce are likely to have been absorbed in such precarious jobs in manufacturing and services. We should try and understand how changes in the industrial structure envisaged in the NEP are likely to affect them. To this we turn in the next section.

Section III

EMPLOYMENT IMPLICATIONS OF THE NEW ECONOMIC POLICY FOR FEMALES

A gradual shift to a more liberal economic regime was initiated in India in the early eighties through changes in the industrial licensing policy to step up industrial growth (Govt. of India, 1991). Industrial growth picked up but the urban labour markets were becoming flexibilized. Firms increasingly preferred flexible or disposable type of labour which permitted them to reduce both wage and non-wage costs (Deshpande and Deshpande, 1991).

The New Economic Policy (NEP) of the Government of India announced in the wake of the debt crisis is essentially a part of the "structural adjustment policy package" that was urged by the IMF and the World Bank. In order to understand its impact on female employment we must look at its underlying strategy and what changes in the industrial structure it entails in the light of the new trade and industrial policy.

The structural adjustment strategy puts overwhelming importance on trade liberalisation. Since export-led growth is regarded as the only viable development strategy, it follows that domestic production would have to be diverted to export industries. In order to increase international competitiveness it focusses on cost cutting. The export sector firms often employ women because they are prepared to accept low wages. Experience shows that these firms adopted new technology and low cost methods to increase their competitiveness in the international market. Governments elsewhere and in India have responded to the situation by either exempting industries in the export sector from labour protective legislation or by creating export zones where workers employed lie beyond the purview of labour and social rights (Sharma and Sengupta, 1984). This type of insecure low-paid female employment could be expected to increase in the 1990s.

In India, as in other countries that accepted such a package, a new corporate management strategy has emerged. Enterprises are devising ways and means to reduce the fixed costs of labour (Deshpande). Reliance on permanent workforce is declining and that on non-permanent which involves no fixed costs is increasing. The tendency is likely to increase in future. Since recent evidence at micro-level revealed that women were employed because they could be employed on lower wages, we should not be surprised if we find that they are increasingly absorbed by the corporate sector in future, but on low wages.

In countries that relied on this strategy there were changes in the structure of industry. The changed structure gave scope for operation of small units that did either subcontracting or ancillary work for larger units. Some large firms even "put-out" work to home based workers. In India evidence at micro-level suggests that there is a definite shift from large and medium to small firms. The shift could be attributed to the growing tendency among large firms to reduce employment so that they could be beyond the scope of certain labour laws. Alternatively the change could be because a number of incentives being given to the small sector. Over the eighties there was a phenomenal growth of employment in the small sector which lay beyond the scope of all labour legislation (Deshpande and Deshpande, 1989). A large number of women are likely to have been absorbed by this sector where workers are rarely unionized and are paid less than minimum wage despite working for long hours. The trend is likely to accelerate in future leaving women to accept work on less favourable terms, than in the past.

The newly announced trade policy and industrial policy are two major instruments of the NEP. The former does away with protection that industry enjoyed, while the latter intends to promote foreign investment in Indian industry, encourages the adoption of new foreign techniques, largely does away with industrial licensing and accepts a more dominant role of the private sector in industry. Together they are designed to allow greater freedom to private enterprises so that industry becomes more efficient, modern and competitive, nationally and internationally. If so, industry would become more responsive to costs. Therefore Indian industry could be expected to go the way it did in other countries, that is promoting employment which is insecure both in terms of work and income. These changes themselves not only entail deregulation and decentralisation of labour but give a tremendous scope for privatisation. The shift towards privatisation has severe implications for women as workers. Experience shows that women are less discriminated against in terms of wages in the public than in the private sector. There is reason to believe that wage differentials by sex could be expected to widen all the more in the deregulated, decentralised labour situation in the growing private sector.

We shall now turn to some of the likely effects of NEP on labour and social rights which were sanctioned to workers in India.

(a) So far in India the minimum wage legislation has been ineffective. This legislation discriminated against women by fixing a lower wage for women than men. The new development strategy sanctions low wages because they lower costs. Generally in other countries women were substituted for men in new industries because their "aspiration wages" were low, due to excess labour situation of the labour market and also because men were not prepared to accept lower than a "family wage". Over time the concepts of "family wage" and "minimum wage" would erode giving way to "individual wage".

(b) In India Equal Remuneration Act passed way back in 1976 has remained largely on paper (Pais; Parkash, 1988). Under the changed situation firms would have more reasons not to adhere to it on the grounds of cost competitive production.

(c) In the past specific protective legislation like maternity leave benefits or provision of creches if female employment exceeded a specific number was not effectively implemented. The firms got away by either not employing women or by not exceeding the number that was specified in the law. Increasingly, the share of women that would have access to such social security benefits would decline. There is very little to look forward to for married working women in future.

(d) In the past Indian labour laws prohibited employment of women in night shifts. Curiously enough in many countries with increase in shift work, governments have either moved away from such regulations explicitly or failed to implement them or as in India exempted units in the export promotion zones from such legislation. We could expect a shift towards the other two former alternatives in India too. This definitely would mean deterioration in their working conditions.

On the whole, the process of deregulation of labour legislation could be expected to increase over time. The protective legislation would either remain on paper or would be systematically bypassed under the pretext of either export promotion or reduction in production costs.

Lastly, the experience of other countries shows that working of the strategy has resulted in a change in the pattern of employment of poor women in the urban sector. An increasing number take to occupations like petty trade, rag picking, personal service etc. This results in an increase in the share of self-employed in the female work force in the urban economy. We saw this change setting in, in the eighties in urban India. If the government goes ahead with the deflationary policies that the NEP entails, this group of poor women is likely to be threatened with higher uncertainties of income and work.

Section IV

SUMMARY AND CONCLUSIONS

Feminisation of labour activity has been a global phenomenon revealed in the 1980s, a decade which labour market analysts regard as the decade of deregulation. As a consequence of this process, the labour was decentralized. Enterprises the world over tended to rely less on permanent labour employed directly and more on flexible non-permanent cheap labour that could be disposed off whenever they felt it necessary to do so. This change was adopted in order to reduce both the wage and the non-wage costs of production. Feminisation of labour activity in fact is one of the dimensions of this change.

It is evident from the limited data that India has not lagged behind in this process of deregulation as well as feminisation. Both these processes were initiated in India by the gradual shift to a liberal regime in the early eighties. There is reason to believe that both these processes would accelerate in future with the implementation of the NEP.

The new trade policy together with the industrial policy could be expected to make the labour market much more conducive to flexible practices in future than it has been in the past. Insecurity of work and income for all flexible categories of workers whether they be casual, contract or women could be expected to increase. No doubt more women could hope to get work but that would be increasingly on less favourable terms. A new set of employer-worker relationship would emerge. The direct employer-worker relationship would be replaced by a decentralised or individualised one, where workers doing work for the same unit may in fact be distributed in a number of smaller units. The decentralised labour can hardly be expected to form unions which are generally known to protect interests of workers. All this implies that the scope for oppressive and exploitative control of workers by those who give them work (whether it be an employer or a middleman) would increase. Workers would be at their mercy to accept whatever wage offered, however low it may be. Since enterprises are employing more women now than in the past because they accept lower wage and are suited for semi-skilled jobs, and since the future industrial growth is likely to accelerate this process, we can say that an increasing number of women would be subjected to insecurity of work and income. The NEP promises very little to all future workers, but much less to the women among them who have always been the most vulnerable section of workers.

REFERENCES

Banerjee, Nirmala 1985 *Women Workers in the Unorganised Sector;* Sangam Books, Hyderabad.

Banerjee, Nirmala. 1988 "Some Recent Trends in the Economic Activities of Women". Paper prepared for the National Commission on Self Employed Women and Women in the informal Sector.

Boserup, Ester, 1983. "Employment of Women in Developing Countries" in Leon Tabah (ed) *Population Growth and Economic Development in the Third World,* International Union for the Scientific Study of Population, Ordina Editions, Belgium, Chapter 3, pp. 79-108.

Deshpande, L. K. and Deshpande Sudha, 1989. *Recent Developments in Bombay Labour Markets: A Review* (Mimeograph), Department of Economics University of Bombay, Bombay.

Deshpande, Sudha and Deshpande Lalit. 1991. *Problems of Urbanisation and Growth of Large Cities in Developing Countries: A Case Study of Bombay,* WEP Research Working Paper 177, ILO, Geneva.

Deshpande, L. K. *Flexibility in Bombay Labour Market,* WEP Research Working Paper 24, ILO, Geneva.

Government of India. 1991. *Industrial Policy 1991.* Government Press, New Delhi.

Mukhopadhyay, Swapna. 1987. *Inter-Rural Labour Circulation in India: An Analysis.* ILU-ARTEP Working Paper, ILU, New Delhi.

Pais, H. and Parkash, Ram. 1988, *Equals,* National Labour Institute New Delhi.

Sharma, R. N. and Sengupta, Chandan. 1984. *Women Employment at SEEPZ, Bombay,* (Mimeograph) Unit for Urban Studies, Tata Institute of Social Sciences, Bombay.

Shaw, Annapurna 1990. "Linkages of Large Scale, Small Scale and Informal Sector Industries: A Study of Thane-Belapur" in *Economic and Political Weekly* Vol. XXV, No. 7, Feb. 17, pp. M17-22.

Standing, Guy. 1987. *"Vulnerable Groups in Urban Labour Processes,* WEP Research Working Paper, No. 13, ILO, Geneva.

Standing, Guy. 1989. "Global Feminisation through Flexible Labour" in *World Development* Vol. 17, No. 7, pp. 1077-1095.

World Bank 1991. *Gender and Poverty in India,* A World Bank Country Study, The World Bank, Washington, D.C.

SECTION II

INTRODUCTION TO DOCUMENTS

C. P. Sujaya

These documents were prepared as a basis for discussion* of the possible and likely impact on women, particularly those employed in the informal sector, of new economic policies recently adopted in India. Growing and persisting macro-economic imbalance, reflected in balance of payments deficit and internal fiscal deficit, have been responsible for a new direction to India's Economic Policy. This includes policies directed at increasing foreign exchange inflow and stimulating private sector activity, such as devaluation, delicensing and removal of fiscal and other controls to the growth and development of foreign trade. While as an immediate explanation of these new policies, reference is generally made to IMF/Bank conditionalities, these do not entirely explain them, nor substitute for a sense of urgency among analysts of the Indian economy that, new directions are needed to shake off the stresses in which the country seems to find itself. There is some doubt, however, whether the new economic policy directions are sufficiently informal and alive to all the major stresses and constraints faced by the Indian Economy and consequently, whether the initiatives/remedies are not concentrated on a narrower range of ailments which can

* UNDP/ISST meeting on Women and New Economic Policy, 7-8 February, 1992.

create their own distortions on a wider socio-political - economic front. The experience of other countries with policies aimed at achieving stabilization (correction of macro-economic imbalance in the short run) and structural adjustment (modifying structural parameters of the economy so as to control imbalances as well as stimulate growth, in the middle term) do suggest that there are some groups that take the brunt of these policies more than others : one such group being poor women.

The discussion, therefore, took as a starting point, a review of the experiences of other countries, particularly in Africa and Latin America. It has been seen that the process of adjustment sometimes leads to a decrease in nutritional standards, increased morbidity/child mortality rates and a drop in the percentage of girls in school. To some extent this is a direct impact of reduced public expenditures on health and education. The withdrawal of food subsidies has often resulted in food shortages and riots. In the labour market, it has been observed that there may be an increase in the incidence of child labour, and a drop in real wages. Export oriented policies have had a range of impacts including diversion of land from food to cash crops.

Even though different countries have adopted a similar policy package to address questions of macro-economic balance, the implementation of these policies has had different results. This draws attention to the importance of understanding the process by which macro-economic policy affects households and specially vulnerable groups like women. Macro-economic modeling and analysis by itself is simply inadequate to understand the reasons behind success or failure of macro-economic policy. This meeting, as an attempt to try and understand the likely pattern of response in India, and the policies and programmes that might be needed to achieve 'structural adjustment with a human face', raised many questions, and while it could not hope to come up with a definitive charter of demands, nonetheless it was able to highlight some areas which need quick action and/or research.

The net impact of the new policies on specific groups of women, or the poor in general, can be difficult to predict, because while the withdrawal of subsidies and price controls is likely to lead to greater hardship, it is also true that freeing the market will create opportunities. (For instance, it seems that women in embroidery may benefit since much of the work is for export.) Enabling legislation that encourages enterprise would be welcomed by the entrepreneurs of the informal/first sector (which accounts for the greater part of all employment). Repeal of oppressive co-operative legislation was cited as a specific instance of positive action, in tune with current thinking, but also designed to stimulate enterprise among informal sector entrepreneurs. The emphasis on more effective exit policy as a means of increasing efficiency and productivity needs to be balanced by such enabling legislation that will facilitate entry into new employment. Very often, an emphasis on 'productivity' and 'efficiency' can conceal the shifting of work burdens from paid (male) workers to unpaid (predominantly female) workers.

The National Renewal Fund provides for relief and social security primarily for the 'new poor' i.e. those who lose their jobs as a direct consequence of restructuring. This will help only those who are in the organised sector. A focus on poor women underlines the need to develop a parallel mechanism for assisting those similarly affected in the informal sector. (Attention was drawn to home based and rural textile workers, whose products will not be competitive without some subsidy.) It was therefore proposed that a National Work Security Fund be set up for the unorganised sector, with multiple functions including help for skill upgradation and training; insurance in case of loss of livelihood; providing infrastructures for better access to food, child care, health insurance and education; sector specific research to identify the micro impact of macro policies.

To make the Fund independent in operation it should be an autonomous corporate body, working through people's organisations and committees, and accountable to the Minstry of Finance. To make the programmes manageable, they should concentrate on the geographical and occupational areas which are most backward and most affected. Special attempts should be made both to reserve certain areas of work for women (e.g. nursery raising, small building construction, ownership and management of fair price shops, nutritional and educational support projects) and to enable women's entry into new work areas through training in new skills.

Economic decentralisation and liberalisation, through appropriate legislation and reduction in bureaucratic controls, can have only partial success without a corresponding political decentralisation. The Panchayati Raj system of local self-governance could form the basis of planning and resource mobilisation. The experience of mobilizing women in Karnataka suggests that this can be a way of introducing sensitivity to both local issues and gender perspectives.

Structural adjustment policies can be expected to affect the social sectors : health, education and basic services, and direct subsidies such as that given through the Public Distribution System. In IMF/World Bank terminology all such expenditures get subsumed under the catch-all category of 'safety nets'. However, these expenditures need not be seen as welfare measures but as productivity raising and essential to future growth. India's public policies need to be positive, to improve elementary education, rural economic opportunities and public health facilities. The Public Distribution System needs to continue (although opinion was divided on whether there should be an income criterion or not, because dual pricing may be difficult to implement), should be well targeted and available to the most needy, and a suggestion was made that women be entrusted with the management and delivery of the PDS goods. Any reduction in health and education allocations should be strongly resisted. Both from the point of view of long term growth, and social peace essential to the success of SAP, these expenditures in fact need to be increased and the quality of provision improved. Special attention must be given to child health and child care services.

While many concerns were voiced at the meeting and some specific recommendations made, there remains a need for sustained research, dissemination and policy advocacy, if micro issues relating to women are to have adequate input into micro policy formation. It was suggested that the Indian Association of Women's Studies is well placed to disseminate information, organise regional dialogues and co-ordinate research studies (particularly household level analysis and sectoral studies with economic and sociological perspectives) and the formalisation of such a role would be a major step in making "women's studies" an integral component of mainstream economic analysis.

1

STRATEGY FOR CHANGE

Engendering Adjustment for the 1990s.
Report of a Commonwealth Expert Group on
Women's Structural Adjustment, June 1992.

16. Our survey has led us to conclude that a much broader approach to structural adjustment is urgently required. Women's concerns need to be explicitly incorporated as integral elements of the objectives, content, monitoring and international support for structural adjustment. This should be done as part of a more general broadening of adjustment, to focus more directly on human needs and long-term goals for sustainable, environmentally-sensitive development. We are convinced that this is possible and will increase the efficiency and sustainability of adjustment efforts, as well as their acceptability. We are also convinced that the time has come for such an initiative and that the Commonwealth can play an important part in bringing it about.

17. We believe this broader approach require adjustment polices and programmes to be designed in such a way as to incorporate the following three general principles :

— an emphasis on social equity and economic growth as well as efficiency;

— full integration of women into the decision-making process;
— a supportive international environment.

18. In sum, we are looking for an overall policy stance which is oriented towards all the people, meeting basic needs and achieving equality for women, always informed by the need for administrative practicality. Before setting out our proposals in detail we summarise below the six general areas we believe should be given priority consideration for action.

Six General Areas for Action by Governments, International Agencies and Non-Governmental Organisations

I. Broaden the approach of national governments and international agencies to structural adjustment, so as to :

(i) Clearly incorporate women's concerns in the basic objectives of adjustment, as part of more general widening of adjustment objectives to focus on human needs, environmental protection and sustainable development in the long term;

(ii) take account of women's special needs in and contributions to economic production; household management; child rearing and caring (and often caring for the aged); and community organisation, by incorporating measures which :

(a) Increase women's productivity and ease their time burdens in all their roles;

(b) enhance women's opportunities for remunerative and productive work by ensuring greater access to credit and key services, and implementing employment creation schemes specially tailored towards women's needs; and

(c) restore momentum for women's advance in the longer term by giving priority to education, health and other goals for women in the 1990s.

II. Institutionalise women's concerns through the strengthening of government and other official machinery by :

(i) placing women's bureaux in strategic areas of a country's decision-making processes;

(ii) establishing women's units in key economic Ministries and development agencies, and ensuring that they participate fully in all decision-making related to structural adjustment and other concerns of women;

(iii) setting up Parliamentary and administrative committees to review legislation and programmes to ensure that all concerns of women are adequately addressed.

III. Involve women fully at all levels of the decision-making processes; introduce anti-discrimination and affirmative action legislation to assist in breaking down the gender segmentation of the workforce; implement measures to ensure women have equitable access to education, training and employment opportunities, and receive equal pay for work of equal value and equality of treatment in all aspects of the law; and undertake publicity and information campaigns to promote a greater sharing by men of domestic and family responsibilities.

IV. Provide a supportive international economic environment for the broader approach to structural adjustment in developing countries by :

(i) increasing external finance for areas supporting women during adjustment; targeting a specific proportion of aid flows to measures which directly benefit women; and initiating debt swaps in support of such measures;

(ii) increasing net resource transfers both from the public and the private sector through additional aid flows and debt write-off by aid donors; lower interest rates, substantial debt reduction, and additional financial flows from the private sector; improving access to developed countries' markets, especially for labour-intensive manufactures, where women are heavily involved; and supporting primary product prices.

V. Ensure the provision of :

(i) accurate, regular and prompt gender-disaggregated data on critical economic and social indicators (including access to land and credit, rates of employment and earnings, levels of education, morbidity, mortality, and nutrition); and ensure that the data on women's work and employment reflect the full extent of their contribution to the economy and the household (including home-based work);

(ii) facilites for regularly monitoring the impact of specific adjustment programmes in operation and disseminating the results;

(iii) detailed surveys and analytical case studies so as to help design more appropriate policies and programmes which mitigate any adverse effects and realise opportunities for improvement.

VI. The Commonwealth to :

(i) take steps to initiate and secure joint sponsorship with appropriate UN organisations for a small international meeting of high level national and international officials involved in structural adjustment policies. This meeting should seek consensus on the policy goals for a broader adjustment strategy, fully reflecting women's interests, and focus on ways in which such a strategy would be implemented;

(ii) encourage regional meetings and workshops so as to foster intensive discussion, decisions and actions on the issues discussed in our Report.

Specific Recommendations

19. As a result of our investigations, and in the light of the general principles and priority actions just described, we recommend the following specific changes, designed to support women in their four roles. Our proposals deal first with the *domestic action* which we believe governments should themselves take in the structural adjustment process.

20. We start with women's role as a producer. Concerning their access to productive resources, we recommend that governments design adjustment programmes which [in]:

— *employment :* take special measures to employ women (for example, through public works schemes), assist (including through grants for setting up small businesses) or otherwise compensate women and other workers who become unemployed as a result of structural adjustment; ensure satisfactory labour standards for those still at work and review them regularly to ensure adequacy;

— *credit :* ensure that a certain proportion of bank loans are secured by women, and establish special credit arrangements to help them overcome existing disadvantages, including requirements for collateral;

— *foreign exchange :* ensure that in foreign exchange allocation, some foreign exchange is reserved for priority sectors of special concern to women, so that they can purchase vital imports;

— *infrastructure :* provide more feeder roads and small scale decentralised means to generate energy and obtain access to water, so as to help those small enterprises in which women find their greatest employment and reduce pressure on women's time use;

— *marketing :* ensure that the disbanding of state marketing enterprises does not lead to a reduction in services enabling small producers, including women, to sell their output and acquire inputs; encourage women's participation in marketing, including marketing co-operatives, so that they have better opportunities to retain the income from selling their products;

— *training :* restore and expand training budgets, with special schemes for retrenched employees, especially from the public sector; reorient programmes so as to give special attention to providing women with technical and entrepreneurial skills; experiment with innovative delivery systems for non-formal training especially of women;

— *extension and technical services :* ensure women have adequate access to agricultural extension services and that there is more emphasis on the activities in which women specialise, such as food crops; increase government provision of and support for technical services and repair centres which women can use in establishing and operating manufacturing and other non-farm enterprises;

— *technology :* promote more long-term R&D into activities or goods of special interest to women as producers or consumers;

— *land :* reform inheritance and land tenure laws to remove gender inequalities; improve the processes for implementing such laws; protect communal land rights (e.g. for grazing) from privatisation through promoting group ownership;

— *environment :* ensure that structural adjustment programmes protect the environment in which women live and work, for example by safeguarding their access to fuelwood, fodder and potable water; and

— *legal :* enact reforms ensuring women have equality before the law in all aspects of their daily lives, and ensure that such laws are effectively implemented.

21. It is also vital that women have sufficient *access to basic goods and services* to be able to carry out their roles as home managers and mothers satisfactorily. These functions provide critical support to the operations of the monetary

economy and the nurturing of the human resources base of the future. We recommend that governments design adjustment programmes so as to :

— *basic household needs :* maintain price of staple food and fuel at affordable levels for low income families (even if this entails some measure of subsidy) and protect nutritional and school feeding programmes;

— *education :* restore and expand education budgets and review resource allocation within the sector so as to assure supplies of basic text books; avoid charging fees on primary education and make special efforts (including additional subsidies if necessary) to ensure that girls from poor households and rural areas receive education; reorient programmes towards basic education; and take special measures to avoid pupils dropping out (rescheduling school calendar, provision of creches etc); and

— *health :* protect and if possible extend the number and quality of basic health facilites, especially for maternal and child healthcare; maintain free access to primary healthcare; provide enough community health workers and an adequate referral system; ensure a sufficient supply of basic drugs at reasonable prices; increase expenditure on potable water and efficient sanitation facilites.

22. Women's access to productive resources and basic goods and services can be enhanced by group action. In designing structural adjustment programmes, governments should encourage such action, which can be particularly beneficial in respect of access to:

— *credit:* enabling women to obtain loans without providing collateral;

— *land:* assuring women the use of common land without fear of losing rights to others such as money lenders or male relatives;

— *water:* allowing women to take part in decisions on the distribution of water through irrigation systems;

— *fuelwood:* enabling women to participate in decisions on the use of forestry resources for fuel and other purposes;

— *childcare:* allowing women to spend more time on economically productive activities through the provision of communal childcare facilities; and

— *cooking facilities:* saving women time in food preparation by the use of communal cooking facilities.

23. Some of our recommendations will cost governments little or nothing at any time and all will pay for themselves in the long term. But some *financing* will be necessary in the interim. Most of this can be generated internally by reorienting expenditure within or, more importantly, between sectors, or by raising extra revenue — either by introducing user charges for non-priority uses or by increasing taxes on luxury items and reforming the tax system. But in many cases a balance will be needed from *external sources.* It is most important for these resources to be made available, and we recommend all goverments to act accordingly.

24. An *external environment* more conducive to sustained economic growth and development, and more supportive to adjustment, is essential if developing countries are to be able to follow more expansionary policies, combining adjustment with growth; finance and trade are especially important. We recommend that:

— *external resource flows:* all developed countries reach the internationally accepted official development assistance (ODA) targets as soon as possible, channel a higher proportion of their multilateral ODA to agencies whose activities are of particular concern to women, and direct a specific proportion of their bilateral ODA to projects and programmes of special benefit to women;

the resources of the IMF and the World Bank be substantially expanded to assist in debt reduction and meet expanding development needs; enlarged funding and much greater attention be given to integrating women's concerns into the design of structural adjustment programmes implemented under their auspices, as well as into the monitoring, appraisal and follow-up procedures, measures for orderly debt reduction be agreed with all developing countries in need of them.

— *international trading:* in the present round of GATT multilateral trade negotiations, governments pay greater attention to the interests of women and the poor, especially in developing countries, and reduce protection of those products of particular importance to these groups;

all policymakers consider coordinating their actions affecting commodity prices, if necessary through production controls, making full use of, and giving greater support to, international mechanisms to encourage producers to diversify, and exploiting the establishment of new mechanisms to compensate producers directly for falling prices.

25. Enhanced *data collection, monitoring and evaluation facilities* are of critical importance to effective policy-making in this area. We have suggested a range of economic and social indicators needed. In general we recommend:

— more accurate, regular and prompt *gender-disaggregated data;*

— a *better conceptual basis* to data so as to reflect women's full contribution to the economy and the household;

— improved procedures for *monitoring and evaluation,* including case studies on women's roles and activities during adjustment; and

— more and quicker *dissemination* of the details of programmes, schemes and reforms undertaken as part of structural adjustment in order that the opportunities thereby provided can be seized as soon and widely as possible.

26. To *implement* the broader approach to structural adjustment recommended will require much political

commitment, translated into administrative and institutional action, as well as women having greater control over their economic and social roles. Key elements of this process will be the empowerment and organisation of women themselves; affirmative action to incorporate them fully into all decision-making processes, both nationally and internationally, in the private as well as the public sector; institutionalising women's concerns (again both nationally and internationally); and generally educating the public on 'women's issues'. We set out detailed actions required in respect of each. Specifically as regards structural adjustment, we recommend that:

— government departments formulating, negotiating and implementing structural adjustment policies and programmes establish women's units as an integral part of their administrative structures and consult women's affairs ministries, national bureaux and other women's organisations;

— women's affairs ministries, national bureaux and other women's organisations be strengthened in their ability to undertake economic analysis and project appraisal techniques;

— women's organisations concerned particularly with economic issues be adequately financed;

— other women's groups be assisted to collect and disseminate information relevant to structural adjustment, to lobby and to promote improved policies for women in this area;

— international financial institutions (especially the World Bank) involve their women and development units more fully in the design, implentation, monitoring and appraisal of structural adjustment policies and programmes.

27. Putting our proposals into practice will need *initial impetus from appropriate institutions.* We recommend the Commonwealth take steps to initiate and secure joint sponsorship with appropriate UN organisations for holding a small

international meeting of high-level officials involved in structural adjustment, from governments and the international institutions. This would seek to synthesise proposals for, and reach consensus on, the policy goals for a new adjustment strategy which reflects women's interests, and to discuss how it should be implemented. Commonwealth regional meetings would help to secure discussion and dissemination of these ideas and actions, as could meetings of Commonwealth Finance Ministers and Ministers Responsible for Women's Affairs. To provide political support for the process, we recommend a Commonwealth Declaration stating the human effects of structural adjustment, summarising the main elements of a broader approach, and proposing how this might be implemented.

2

ENGENDERING ADJUSTMENT FOR THE 1990s
Women and Structural Adjustment

Note presented at the Inter-Regional Meeting on Economic Distress, Structural Adjustment and Women, June 13-14, 1991, Lancaster House, London

MOVING FORWARD

SECTION 1
ADJUSTMENT TO WHAT END

Given a constantly evolving international environment, there is broad consensus on the need for countries, developed and developing, to undertake some form of continuous adjustment, whether alone or in an internationally supervised programme.

In the 1980s, broader development policy in many developing countries became subservient to a form of structural adjustment which was excessively short term, preoccupied with economic goals and, often in the event, accompanied by severe setbacks in the situation of women.

There is now a widespread international consensus that human goals and concerns must be given more attention in the 1990s, both in the making of adjustment policy and in formulating development policy in general, and that effective adjustment must be truly nationally owned and should be undertaken in the context of long term national development, the purpose of which is to improve the quality of human life.

There has been significant evolution in the adjustment process but further evolution is needed to ensure the full integration of social goals into the process. Structrual adjustment programmes must be defined in terms of the achievements of long term social goals as well as the achievement of economic goals.

Long term human goals agreed in several recent international meetings can provide the basis for a more effective approach to adjustment in the 1990s.

Too abrupt an adjustment process can lead to over-emphasis on contractionary policies, with adverse implications for the poor and for investment.

A more dynamic framework for adjustment and development will require a more supportive international environment, especially the reversal of negative flows and debt relief.

Restructuring of international aid will be required with a higher proportion of expenditure being aimed at more clearly defined human priorities.

Deeper structural distortions must be corrected in order to create the environment in which structural adjustment can succeed, but the adjustment process itself can also offer the opportunity to address such structural distortions, which perpetuate income and gender inequalities.

Full public participation, particularly through women's community based groups is required in the elaboration of adjustment and development policies.

SECTION 2
GENDER SENSITIVE ADJUSTMENT

Gender sensitive adjustment requires the removal of gender based discrimination which from the time of conception favours males over females.

Gender distortions exacerbated by the structural adjustment process must be tackled in the context of removing broader gender discrimination. The Report's analysis of women's multiple roles of producers, home managers, mothers and community organisers provide a valid basis for addressing gender distortions.

Adjustment programmes must not only address the negative effects on women, but should be designed to enhance women's productivity and wellbeing for the mutual benefit of women and the adjustment process.

Steps to improve women's productivity should involve their increased access to labour markets, credit markets, information sources and inputs in agriculture.

Structured markets and budgetary processes which allocate specific shares in priority areas for women (e.g. earmarked amounts of credit) provide a means of achieving this and of bringing women into the long term development process.

The lack of gender disaggregated data is still a severe handicap as is a system of national accounts which only captures the formal sector leaving out all of women's unpaid and informal economic contributions.

More women are required in decision-making positions.

SECTION 3
ENGENDERING THE POLICY PROCESS

Debates on whether negative effects derive from the economic crisis or the adjustment process must be superceded by an agreement of all parties that the priority lies in designing an effective adjustment process, which is nationally owned and which brings about positive results.

Adjusting governments would benefit from an external source of independent advice in the definition of adjustment programmes including the incorporation of gender issues. The Commonwealth and relevant UN agencies may wish to consider the extent to which they can support this process.

A number of opportunities to include gender aware social aspects in the adjustment process present themselves :

Public participation by women and women's groups in the pre-definition stage.

Creation of internal government mechanisms to enable Women's Bureaux and Social Sector Ministries to be involved in the preparation stage and the allocation process with the Ministries of Finance / Planning.

Inclusion of social goals in the policy framework papers, along with broader discussions of IFI country documents.

Use of Public Expenditure Review process to identify, direct and monitor the allocation of government resources in a gender sensitive way.

Bilateral donors are well placed to provide social sector assistance early on in the adjustment process, prior to completion of negotiations and without the macro-economic conditionalities associated with structural adjustment lending.

Institutional strengthening including staff training is urgently required in governments and donor agencies.

Despite advances, the majority of adjustment programmes have not achieved their macro-economic goals and this failure is weakening the potential for the achievement of social as well as economic development. Priority, therefore, must be given to improving macro-economic programmes.

In addition to a more supportive international environment, including debt relief and increased aid resources, more attention must be placed on how governments allocate expenditure to achieve long term human development and implement specific measures to support women in the process.

Evidence is growing that poor women are being pushed beyond the limits of any acceptable level of human existence, and that the advancement of women is still being held back during adjustment efforts which are too often inadequate. A process of "Engendering Adjustment" is urgently needed to reverse this trend, and ensure genuine participation of women in the benefits of development in the 1990s.

3

CONCLUSIONS AND RECOMMENDATIONS

Sushila Gidwani, Impact of monetary and
fiscal policies upon women, Santo Domingo,
UN INSTRAW, 1985, p 35-37

A. CONCLUSIONS

The preceding analysis shows that the major impact of the monetary policies upon women in general, has been to gradually trade their domesticity for greater material satisfaction through monetary self-reliance. Starting with skewed national and international distribution of income and wealth, the distribution of industrial prosperity and, consequently, of economic resources in the capitalist framework, by its inherent nature, has resulted in even greater concentration of income and wealth, drawing upon the cheapest human resources as they become suitable to the production processes. Women are the latest entrants in the process. However, the increasingly intensifying competitive forces, especially at the international levels, have promoted automation, rapid human obsolescence and the internationalization of the production processes. The jobs are being replaced by robots, by younger people with fresh usable intellectual (high skilled jobs) and physical (low-skilled jobs) assets and by lower-paid groups of workers regionally and internationally. Job insecurity and the unpleasant environment of low-skilled employment induces women with financial and native abilities to acquire high skills and compete with men, while it subjects others to exploitation. The control over women's destiny has been shifted from the whims of the male individuals to the whims of the impersonal markets. This economic environment for women mirrors the economic environment for men in the early stages of industrial development of the advanced countries. However, unlike the old days where colonies and the Americas provided an outlet for growth and unemployment, the present nations, devoid of colonies and faced with an extremely competitive environment, have recourse only to economic growth and/or to income and wealth redistrbution measures. The general trend of the present international and national monetary policies seems to favour the former and to discourage the latter. The question arises: which pattern of economic growth would lead the vast majority of women workers (for whom the employment has become a condition of survival) on the global assembly lines to job security, to human diginity, to the self confidence, to control over her own destiny, and to the realization of their full potential?

The past experience with the existing "Trickle down" economic growth and development strategies relying upon internationally distributed unpredictable supplies of the vital industrial and technological resources, and upon fierce competition for economic survival, shows that rich industrial countries have benefitted more than the developing countries from the tremendous growth of the global income. In the 1960s the highest 20% of the global population received 50% of the global income; in 1981 the highest 16% of the global population received 65% of the global GNP; while in the 1960s the lowest 50% of the world's population received less than 10% of the world's income, in 1981, their share was less than 5% (Mandez, 1984, p. 73-74). The global inequities seem to increase rather than decrease with time under the present strategies.

Hence, the monetary economies tend to reward the rich over the poor (ability-to-pay) and men over women. Women represent 50% of the adult world population; they constitute 1/3 of the official labour force, work 2/3 of all working hours and yet receive only 10% of the global income and own less than 1% of the global property (World Profile, 1980). The monetary economic systems and the supporting monetary policies, as in the case of the developing countries, are less likely to enhance women's relative economic power, in general, and accord them full participation in the decision-making and in the allocation of economic resources. The evidence points out that with the orientation of monetary policies unchanged, women, as individuals, may claim bigger pay checks, but they as a group, may lose their relative economic shares to the rich. That is not to say that a small percentage of elite and capable women, able to compete with highly qualified men, would not reach the top. Today, in [few] industrial countries, 15% of working women occupy professional · and administrative positions (Werneke, 1983); in the developing countries their share is about 4% (ILO, 1980). The efficacy of the growth promoting "Trickle down" strategies to bring, for example, 50% of the global women to high level meaningful jobs within a reasonable time frame and without tremendous waste of precious resources is doubtful (Gidwani, working paper, 1984). As already shown, without the dual societies with vanishing middle classes. In these technological and service societies, robots will do the heavy manufacturing work, young women in the elite classes will have achieved male-oriented equality of functions, attributes and behavior and will fight for their shares of the markets and personal incomes on the same footing as men (N.Y. Time Magazine, Jan 6, 1985), and the lower income classes consisting mostly of less educated, low-skilled, not highly motivated, older people will continue to struggle economically and serve the interest of the rich in order to survive. In these societies women will have lost their own "feminine" attributes and acquired all the attributes of competitive men.

B. ALTERNATE STRATEGY

An alternative to the present male oriented system is to modify existing production patterns, employment patterns, decision making processes, and market structures, especially in the developing countries whose economics and populations are still rooted in agriculture, by capitalizing upon women's native, people oriented attitudes, and incorporating women's special needs. Such strategies will enable women to realize their full potential, impart flexibility to their dual productive role and allow them equal participation in the decision making processes related to the allocation of the economic resources. The modification process will require political will, financial commitment, human resources, emotional commitment, self-confidence, hope, and national pride. It will call for financial sacrifice on the part of the haves, and require formulation of constructive redistributive policies which transfer some of the necessary financial or human resources from rich countries to poor countries and from rich people to poor people. These policies will strengthen the middle and lower classes rather than weaken them.

The time and space does not permit to describe the full scope of all programmes or possible financial recourses which can help women gain their economic power. These have been enumerated in detail elsewhere (Gidwani, 1984). We will only suggest a few examples here.

(a) Strategy

1. The largest segment of women are the unpaid workers at home. They receive no compensation, have no insurance protection and have no pension plans. Since home based production is socially indispensable for the regeneration of the current labour power and for the creation of the future labour force, society must recognize women's contribution in this effort and compensate it. Until that time when men and women are equally incorporated in the paid work force with equal pay for equal work, women should be monetarily compensated for their work in their traditional domain.

2. The benefits of international specialization reaped by the developed countries partly contain an exploitative component contributed by women in export sectors and in the agribusiness, whose only alternative to economic exploitation is starvation; the real international surplus based upon the nonexploitative standards of living is therefore much less than reported. It is proposed that there should be proper regulation of these industries which will assure women the satisfaction of their basic human needs, as described by ILO (Grant, ILO, 1977), and provide job security and healthy work environment. These improvements, by removing the exploitative component, will reflect real international cost advantages. The displacement of women resulting from unemployment in these industries should be absorbed by training women to become entrepreneurs, as suggested below. The cost should be borne by the international community.

3. Similary, the benefits of large scale efficiencies are reaped by the upper classes at the cost of women of the lower economic levels. These women also work under conditions similar to those in the export sectors. Their conditions should be improved in the same manner as suggested above. Also, to protect women from the exploitative elements of the informal sectors, similar reforms should also be instituted in these segments of the economy. These policies will bring the efficiences of large scale in proper cost perspectives. The cost of the improvements should be borne by the nations themselves through redistributive policies.

4. The natural feminine efficiencies seem to lie in the management of the small scale, home or near-home based organizations, for the benefit of the collective interest in the environment and co-operation among all members. It is therefore suggested here that where it is possible, especially in the informal and agricultural sectors of the developing countries, small scale regional cooperatives having joint and equal male-female participation, producing mostly basic goods for the regional markets, using largely local talents and resources

and operating in the proximity of homes, be established. Similar efforts should also be aimed at women displaced by the improved conditions in the industry, trade and export sectors. This trend will give men and women equal participation in decision making as is called for in the International Strategy of the Third U.N. Decade of Development. It will utilize local talents in the production of local needs and, above all enable women and men to fully participate in all aspects of economic life with co-operation and flexibility.

5. One of the handicaps of women is their widespread lack of organizational skills. Women should be trained in the skills of management and finances suited to their economic organizations.

6. In the modern sectors of the developing economies and in the industrial countries the economic power is concentrated in the male dominated political bureaucracies or in a handful of male dominated boards of directors. It is suggested that these bureaucracies and the boards be represented by qualified men and women in equal proportions representing all interests affected by their decision, i.e., employees, consumers, owners, and the governments.

7. It seems that even the official international agencies such as the World Bank and the IMF, have paid little or no attention to the impact of their funding effort upon people in the developing countries especially women. It is suggested that the financial feasibility analyses of future development projects, public and private, including multi-national corporations, must incorporate the "woman" factor.

8. One possible solution to the incompatible problem of technological progress and human unemployment is to establish a system of rotating unemployment under which all affected workers instead of playing musical chairs will share equally in the pool of unemployed time (for operational and financial details, please refer to the author's unpublished paper, Revolving Unemployment).

(b) Financial Resources

Accessibility of women to financial resources is an indispensible and integral part of the redistributive effort. Like any development programme, this requires an initial substantial investment in human and financial resources.

Therefore financial resources need to be generated for women's programmes. This can be achieved through various tax schemes at both the national and international levels. Moreover, the World Bank and the IMF could provide a special fund to finance women in development programmes.

Lastly, INSTRAW should undertake research in the following areas:

1. impact of the past international official financing upon women, and
2. the financial requirements for removing poverty among women.

4

EMPOWERING OURSELVES THROUGH ORGANISATIONS: TYPES AND METHODS

Geeta Sen and Caren Grown, *Development Crisis and Alternative Visions,* Monthly Review Press, 1987, p 82-89

Because women's organizations are central to these strategies, a more thorough examination of methods for their empowerment is necessary. Not only must they strengthen their organizational capacity, but they must crystallize visions and perspectives that will move them beyond their present situation. The strategic role of these organizations and networks can be seen from two perspectives. Developing the political will for the major changes needed in most societies requires organizations that have the strength to push for those changes, and the mass potential of women's networks in this area is great. Second, the particular perspective of poor women gives centrality to the fulfillment of basic survival needs as the priority issue; they are therefore the most committed, militant, and energetic actors once avenues for action emerge.

What methods for the empowerment of individual women and organizations can catalyze strategies and build movements for social change consonant with our vision? It is important to draw on existing organizational strengths while working out ways to overcome weaknesses and conflicts. Although many organizations suffer from class or other biases, we feel it is worthwhile to assess whether such biases can be overcome, and if not, whether there are particlular issues or programmes on which organizations of poor women can work with other groups.

Empowerment of organizations, individuals and movements has certain requisites. These include resources (finance, knowledge, technology), skills training, and leadership formation on the one side: and democratic processes, dialogue, participation in policy and decision making, and techniques for conflict resolution on the other. Flexibility of membership requirements can also be helpful, especially to poor working women whose time commitments and work burdens are already severe. Within organizations, open and democratic processes are essential in empowering women to withstand the social and family pressures that result from their participation. Thus the long-term viability of the organization, and the growing autonomy and control by poor women over their lives, are linked through organization's own internal processes of shared responsibility and decision making.

Since different types of organizations have different histories, weaknesses, and potential, we try below to spell out some of these differences in order to engender further debate. Our classification does not pretend to be exhaustive. Nor is it done from the usual viewpoint of donor agencies that wish to know which groups are the most suited to receive funding. It is done rather from the broad perspective of building and strengthening our own movements and networks, that is, from the perspective of empowerment.

First, there are major, traditional, service oriented women's organizations that are of long standing in many countries.

While such organizations that have sometimes been criticized for having a "welfarist" approach, they have performed valuable functions in the areas of women's education, health, and related services. In the Third World context, such organizations sometimes arose within a context of generalized social reform movements or nationalist struggles. At the time they often represented the only major avenue for raising issues concerning women. We need to learn more about their histories in the face of struggle, and how they were able to grow. Such organizations usually have significant resources and access to policy makers, formal structures of decision-making and power, membership drawn from different sectors of society, and systematic methods for transferring skills and building leadership.

They tend to have three major weaknesses. They often suffer from class biases in their membership and programmes so that their major efforts are directed at middle and upper class women, while poor women are treated in hierarchical and patronizing ways. Their internal decision-making processes are usually topdown and allow little scope for participatory processes that empower all women, not a chosen few. And they often lack a clear perspective or even understanding of gender subordination or its links to other forms of social and economic oppression. Despite these flaws, we can learn a great deal from the ability of these organizations to raise women's issues in the public arena and marshal large-scale support for their agendas, often under adverse circumstances. Consciousness-raising in these organizations, especially those which direct their activities to poor women, can therefore have a worthwhile payoff.

A *second* major type of organization is that affiliated to a political party. The degree of importance of such organizations, their resource base, and their autonomy in raising issues for either debate or action varies considerably from country to country. Such organizations can raise issues related to organizing women workers within the context of parties that may already have considerable experience organizing peasants or male workers. Their problem is that they often find it difficult to address gender issues directly, even in this relatively familiar context for fear of being labeled divisive to the struggles of workers or the poor. Thus, the question of autonomy is a key one for most such organizations. Some newer political parties, such as the Greens party in Germany, are more explicitly feminist both in orientation and internal structure.

A *third* type of potentially large organization is the workerbased organization. This includes both formal trade unions of workers employed in the formal sector, and organizations of poor self-employed women, of which there are a growing number in the Third World. These two sub-types are themselves different in that the former contains examples of unions where women form the base, while most leadership positions are held by men, the latter groups have much better representation of poor women. The worker-based organization usually addresses issues of employment incomes, working conditions, and availability of credit or marketing, and is more sensitive to such issues as childcare and the demands on women's time in the organization itself. Some of these organizations are explicitly aware of the character of women's subordination. But even those which do not overtly perceive themselves as feminist are conscious of the substantive issues of both gender and class as they affect poor women's lives. The experience and the potential of such organizations are encouraging, although their resource position may be weak, reflecting the poverty of their membership. Such organizations also tend to be very successful in empowering poor women in their own personal life situations.

A *fourth* type is the organizations that have mushroomed during the Decade as a result of the external flow of funds and interest. Many of these organizations have no previous organic history and little organizational or resource base independent of the project being implemented. Illustrations of this type of organization include the various handicraft or credit cooperatives set up by donor agencies. Some of these organizations match the structural weaknesses with a top-down approach, lack of understanding of the problems of poor women, and often class biases as well. Such organizations are among the weakest of the different types of organizations considered here, though many of them have persisted through funding generated during the decade. Others, however, have been more successful in evolving participatory styles.

A *fifth* type of organization is the grassroots organization which may be related to a specific project. While similar in some respects to worker organizations, this category of groups does not engage directly in workplace issues. However, the problems they address are often economic in nature. Such groups may also focus on media, health, literacy, or violence. They often direct their work to poor and working women, provide various types of technical assistance to other groups, and engage in advocacy, legal struggles, and political action. Some of these groups are explicitly feminist in their orientation. Their weaknesses include an inadequate resource base and the fact that, in many instances, they tend to have a more middle-class, urban membership and perspective. But if their work with and among poor women can be strengthened, these groups have considerable potential.

The *sixth* organizational type is the research organizations that have been growing rapidly in the last few years. These include groups involved in participatory action (and policy) research, women's studies associations, and research networks. Such groups have considerable potential to influence public policy debates, evaluate the programmes of agencies and governments, inform and feed research into other types of women's organizations and link research with action. These groups aim to eliminate the distinction between the researcher and the researched, so that research becomes a process of mutual education. They are also committed to using their findings to serve and empower the subjects of the research. Their flaw is that they sometimes exacerbate tensions between researchers and activists by using the results in individualistic ways without benefitting those researched. This, however, may sometimes be more a problem of the individual researchers than of the organizations to which they are linked, but the organizations themselves need to be aware of this problem. The challenge facing these groups is to develop structures and methods of accountability to both action organizations and the subjects of the research, perhaps through stronger policy linkages or direct services.

In addition to these six types of organizations, a large number of women's movements (encompassing individuals, organizations, and coalitions) have sprung up during the decade. These cover a multitude of issues and purposes but share a concern and identification with women's causes. Their overall strength derives from their flexibility and unity of purpose, while their weakness may stem from the lack of clear organizational structures (this can also be a source of strength in a repressive political situation). Such movements have come together around basic needs such as fuel and water, and in response to urban crises such as loss of services or inflation. They also focus on such issues as peace, opposition to violence against women, sex tourism and sexual exploitation, militarism and political repression, racism, and fundamentalist religious forces opposed to women's rights. Many of these movements are large, mass-based, non-violent in their methods, and extremely courageous in the actions undertaken. The tenacity and commitment of women in the peace encampments and in opposition to military dictatorships are well known. Such movements are dynamized by the issues, mass support, and energy of the activities of individuals, smaller groups, and coalitions that are involved in them. Between the organizations and the movements stand networks and coalitions, some of which are permanent and others more temporal. Their goals range from direct political action to exchanges of research and information.

The organizations described here have developed a range of methods for reaching marginalized women and have made significant contributions during the Decade. However, in order to move forward, it is necessary for us to experiment with creative approaches and to analyse the conflicts and issues that challenge our organizations. The first is that many (but not all) women's organizations have been wary of viewing large public policy issues as within their purview. Two distinct but related tendencies explain why groups have functioned outside this domain: on the one hand, feminism has concerned itself, among other things, with aspects of life that are only partially susceptible to institutional regulation. This is true not only in the domestic sphere but also (and this is particularly relevant in the Third World) in such spheres as the "informal" sector or clandestine economy. On the other hand, the marginalization of women's groups from public policy may also be due to the hitherto fragmentary character of our own vision, and our inability to articulate the links between development and equality.

The *second* problem arises in our search for non-hierarchical and non-formal organizational structures in a world increasingly formalized and hierarchical. In this context, we have not developed enduring and effective channels for acquiring representation. Frequently, a given organization does not clearly know who is a member. While this may be useful tactic in confounding repressive regimes, it has made it difficult for us to establish clearly delineated relationships with complex and bureaucratized decision-making bodies and to successfully pressure them to implement policies in our interest.

A *third* set of problems occurs from women avoiding clear assignment of responsibilities or delegation of authority for fear of mirroring existing hierarchies or established power structures. Two difficulties derive from this stance. One is external: no one is authorized to speak for the women's movement, so that in trying to define public policies our voices are weakened. Another is internal: our groups are unstable largely because of inadequate resources, but also because of the total commitment (and resultant quick burnout) required of each person. If responsibilities are never defined, everyone is expected to do everything.

Why is it that many women have found it difficult to delegate organizational authority? Perhaps because our experience as women has shown that division of responsibility can be used as an instrument of subordination. Our mistrust must stimulate us, however, to devise innovative ways of sharing responsibilities so that we do not reinforce existing relationships of domination. And we must develop structures which keep leaders accountable and responsive to the voices and needs of the membership at all levels of the organization.

A *fourth* difficulty arises when we try to build alliances. Women have had too long an experience of being used by governments, agencies, or organizations for purposes not in our interest or of our choosing. As a result we tend to look with suspicion upon any political force or body that is not of our own making. Even other women's groups in the same country sometimes come under attack. Especially given our vision of orienting ourselves to the mainstream of development activities and economic processes, we need to learn to ally ourselves more closely and effectively with other grassroots organizations without jeopardizing our autonomy or theirs. A process of dialogue and working on joint programmes is the only way to begin to build mutual respect for the strengths and capacities of each, and trust in each other's intentions.

A final issue is our ability and willingness to share power within our own organizations. Related to this is the question of our styles of conflict management and resolution. Such conflicts appear to come from two main sources: the first is genuine differences in strategies, issues, and evaluations of the organization's potential or internal biases; the second is that those with the dynamism, energy and genuine concern to start organizations are often afraid that others less well-motivated and more prone to personal aggrandizement will seize control over organizations built up with great effort. These fears are well-founded in some instances; they are compounded by the inflow of funds from international agencies that makes the takeover of organizations and their resources more tempting.

Experience tells us that there are two consistent ways of checking such tendencies. First, democratization of organizations and widening of their membership base is essential since it distributes power and diffuses hierarchy. Second, explicit assertion and commitment to an ethic that rejects personal aggrandizement, and a firm stance in that direction should be built into the organization from the beginning. We in the women's movement need to show by example that it is possible to bring these ethics to the centre of public life. Our own life experiences of powerlessness, cooperation, and nurturance can be enriching to our organizations, and to the world in which they function.

We do not claim to know all the answers to the problems, nor that there are unique solutions to them. In fact, we would assert that the solutions have to be worked out at the local level by the groups themselves. It is also important to recognize the cultural specificity of research methods and, especially, action. These depend on the social and cultural characteristics of regions and groups, though in general, women's groups appear more likely to be nonviolent and concerned about hierarchy and democratic processes. We need a great deal more self-understanding and dialogue about our own methods, problems, and successes in building organizations and managing power during the Decade, so that we can move ahead. Respect for the many voices of our movement, for their cross-fertilizing potential, for the power of dialogue, for the humility to learn from the experiences of others are crucial to our vision.

In many ways this book is the product of just such an ongoing process. Women from all over the globe and from many activities and professions have given unstintingly of their knowledge and experience through discussions, comments, criticisms, and suggestions. The process was always supportive even when it was critical or challenging. This speaks volumes for what we have learned is our most precious asset: the rich diversity of our experiences, understandings, and ideologies combined with a growing recognition that we cannot propose a social political economic programme for women alone, but that we need to develop one *for society from women's perspectives.* Thus, although the Decade that proclaimed so bravely "Development, Equality, Peace" has given so little of these to the majority of people, what we have learned in its course has already empowered us for the long haul ahead.

Govt. expenditures on food subsidies as percentage of total Govt. Expenditure and GDP (UNICEF, AWAHF 1989)

	Latest year available	In US Dollars			In national currency	
		Current ($million)	Current ($/capita)	Deflated cost index 1980=100	Current	Deflated 1980=100)
Bangladesh	1985	89.30	0.91	92	217	124
Brazil	1985	323.19	2.38	19	2,964	31
Colombia	1982	2.41	0.09	71	113	71
Egypt	1985	2,933.51	60.48	142	185	95
Egypt	1985	1,337.80	27.58	71	185	95
India	1985	691.24	0.92	71	145	93
Mexico	1984	1,110.50	14.46	73	670	99
Morocco	1985	277.48	11.75	68	227	140
Pakistan	1985	145.53	1.51	34	71	50
Sri Lanka	1985	68.44	4.32	42	89	51
Zambia	1982	17.01	2.82	38	52	41

	Food subsidies as percentage of total government expenditure			Food subsidies as percentage of GDP		
	1980 (%)	Latest year available	(%)	1980 (%)	Latest year available	(%)
Bangladesh	5.74	1985	3.78	0.58	1985	0.63
Brazil	5.56	1985	1.65	0.51	1985	0.16
Colombia	0.06	1982	0.04	0.01	1982	0.01
Egypt	16.44	1984	15.58	7.16	1985	6.64
India	3.53	1985	2.19	0.46	1985	0.36
Mexico	3.71	1984	2.59	0.65	1984	0.63
Morocco	5.02	1985	7.91	1.75	1985	2.33
Pakistan	7.93	1985	4.11	1.37	1985	0.48
Sri Lanka	7.22	1985	2.77	3.13	1985	1.16
Zambia	2.82	1982	1.21	0.99	1982	0.44

Source: Adjustment with a Human Face: A study by UNICEF, Vol. 1, Protecting the Vulnerable and Promoting Growth, Ed. by Cornia et al., Oxford, Clarendon Press, 1987.

5
BASIC FRAMEWORK OF REFERENCE
FACTORS DETERMINING THE LIVING CONDITIONS OF POOR WOMEN IN LATIN AMERICA AND THE CARIBBEAN AND HOW THESE ARE MANIFESTED

SOCIO-CULTURAL CONDITIONING FACTORS

↓

↓ CULTURAL ETHOS	↓ IDEOLOGICAL DISCOURSE
(Values, beliefs, prejudices, norms, myths, images, symbols, attitudes, customs)	(Social sanctions, social and religious practices and rituals, laws and rules, educational methods and contents, social communication, political propaganda, commercial advertising, official history, art forms).

Undervaluation, discrimination, subordination and utilization of women as individuals, as providers of services to the family and the community, as workers and as citizens.

Limited access to labour market ←	Limited access to adequate wages ←	Limited access to property and the advantages it brings →	Limited access to education and training →	Assigned unpaid and little-valued work →	Domination and violence to keep women in a subordinate position →	Inequity in rights/duties and in the law →	Restricted participation in representative roles and in decision-making

↓

WOMEN

who, in the roles* they play, reproduce the very patterns and behaviours that have determined their own situation.

↑

Increase in women's participation in the informal sector. Reduction in real incomes. Worsening in diet. Increase in incidence of illness and malnutrition. Increase in family tensions, violence, breakdown of family ties, and child abandonment. Reduction in access to health services, sanitation, pre-school care, education and other social services. Growing burden of domestic tasks, physical and psychological exhaustion. Forced migration, physical and social isolation. Failure to adapt, insecurity and lack of identity.

Fall in purchasing	← Increase in un-employment	← Predominance of public policy approach based on criteria of economic efficiency, to the detriment of approaches based on alternatives for growth with a human dimension	← Cuts in the budgets of programmes for social public services	← Deterioration and decrease in infrastructures and equipment for public services

↑

RECESSION AND ECONOMIC ADJUSTMENT

* (as daughters, wiwes, mothers, housewives, heads of household, workers, agents of socialisation, providers of services and citizens.)

Source: The Invisible Adjustment, UNICEF, New York, 1987.

6

POLITICAL ECONOMY OF STRUCTURAL READJUSTMENT

Arun Ghosh, Economic and Political Weekly,
November 30, 1991

What precisely is the nature of the structural adjustment being envisaged, for which we are now applying to the IMF for a loan of $5 to 7 billion? This is a vital question because once we have accepted the IMF conditions applicable to the Enhanced Structural Adjustment Facility, we would have embarked on a policy which would in many ways be irreversible.

I must start with a somewhat comic story pertaining to myself. The other day I had gone shopping in the neighbourhood and while returning, soon after I had started the car, I smelt the heavy odour of petrol. After I had gone some distance, I stopped on the roadside, and stepped out to see whether there was some loose connection in the fuel pump. To my horror, I found that petrol was leaking from the bottom of the car and was nonplussed. But a young man on a bicycle going by stopped, and fiddled around and did something which stopped the flow of petrol. He said he was a car mechanic on his way home (via a neighbourhood gentleman whose private jobs he did from time to time). Then he asked me to start the car to check whether there was any problem of flow of gasoline to the carburettor, raced the engine, fiddled around a bit, and closed the bonnet. When I wanted to pay him, he said it was nothing, he had done nothing warranting any payment, and without any further ado, he got on his bicycle and pedalled away.

I started driving again, but after about a hundred yards, the engine stalled. Lo and behold, the young man had caught up with me and with the bonnet opened, he fiddled around and said the distributor point needed to be changed. He said the original part would cost Rs. 230, and if I could get it — I was not too far away from a complex where automobile parts were available — he would fix it for Rs. 50. He added, he himself had the required spare part, and was in fact going to change this very part for the gentleman for whom he did small private repairs from time to time.

It seemed to be too much of a coincidence, and a well planned 'set-up'. But then, my knowledge of a car is limited to the capacity to steer it in the maddening traffic of Delhi, without killing anybody. However, a garage was not too far away, and I was tempted to decline the offer. But I thought over the matter. By the time I got the mechanic from the garage, where was the guarantee that the petrol from the tank would not get drained away, while I was away? That could eventually prove to be more expensive. I therefore let him fix the car, and paid him. He insisted on the car being driven around a bit, for me to try it out, before he accepted payment, and that was that.

I was hopping mad with myself later that, during the trial run, I did not have the wits to drive into the garage and check whether I had got a new, original distributor point. The clever young man might be using mine on some other car, as his 'circulating capital'. When one is befuddled, reason dawns only somewhat late. But on calm reflection, I was reminded of and consoled by the following classic words from Claudio Magris: "No one dares to perceive the Messiah of Sin in the head of state who orders the dropping of the atom bomb or orders a city to be razed to the ground, the corrupt governor who embezzles the money intended for the hospitals, the manufacturer of weapons who pushes a country into war to increase his profits, or the boss who humiliates an underling. It is right to have more sympathy for the cut-throat in the street than the office-bound exterminator...." (Claudio Magris: Danube; Collins Harvill; London, 1990).

In those few words quoted above, Magris sums up the essence of the problem of human development, the problem in India today, namely, the problem of *accountability.* Are those in power in India today really accountable in any meaning of the term? The politicians who have been elected by the people based on certain premises and promises, the bureaucrats who are really running the country from behind the scenes, the businessmen who are waxing fat but evade paying the taxes due to the state — all of these honourable gentlemen, to whom are they accountable? Take the bureaucracy, the men (and women) who are supposed to implement policies laid down, but who in fact have been in effective command over not only the administration but also economic policy-making in this country. Let us go back only a decade. A number of senior civil servants have been guiding the politicians, 'advising' them on economic policies which they thought would set the country on the path of higher growth, and pull the nation out of the mire of unemployment, low productivity, low incomes and resultant poverty. Certain new initiatives were taken in the 80s and hailed by all and sundry including not only the media in India but also the international agencies and developed (aid donor) countries. Unfortunately the policies adopted in the 80s were not based on the principle of self-reliance, of raising the capabilities of the people. Our policy advisers thought — and our politicians were obviously convinced — that we could go on borrowing heavily *ad infinitum,* to shore up our GDP growth rate, that the 'trickle down' effect would solve the basic problem of low productivity, unemployment and poverty. The results of the economic policies pursued in the 80s have been chronicled fairly well in official documents (like the *Economic Survey* published by the Ministry of Finance and the Annual Report of the Reserve Bank of India). Though couched in diplomatic language, all official documents emphasise that the present crisis in India is the result of long years of fiscal improvidence.

One can never say with any definiteness what would have happened if we had followed some other path of development. The past is past, and there is no going back; what matters is only the future, and the past has relevance only insofar as it has lessons for the future. The point is that the same officials who were advising the government in the 80s continue to do so today, some of them in higher and more authoritative capacities. They are *not accountable* to the people. Their explanation is simple: sorry, the policies pursued in the past were wrong, we have to make a 180 degree turn, and 'globalise' the Indian economy; and to that end we must again borrow heavily from abroad for 'structural readjustment' of the economy. We must adopt 'outward looking' policies even if that implies an industrial recession and an increase in overt unemployment. Our travails are only for a limited period of a few years, and milk and honey would flow thereafter. After three years, may be less time when the economy is in doldrums, the concerned officials would have either retired or moved up some place else. They are just not 'accountable'.

The fact that the globalisation of the economy in the present framework of Indian society will benefit only some 10 to 15 per cent of the population — in fact the very people who have had it good during the 80s — is not taken into consideration. The distinct possibility, indeed likelihood, of the 'restructuring' endeavour being set to nought by social discontent and internal disorder is not even considered. The country is being pushed headlong into a set of policies which is in a way irreverisble, from which there is no return. But thanks to the TV, social awareness is greater today than it was a decade back. Those in power today may thus succeed in effectively ruining the future prospects of a whole coming generation, because the people may not approve of the 'burden sharing' of the adjustment costs, in terms of unemployment and a squeeze on the incomes of the poor. The immense responsibility that ought to inform policy-making at this juncture does not appear to be fully comprehended by even the elected representatives of the people. Maybe they do not even have the confidence and clarity to say *apre mois, le deluge. Accountability* of any kind is lacking in the entire body politic, in the administration, sadly even among the intelligentsia.

That we had a balance of payments crisis of an unprecedented order is unquestioned. What is questionable is the remedy being attempted, for the decisions are being taken, in great secrecy, by a handful of persons — may be a dozen people in the finance ministry and the PM's office — and these decisions are being pushed through with a speed that is breath-taking. It is of course good to see a 'Hand' that does work. But can the hand alone save the body if the legs do not move, because the body is undernourished and sick? When the finance minister cheerfully announces to foreign journalists (during a tour abroad) that all loss-making public enterprises would be phased out and that the World Bank would be giving a loan of $600 million for the retraining or compensation of the workers (to be retrenched), does he know what he is talking about? As a former civil servant and a former deputy chairman of the Planning Commission, he should know that many public enterprises have been making losses because of the past policies of the government of India. As ex-finance secretary, he should know that if the Vizag Steel Plant (Stage I) is yet to be completed after 13 years, it is mainly because the release of funds required for construction has been made in small driblets, thereby leading to avoidable time and cost over-run. The result is an increase in the burden of capital cost per unit of output; and similar cases of over-capitalisation are galore. The remedy would lie in writing down the capital of the plant and not privatising it or abandoning it. For each public sector undertaking, there is a specific remedy, depending on the ailment. The DESU operates at a heavy loss, and is unable to pay the Badarpur thermal power station, because the privileged residents of New Delhi enjoy the cheapest power rate for domestic use in the country, and repeated requests for enhancement of DESU's power supply rates have in the past been turned down by the union cabinet. (Even after a very recent increase, these rates continue to be about the lowest in the country and involve a heavy subsidy). There *are* a few, a very few public sector enterprises that need to be closed down, but there are many, many others that need a change in management culture and practices, including the withdrawal of government interference in the running of these enterprises, or a programme of carefully modulated modernisation, diversification and rehabilitation.

However, I digress. This is *not* an essay on public sector enterprises and what needs to be done about some of the currently loss-making enterprises. The point arose merely because even responsible people have started making unwarrantedly irresponsible statements. Nobody in authority in this country appears to be 'accountable' in the true sense of the word.

What precisely is the nature of the structural readjustment envisaged, for which we are now in the process of applying to the IMF for a loan of $5 to 7 billion? This is a vital question today because once we have accepted the IMF conditions applicable to the Enhanced Structural Adjustment Facility (ESAF) after February 1992, we would have embarked on a policy which would in many ways be irreversible.

The structural adjustment envisaged relates essentially to the industrial segment of the Indian economy and, in terms of the associated conditionalities of the ESAF, we would be undertaking to: (a) globalise the economy, meaning thereby gradually abolish import control over all items including consumer goods; (b) reduce the rate of import duty, and have a *uniform* duty rate of anything between 20 and 40 per cent (the former being the preferred rate, the higher percentage being a concession on revenue considerations); and (c) privatise public sector enterprises, and leave market demand to determine the pattern of investment and output.

Once we have accepted the above conditions, Indian industry is likely to go into a tailspin. Today we have a highly uneven degree of competitiveness in Indian industry, and though some industries should never have been started, the sudden shock to Indian industry may be catastrophic for employment in the organised sector. (As far as unorganised industries are concerned, their fate would be worse because with 'globalisation' would come cheap imports of manufactured products, and the 19th century story of 'deindustrialisation' would be repeated.)

If Indian industry is to be made competitive in a regime of no import control, we may need to devalue the rupee further. This would imply that we would lose further on the terms of trade — we have already lost by way of lower tea and iron ore prices, and over April-August 1991, the value of our exports *in dollar terms* has declined by 8 per cent — and the buoyancy in exports required to get the country's external payments in better balance may well elude us. In fact, our output and our supplies may not be sufficiently elastic to more than make up for the loss in the terms of trade, and there is also no guarantee that world demand for our products would be sufficiently elastic, though, considering our small share in total world trade, this may not really pose a problem except for certain specific products.

Anyhow, it is entirely possible that after a large IMF loan for 'structural readjustment' our export earnings may be quite inadequate to service these loans. For, what we need to do is to convert a balance of payments deficit (*after* allowing for long-term aid flows) of some $ 3 billion annually, to an equivalent (or a slightly lower) surplus, within three to four years.

The basic problem is that the structural adjustment seems to leave out in the cold the bulk of the Indian population, including agriculture and village industry. Quite clearly, the government revenues would be totally inadequate for the required investment on infrastructure, for education and health services (necessary for the universalisation of these essential services), for rural development. One can forget the possibility of any Employment Guarantee Scheme providing for employment to anyone prepared to put in eight hours physical labour at the minimum official wage. In short, the structural adjustment programme does not purport to help the approximately 43 per cent of the population below the poverty line (as estimated by B.S. Minhas and others, on the basis of state-level data for 1987-88). The programme is not concerned with the revitalisation of the rural economy, with raising the moisture retention capacity and fertility of the soil which stands degraded today in much more than half of the cultivated area in the country, because of long years of systematic felling of trees, leaving monsoon torrents to form gullies and carry away valuable top soil.

And, with the incapacity of the government to raise resources through direct taxation of income and wealth, the loss of customs revenue is likely to create major problems for the raising of resources for outlays on the gut issues that face the economy today. The 'globalisation' of the Indian economy would benefit only the affluent 10 or 15 per cent of the population through easier availability of all their luxury consumption requirements.

What would happen if we do not go in for a large ESAF loan? After all, we have already devalued the rupee quite sharply, and also provided extraordinarily large benefits to exporters. In fact, the benefits have been unwarrantedly large and have led to a worsening of the terms of trade. But, at this juncture, if we were to follow the type of 'purposive intervention' pursued in the past by Japan and South Korea, if we were to encourage indigenous design engineering and R & D effort, and if we were not forced to sacrifice Indian manufacturing capability because of the easy availability of equipment supplies (like power generating machinery) against 'tied aid' — which, in fact, increases project costs because of the higher price of such imports — we may be able to restructure the economy on our own, without further short-term borrowings from abroad. What we need to do is to make universal intermediates cheaper and internationally competitive, and use fiscal policy for proper demand management.

What we also need to do is to focus government outlay on sectors which will increase mass demand, and which will automatically encourage industrial investments calculated to meet mass demand. Exports in any case have an edge today, but exports can gather greater momentum if producers have a large base of domestic demand, so that economies of scale can be achieved.

There would be need for many other changes. But the fundamental problem today is the large imbalance between domestic investment and domestic saving. Local area development planning can help to increase both, and at the same time, increase aggregate output and incomes of the masses of people. But, there is need for gathering more resources for the required investments and for transfers from the centre to the states and further down to popularly elected panchayat bodies.

That is the type of restructuring necessary today. We need a genuinely 'federal' polity, with adequate focus on egalitarian development which would be possible only with larger devolution of resources from the centre. The pattern of economic restructuring envisaged under the IMF/World Bank package may not make it possible for the government at the centre to launch an attack on the root causes of poverty in India.

The issue is: would social tensions allow even the limited restructuring of Indian industry along the lines currently proposed? If not, a large loan from the IMF would leave us in much a worse position than we have been in over the recent past.

7

ADDRESS by J. de HAROHIERE Managing Director, IMF at the Economic and Social Council, U.N. Geneva, July 4, 1986

Karima Korayen, The impact of economic development policies on the vulnerable families and children in Egypt, UNICEF, New York, 1987. p. 112

".... adjustment need not conflict with growth and protection of basic human needs does not mean neither that the latter automatically result from the former. No. The extent to which adjustment is compatible with growth and with an improvement in living standards depends in large part on what *form* that adjustment takes. Adjustment that takes the form of increase in exports, saving, investment and economic efficiency will clearly be more supportive of growth, than that which relies on cut in investment and in imports. Similarly, adjustment that pays attention to the health, nutritional, and educational requirements of the most vulnerable groups is going to protect the human condition better than adjustment that ignores them. This means, in turn, that the authorities will have to be concerned not only with *if* they close the fiscal deficit, but also with *how* they do so."

8

ECONOMISTS
say
STRUCTURAL ADJUSTMENT PAINFUL
POOR WILL NEED SAFETY NET

H. K. Rao, *The Economic Times*, January 5, 1992

Eminent economists who assembled here last week for a four-day brain-storming session have agreed on at least one issue. At the end of the first day of the session there was near consensus that structural adjustments of Indian economy on the lines of IMF prescriptions will be a very painful process and in fact aggravate poverty in the immediate future.

While the structural adjustment is an economic impartation for higher growth, the government should increasingly concentrate on providing an efficient "safety net" for the poor, they emphasised.

Among economists who participated in the debate were Abid Hussain, Indian ambassador in the U.S., Dr. Mahabub ul Haq, economic advisor of UNDP and Pakistan former minister of finance and planning, Mr. Erling Dessau, regional director of UNDP in India, Karl Eric Knudsson, regional director of UNICEF for South Asia, Prof. K. N. Raj, economist, Dr. Kirit

S. Parikh, director of Indira Gandhi Institute of Development Research and others. The theme of the debate was "Economic growth sustainable human development and poverty alleviation in India."

Dr. Mahabub ul Haq, who delivered the keynote address, said income generation was necessary but was not the "be all and end all" of human life. Development must enlarge a range of choices at the disposal of people. These choices should include not only income and employment but also health, education, physical environment, human diginity and fame.

He observed that Saudi Arabia had 15 times the per capita income of Sri Lanka, but a much lower literacy rate; Brazil had twice the per capita income of Jamaica but also four times its child mortality rate. The US, which ranks sixth in the world according to per-capita income ranked 4th in respect of child mortality rate. Dr. Haq said immediate freezing of military expenditure at the current level by countries in the Indian sub-continent would spare enough financial resources — $50 billion — during the current decade for spending on poverty alleviation programmes, so that by the turn of the century they would be able to achieve 100 per cent literacy, provide safe drinking water, primary health care and such other basic human needs to all its people.

He urged the governments of South Asia to find new avenues of possible accommodation so that other people would have a decent chance of progress. He also pleaded for dismantling global trade policies so that developing countries could share more of global economic opportunities.

"At present, developing countries suffer a potential loss of atleast $50 billion from textile protectionism, $100 billion from farm subsidies in industrial countries and an additional $50 billion from restrictions on trade in services. In other words they suffer market loss five times as large as the total foreign aid they received every year", he said.

Dr. Kirit S. Parikh said India adopted a goal of socialism earlier, but had failed in delivering the goods because of its slow economic growth. Now it is poised to register a higher economic growth due to economic restructuring which in turn would result in aggravation of poverty.

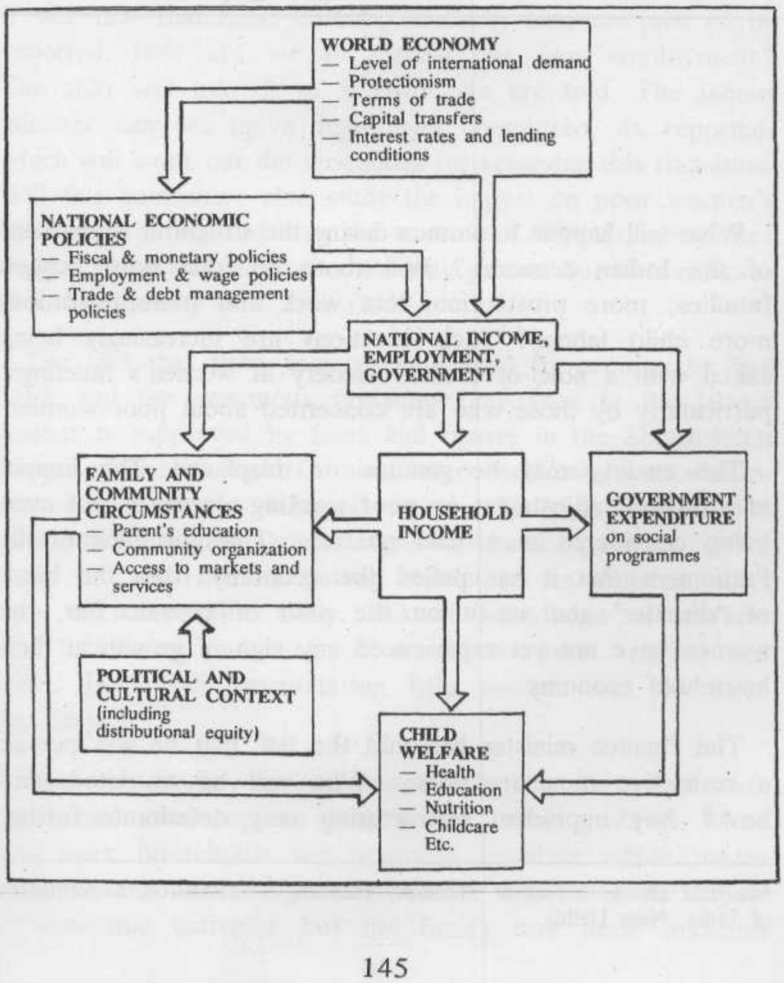
He said agricultural growth in India had stopped for want of demand for agricultural produce. The demand can be spurred and achieved only by putting more purchasing power into the hands of people, he said.

Earling Dessau said that it is time for India to set its price clearly at the juncture, as it is engaged in a major restructuring of its economy. The two human development reports published by UNDP could serve as a guide he said. Dr. Abid Hussain said human development did not confine only to provision of care, education and family. It should provide a [high] social environment also.

9

HOW THE RECESSION REACHES THE CHILD

Krishna Ahuja Patel, The World Economic Crisis and its impact on Women, *Women and Development Kit*, No. 6, Pt. I, Geneva, (JUNIC/NGO), 1990



10

STRUCTURAL REFORM: VIEW FROM THE OTHER SIDE

Ela Bhatt,* *The Economic Times,* January 15, 1992

What will happen to women during the structural adjustment of the Indian economy? Will there be food riots, broken families, more prostitution, less work and more migration, more child labour? Such questions are increasingly being asked with a note of evident anxiety at women's meetings, particularly by those who are concerned about poor women.

The anxiety may be genuine or misplaced. The impact of structural adjustment on poor working women is not even being considered in official quarters. The government tells Parliament that it has pulled the economy from the brink of 'disaster' and set it on the path of growth. But, the women have not yet experienced any sign of growth in their household economy.

The finance minister has told the IMF that he will pursue a restrictive monetary policy. Who will be restricted, and how? Any imprudent restructuring may deteriorate further

Ms. Ela Bhatt is former Member, Planning Commission, Government of India, New Delhi.

the living condition of the poor. Dr. Manmohan Singh will slash the fiscal deficits; does that mean the foodgrains in the local ration shops will be costlier or will they totally vanish? He promises the IMF a freeze on DA. Will the government be able to displease the salaried middle class which is so vocal and powerful?

The government will eliminate licenses, restrictions on import of capital goods and raw materials. The import of which materials, chemicals, hi-tech, soft drinks? What about exports? If our raw materials, cereals, bamboo, iron ore are to be exported, how are we to expand our own employment? The shift will take 3 to 5 years, we are told. The labour minister has set up a high level committee, as reported, which will work out the modalities for achieving this transition. Will this committee also study the impact on poor women's livelihoods during and after the transition? Will this committee suggest ways and means to not only protect but also enhance their livelihood?

The fact that there is a growing need for women to find work and the enormous problems they face in the labour market is supported by facts and figures in the Shramshakti Report of the National Commission on self-employed women and women in the informal sector. The point emphasised is the differentially greater load of handicaps they suffer from viz. high fertility putting restrictions on their mobility, lack of transferable skills, lack of knowledge of markets and techniques and lack of access to assets, capital and tools. How will restructuring help women out of these handicaps?

This vulnerability is compounded by the fact that over time, traditional support systems are breaking down. More and more households are becoming assetless which means that not only is it more difficult for women to participate in economic activities but the family unit itself becomes more unstable. As a result, there are more women-headed households. Forests and other free sources of consumption items and raw materials become rarer. Women's low productivity, crude skills face increasing competition in the course of expanding trade.

Will restructuring empower women for easy and equal participation in the market? In the present situation, it seems that the problems for the poor, especially women will deepen in the context of India's current economic reforms. Not that our government is not conscious of its people's anxiety. The government has repeatedly reiterated the importance of linking the current exercise in structurally adjusting the economy to the basic issues of equity and social justice.

Prof. Manmohan Singh has spoken of his concern about the pattern of industrial growth bringing distortion of incomes that needs to be corrected urgently. The industrial growth has accentuated the urban-rural disparity. If the new structural adjustment also follows the same pattern, in modernising and industrialising the country, the unrest will be explosive, and families broken. Where will the new reforms hurt? Who will be hurt? Which technologies and raw materials will be used? Which geographical areas will come under industrialisation? Will that snatch away their existing work and [they] be doomed to survive on relief work? Which livelihoods are going to be affected? Can anybody guide us on these aspects?

A deeper open-minded examination of the consequences of structural shifts in the economy on poor women is called for. The answers to the adverse consequences have to be put on ground for action, soon. For God's sake, in the enthusiasm of economic reforms, please do not leave them to the market forces. For industrial progress, women are not to be made available as cheap labour. They are not to be used as a tool of surplus labour for modernising agriculture.

Let us examine more thoroughly whether increasing participation of women in agriculture is due to impoverishment or due to rising demand for labour due to agriculture development. This debate is unfinished.

The World Bank Report on Gender and Poverty in India is equivocal on this point and prescriptive of a panacea of market forces. The government has shown its sympathy for the workers, and wants to prove that it is not anti-labour. The government made it clear that it does not want to readjust at the cost of workers. True, for healing the pain of the would-be-unemployed industrial workers and employees of the public sector units the government successfully negotiated for $5,500 million to pay them, as exit fee. Has the government negotiated with IMF for any amount to protect the vast working population in the unorganised sector who are going to be hit the most in near future? Or are they going to be left to the vagaries of the harsh market forces?

Farmers grow more cotton and the price of cotton falls in the market. Yarn goes for the export market, the weavers here end their lives. The food factories take away work from the home based food processors. The paper mills have a claim to the bamboo prior to the local forester. The machine prints the textile displacing the handblock printers, tiers and dyers. Unlike industrial workers, the unorganised sector workers' unemployment is not an open unemployment. In their case, the conditions decline as their wages stagnate, the bulk of work declines, the self-employed turn into piece rate workers. Their purchasing power declines so much that they are unable to buy foodgrains from the ration shop. Their unemployment or 'deaths' are not so open and visible and therefore not correctly recorded.

It is well known that the workers in the unorganised sector are still outside the purview of protective labour legislation and social security. And women in this sector are all the more vulnerable and totally lack political visibility. Dr.

Manmohan Singh has, therefore, underlined the need for a credible social safety net, redeployment of displaced workers and vocational training for them. For this to happen effectively a suitable and high quality mechanism is urgently needed, alongwith mobilising resources for the purpose. Has Dr. Manmohan Singh negotiated for raising further resources with IMF for the purpose?

In the name of 'social adjustment' half-day's employment is being recommended by experts as a measure of succour to the would be affected rural poor. The net result of such a measure, we know, will be full-day's work at halfwage. Also, this will not only reduce the wage rate in the region but also push downward their consumption and nutritional level. And, women and children will be the first victims of such a measure. When even the minimum wages are not paid, the downward revision of wages will increase not the demand but supply of labour (including ample child labour) who will have to work longer hours to meet with their basic needs. Such a 'safety net' cannot be safe for the rural poor women and therefore cannot be credible.

I wonder whether our country has to pass through the same state of chaos and misery like some other countries while passing through the adjustment. At least in the case of women can we not use the opportunity of adjustment to move poor women forward and help integrate them in the mainstream of the economy. Sure, women are not ready to be used as 'human safety net'. There is a growing sense amongst women's quarters that women be involved in designing development and its implementation.

The experience of women in development in India, has shown that given the opportunity, the poor women have got organised and have improved their lives by running programmes on their own — be it in the area of education, banking, dairying, environment, drinking water or childcare and in the process they have attained self-reliance and generated local leadership. The emphasis of the new policy is on relaxing government controls and giving free rein to private enterprise. My point is that poor women when given the chance have proved that they are as enterprising as any businessman, without being exploitative but through cooperatives or collective groups. India should be proud of these initiatives. As Dr. Devaki Jain says that they have revealed many useful strategies and methodological insights to redesign development itself.

But for this to happen, the precondition is the restructuring and reordering of power to take place at the local level. One-line-support programme through the government schemes be it credit, childcare, family planning, income generation — will have very limited results and more frustrations. The forest cannot provide sustained income to the poor forest dwellers unless the minor forest produce grows in the forest.

Woolcraft cannot provide good market to the artisan unless sheep rearing thrives in the region for which the lands have to be productive. In fact mortality cannot come down in absence of safe drinking water, nutrition, health services and mother's education. The lesson is decentralisation of decision making and resources, area planning based on local skill and resources, and, implementation locally.

Now that the Panchayat Raj Amendment Bill (Parliament must give priority) will come to pass, there will be available a democratic institutional framework at the grassroot and facilitate active participation of the poor — women, Harijans, tribals. Cooperatives of producers and workers, is another vehicle of local democratic body of the poor. In some places, there is a network of voluntary organisations who provide catalytic role to the local people's initiatives in development. These bodies take care of the regional differences, can raise local funds, and be responsible for the development activities done by them.

Most important, they can provide the most effective basis for sustainable full employment. The local level planning and implementing institutional framework will create conditions where women are enabled to participate fully in improving their own lives and around. We are aware of the resource crunch faced by our government. However, within the existing resources, by reordering of power and resources at the local level, the poor women will be able to generate employment and social security for themselves, as shown by many successful initiatives in India. After all we have to build up people, and it is the people who will build country's economy.

11

DANGER AHEAD
THE IMF CONDITIONALITIES

Abhijit Sen and Jayati Ghosh*, The Economy, *Frontline*, January 17, 1992

The good news for all who value open governments is that Finance Minister, has kept his word and at last tabled in Parliament the letter of intent which he sent to the International Monetary Fund (IMF) in August 1991 for receiving the stand-by loan approved finally in October 1991. However, this is tempered by the fact that the documents tabled refer only to the Government's policy intent for purpose of the stand-by loan which involves much less conditionality than other components of the deal worked out with the international financial agencies.

And the bad news is that the Government seems to have accepted Bank-Fund "advice" almost *in toto*, in the process promised more to the IMF than is normally required for a standby credit, and as a result might have compromised seriously its own room for policy manoeuvre.

* Abhijit Sen and Jayati Ghosh are Associate Professors, Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi.

In his letter to Michel Camdessus, the Managing Director of the IMF, the Finance Minister has made clear he intends shortly to seek a larger loan under the Extended Fund Facility (EFF) as part of a comprehensive structural adjustment programme. The requirements for EFF are much more detailed and onerous than those for stand-by credit, often involving several hundred specific conditions, and Parliament has not been given a preview of these.

Even more significantly, the Government has not revealed the conditions it has accepted for the relatively small ($500 millions) Structural Adjustment Loan (SAL) it has already taken from the World Bank. SALs typically require the most detailed specification of particular targets and have strict policy conditionalities especially in areas such as trade, financial reform and industrial policy. The same considerations which prompted the Finance Minister to table, belatedly and as a matter for mere information, the letter of intent for the IMF stand-by loan should also have led to the revelation of the policy conditions required for the SAL, which must already have been pledged.

The conditions specified for a stand-by loan are usually of a broad and general character, with targets being specified in terms of macro-economic aggregates rather than specific sectoral details or of even precisely how the target aggregates are to be achieved. And, at least in terms of the performance indicators specified, the present letter of intent is no exception. However, along with the usual performance criteria involving short-term fiscal and monetary targets, the Government has promised not only to reach an understanding on the 1992-93 Budget but also to present to the IMF at the time of the first review of March 1992, a medium-term time-bound programme for tax reform. This means the next Budget will have to be cleared by the IMF before it is presented to Parliament, and this is probably only a preparation for the more detailed longer-term conditions to follow under the proposed EFF.

Moreover, the Government has promised to refrain from using various policy options relating to the external sector and the management of the balance of payments. These limitations on the policy formulation, discussed in great detail later, are unusual for a stand-by arrangement and amount to putting on a strait jacket voluntarily. It appears that the Government, in anticipation of EFF and SAL, has accepted conditions more onerous than necessary to secure the stand-by credit by itself.

All this suggests that the Government's negotiations with the IMF had already gone for beyond the stand-by arrangement by the time the Finance Minister penned the letter presented to Parliament. In this context, it would have been interesting had MPs probed the matter further. At the minimum, they could have sought to know the reactions of the Fund to the Finance Minister's letter and demanded copies of the IMF's internal response paper which is usually made available to all Executive Directors (including India's). As it is, even a casual reader of the letter of intent would notice the remarkable family resemblance between the policies promised in the letter and the advice contained in the World Bank Country Economic Memorandum for India, which came out a few days before the letter of intent was sent in August 1991, and must have been available to Finance Ministry officials for some time before that.

Practically all the major recommendations of the World Bank appear to be identical to the "Government's own policy desires" as contained in the memorandum attached to the Finance Minister's letter. This could of course be a coincidence, reflecting the remarkable consistency of current mainstream opinion. Or it could be an indication of how closely the present economic policymakers in Government follow the standard World Bank prescriptions either because of arm-twisting or out of habit.

What then *are* the conditions the Government has agreed to for purposes of the stand-by loan? The chief promise is one that has been public knowledge since the presentation of the Budget in August, that of the reduction of the fiscal deficit to 6.5 per cent of the Gross Domestic Product (GDP) in the current year and 5 per cent of GDP in 1992-93. The sanctity that attaches to these numbers has never really been justified, although the IMF seems to advocate 6.5 per cent of GDP as the initial target for the fiscal deficit in a number of developing countries.

A fiscal target of this sort is designed to reduce demand and thus take the pressure off both inflation and the balance of payments, and some fiscal adjustment was overdue after a decade of profligate spending. But, as the stagflationary conditions now settling in make clear, such adjustments can in practice turn out to be too severe and may also be badly designed. Proper fiscal targeting should take into account the exact composition of tax-expenditure measures and also the trade-offs between cutting demand and liberalising imports. India is lucky to have plenty of economic research available on this subject, and the Government could have used the results of such research to argue that successful stabilisation could be achieved with less deflation, and in particular without cuts in public investment.

The concept of fiscal deficit used as target by IMF does not distinguish between whether more taxation or less expenditure is used to reduce the deficit; nor does it distinguish between productive investment and unproductive public expenditure. There are basically three ways of cutting the fiscal deficit, and the memorandum attached to the letter of intent makes it clear all three are going to be attempted. The first is an increase in taxation, which the Government hopes to bring about through a combination of widening of the tax base and better compliance and tax administration. There can be little quarrel with such an aim and it is in fact imperative that the Government does implement this in the next budget because, leave alone reducing the deficit, a higher revenue from taxes other than customs duty is necessary just to keep the deficit stable in the face of the reduced customs duties promised to the IMF by the Government. But such statements have remained merely pious intent in the past, and it is yet to be seen whether the present Government can overcome the political inertia which has hitherto prevented a better tax regime and more effective steps against rampant tax avoidance.

The second way the fiscal deficit can be cut is by reducing the revenue expenditures of the Government. This too is a valid aim, but it is important how it is done. The letter of intent stresses reduction — elimination of subsidies and withdrawal of financial support to public sector enterprises as the two main planks of such expenditure cuts. However, it is possible that subsidy cuts in some areas (particularly fertilizers and some exports) may adversely affect production, and reduced support for public enterprises usually means a rise in their output prices, and may now also lead to their closure. A problem with choosing such items as major target for expenditure cuts is that this may prove counterproductive, worsening both inflation and the balance of payments, since cuts here have the potential to reduce supply more than demand. Moreover, certain other items of current expenditure such as food subsidies and employment schemes need expansion not reduction because one widely expected consequence of the reduced growth rates projected in the memorandum will be much greater distress and unemployment among unorganised workers.

But there is a lot of Government current expenditure which can and should be cut. While the letter of intent states that "no major category (of expenditure) should be exempt from scrutiny", it makes no specific mention of the huge wasteful expenditure that is part of the Government's normal functioning, and which could certainly be cut without adversely affecting either production or welfare. Anyone even remotely familiar with the workings of the Government is aware of the significant unnecessary expenditure which takes place as a matter of course, quite apart from the wage bill. But such wasteful spending (including much non-essential domestic and foreign travel, unnecessary perks provided to Government employees, misuse of official facilities by bureaucrats and so on) seems to have been left entirely out of the reckoning. Indeed, the suspicion that austerity and belt-tightening may be confined to all sectors other than Government itself, finds confirmation in the experience of the last few months when Ministers have continued with their profligate ways, both in rupees and in foreign exchange, despite the Government's frequent calls for austerity to the nation at large.

The third way of reducing the fiscal deficit, reducing the Government's capital expenditure, is politically the easiest but economically the most likely to cause recession and adversely affect future welfare. Certainly, there is a case for reviewing some mega-projects, especially those involving large foreign exchange outflows. But this should obviously be part of a broader and more systematic scheme for the phasing of public investment, particularly in infrastructure. The danger is that the need to keep the fiscal deficit within the target would lead to *ad hoc* and across-the-board cuts in public productive investment, with predictable effects on growth prospects. Already, the Planning Commission has been told that next year's Plan outlay would not be allowed to exceed this year's nominal expenditure despite the record inflation. The Government is hoping that shortfalls in public investment will be made up by higher private investment responding to the liberalised industrial environment. But this might be a miscalculation because in the past private investment has usually fallen whenever public investment has been cut, and because public investment, particularly in infrastructure, is often a necessary catalyst for private investment. In any case, the much hoped-for foreign investment will not materialise without much-improved infrastructure. And any decline in private investment as a result of reduced government capital expenditure will only aggravate the recessionary conditions which already prevail in much of Indian Industry.

In general, in the area of fiscal management the conditions specified in the letter of intent are too stringent but nonetheless predictable, and the main problem here appears to be that the Government is not exercising the flexibility available to it in the manner of reduction of the public deficit. However, in the other critical area of balance of payments management and trade policy, the Government appears to give up much more freedom than is necessary. For a stand-by loan, the IMF usually requires only the fulfilment of certain projections of the current account balance as a proportion of GDP, and is typically not too concerned about how precisely the adjustment is brought about. Rather, it is the World Bank which has such concerns and has been known even to specify target tariff rates and removal of specific quotas in some SAL agreements. However, for this stand-by loan, the Government seems to have tied its hands significantly in the realm of trade policy, by promising that "During the course of the program (sic), the Government will refrain from imposing new or intensifying existing restrictions on payments and transfers for current international transactions, or introducing or modifying multiple currency practices, or concluding bilateral payments arrangements with Fund members inconsistent with Article VIII, or imposing new or intensifying existing import restrictions for balance of payments reasons."

This undertaking severely limits the Government's ability to design and execute policies independently for managing international trade and the balance of payments. With this, the Government has given away, for a period of at least two years, its rights to use a whole range of methods which it could have used to manage imports. This includes revisions and modifications to the Exim scrip scheme which the IMF clearly views as a form of "multiple currency practice." And in fact, with its memorandum statement that the Exim scrip scheme is only "a transitional arrangement," the Government has fallen in line with World Bank advice and is now committed to phasing out this scheme announced with so much fanfare in July and which was welcomed widely as a means of providing a market-based incentive for exporters while simultaneously managing imports. The Government has further promised that even to cope with sudden balance of payments shocks, no new or intensified import restrictions will be imposed, and this has been done even while promising a reduction in tariffs as well as decanalisation of major bulk imports. In other words, the Government, while dealing with a balance of payments (BoP) crisis, has committed itself to a more liberal import regime along with all the attendant vulnerabilities and simultaneously given up its rights to use most available remedies against the possibility that the BoP crisis worsens rather than improves in the near future.

By eschewing bilateral agreements inconsistent with Article VIII, the Government may have dispensed further with the freedom, for example, to engage in counter-trade and barter deals with other developing countries. Such deals, not necessarily based on prevailing world prices and not requiring convertible currencies for transactions, can provide temporary relief against world market vicissitudes and allow some diversification of trade patterns. In the face of a looming world recession, increasing LDC (less developed countries) payments and liquidity problems, and the growing tendency of the developed countries to carve out trading blocs, such arrangements could potentially form part of a South-South response to what is increasingly a world insensitive to Third World interests. By promising to refrain from these, the Government may have preempted itself out of at least some avenues of South-South cooperation.

And, the limits imposed on unilateral policy together with these restrictions on bilateral trade imply that the Government has accepted that the only means of dealing with external imbalance in future will be not to confront the problem directly through action on imports or through strategic intervention to increase exports, but through domestic macro-economic policies which typically imply adjustment through domestic deflation and recession.

This is confirmed not only by the proposed fiscal reduction but also by the stated approach to monetary policy, which involves the usual tight monetary targets, credit restrictions and freeing of interest rates typical of Fund packages. The letter of intent proposes that the interest rate structure will be used "flexibly" to manage the balance of payments (which, in the Indian context, can only mean through creation of domestic recession) and to achieve the desired deceleration in inflation. While it is true that some amount of speculative inflation can be controlled through higher interest rates and tighter credit, it could be argued that such dramatic expectations on monetary policy — that it will be able to achieve both internal and external balance — may be rather optimistic. Moreover, for purpose of the performance criteria, the Government has projected inflation rates well below those considered likely by most economists. And with the monetary targets linked to such projections, this undue optimism could lead to an even more severe recession.

One seemingly positive feature of the memorandum that has received much media attention is the Government's intention to defend the current level of the exchange rate over the next one and a half years. Such an assurance is certainly worth repeating given the nervousness of markets and investors regarding the possibilities of a further devaluation of the rupee in the near future. However, the exact wording of the promise is to maintain "the nominal *effective* exchange rate," and this does not preclude devalution in the context of reduced tariffs. Since tariff reduction has been promised, and since the Government has committed itself not to impose further import restrictions to achieve external balance, it remains to be seen whether further devaluation can really be avoided over the next one and a half years. If not, the concessions on trade policy will turn out to have severe inflationary consequences, and the stage may truly be set for the sort of stagflationary episode which has been typical of IMF stabilisation efforts in Africa and Latin America.

A characteristic of such stabilisation policy is that Fund conditionalities once accepted may need to be intensified further even if the outcome is the opposite to that promised. Ultimately, when the Fund reviews the performance of the economy for purposes of continuing the stand-by agreement, it usually concentrates on the achievement of the broad fiscal and monetary targets. And unfortunately, the indications currently are that the fiscal deficit is running well above the stipulated 6.5 per cent of GDP while the targeted growth in monetary indicators have also already been exceeded on an annualised basis. It is only to be hoped that the Government will not now scramble to achieve these targets come what may, without reference to how such a scramble would affect current income and inflation and prospects for growth and stability.

Unfortunately, the likelihood is that unwise decisions may be taken, even within the leeway permitted by the letter of intent. For example, the argument that import controls now in place should be eased immediately in order to collect more customs duties is pernicious, as is the associated and currently fashionable view, unsupported by hard evidence, that the current recessionary trends are due more to import controls than to a lack of demand. Even more dangerous is the possibility that the incidence of such dubious prognosis will increase as the focus shifts to the much more detailed conditionalities of a structural adjustment programme supported by an EFF loan, designed by an even more distant and unresponsive set of bureaucrats in Washington.

12

A NOTE ON THE MEETING ON STRUCTURAL ADJUSTMENT AND WOMEN

Held on January 29, 1992 at Jagori,
B-5 South Extension, New Delhi 110011.

The meeting on "Structural Adjustment and Women" was organised by Jagori and attended by women participants from various organisations. Ms. Vandana Shiva explained how the economic policies are being designed by International Financing Agencies — World Bank and IMF for the third world countries to suit the economic order of the major industrialised nations. How the 'debt trap' will affect the major sectors of agriculture, industries, banking, health, education etc. is the issue of concern today.

An elaborate write-up titled 'The Great Surrender' was circulated to all the participants. Ms. Vandana Shiva expressed the need to understand the impact of structural adjustment on women as they are the ones who are going to bear the brunt of the changes in economic policies. She further drew a comparison between women and the third world countries. Just as developing countries have to mould their policies to suit the economies of industrialised nations, similarly, women have to squeeze themselves to fit into the nation's economic structure. Women have been undermined largely because of the fallacy that domestic sector is the most unproductive sector. Structural adjustment vis-a-vis women can be viewed in terms of the following:

(a) Changes in income, wages and level of employment
(b) Changes in prices of essential commodities
(c) Changes in working condition, hours of work (women will have to work longer to earn more) etc.

The participants expressed their views that NGOs should take up a united stand and bring this issue in a larger perspective of the community, particularly the lesser privileged sections. There was discontent among the participants regarding the fact that there is a divide among women NGOs. It was felt that women organisations should enter into dialogues and explain the involvement of each organisation. They should also analyse the repercussions of their involvement with the World Bank on women's movements. In the end it was agreed that by 8th March, women organisations should also come with alternate strategies and bring it to the notice of the Parliament by 27th March.

13

THE GREAT SURRENDER

First in the series of publications issued by the Public Interest Research Group, 142, Maitri Apts, Plot 28, Indraprastha Extension, New Delhi

Very few will disagree with the fact that the new exchange rate policy, trade policy and industrial policy and budget for 1991-92 are documents drafted at the instance of the IMF. The Government's plea that these structural reform packages have not been dictated by the IMF but independently decided upon by itself carries little weight. The more the Finance Minister says that he is not following diktat from IMF, the faster he is losing his credibility. Infact, this package was implemented to satisfy the conditions for getting 5-7 billions loan from the IMF under the structural adjustment programme to meet the balance of payment crisis.

The rupee was devalued by 20 per cent in relation to foreign currencies. Following this, a new trade policy has been announced thereby deregulating imports. The new industrial policy announced thereafter delicenses restriction on Monopolies and Restrictive Trade Practices (MRTP) investments and allows foreign equity participation upto 51 per cent in general and upto 100 per cent in export oriented industries. There would be now automatic imports against exports and foreign equity capital. Interest rates have been partially deregulated by removing the ceiling on advance rates and there has been a general increase in the interest rate structure. The overall economic policy of the government appears to be an open economy, decontrol and deregulation of trade and industry, reduction in the size of the public sector and tight monetary policy. These policies are consistent with the IMF's structural adjustment programme which advocates privatisation of public enterprises, cuts in government spending, liberalisation of foreign investment policies, currency devaluation, indiscriminate export promotion and freeing of the economy from government control. These policies have been warmly welcomed by the IMF and World Bank. Bulk of economic policy reforms carried out by the government are based on a report prepared by the World Bank titled "India: Strategy for Trade Reform" prepared in November 1990. In fact, after careful and calculated preparations in the first half of the 80's, the World Bank-IMF combine, working closely with the GATT had drawn up for India a 10 year programme of structural adjustment.

The reasons for balance of payment crisis are neither the Gulf war or sudden mismanagement of the economy as we are being told. Even without the Gulf War, the country was heading for trouble. The crisis has been accentrated [sic] since 1986 following misconceived policies like virtual freedom of foreign collaboration associated with import liberalisation leading to an import intensive pattern of industrialisation, catering to the demands for elitist consumer goods. Guided by the World Bank, we not only started borrowing heavily from aborad, we also started relying on short-term borrowings for our development programmes.

Two Step Devaluation of Rupee

On July 1st and 3rd, the government announced a very drastic measure by devaluing the rupee by 20 per cent against all major foreign currencies. The value of the rupee in relation to major foreign currencies had already witnessed a decline of 33 per cent since 1981. The trade reform package recently prepared by the World Bank for India called for a devaluation of 22 per cent. It is really pathetic that the Government has issued statement that the IMF had nothing to do with the devaluation of rupee and the devaluation was carried out by the Reserve Bank of India in the normal course of adjustment of the exchange rate of the rupee. But, the fact is that the scale of the devaluation is much too large for it to be a normal depreciation and therefore cannot be a routine affair.

The devaluation is expected to fuel inflation, raise further our already mounting oil bill and hit industries based on imports. The argument that devaluation of the rupee and changes in the trade policy will lead to increase in exports and fall in imports is not tenable by facts. Experience has shown that exports from India and other third world countries have not been responsive to devaluations made earlier. On the contrary, trade balance has been progressively negative. The 20 per cent devaluation will increase the import bills and further widen the trade imbalances, putting further pressure on the foreign exchange.

Further, this will automatically increase the prices of the import goods and, as a chain reaction, of all other commodities and spiral the inflationary pressure.

On the other hand, devaluation will not help in the promotion of exports. Due to increase in the prices of raw materials and also the hike in the imports bill, the exports with a high import content will become expensive. Under the present circumstances of falling demand in global markets along with protectionist barriers put by the USA and Western countries and strong competition from other third world countries, there are very bleak chances of increase in exports. Thus, the trade deficits would continue unabated. Already, our debt burden has increased by Rs. 35,000 crores, by the 22 per cent devaluation.

New Industrial Policy

After the devaluation, the second crucial component of the structural reforms is the new industrial policy, announced on July 24. The policy threatens to completely undermine India's self reliance. By allowing entry of the private sector, both Indian and foreign, in the domain of the core sector, which was exclusively reserved for the public sector in the 1956 Industrial Policy Resolution, the Government has opened the floodgates for them, particularly the multinational, to control the Indian economy. Besides, the transfer of basic and strategic industries to the multinational corporations (MNCs) is also hazardous to human beings and environment. With the opening up of markets in Eastern European countries and strict environmental laws in their own countries, the MNCs would only be interested in setting up of those industries in India which involve hazardous processes and substances like chemicals. People have not forgotten the Bhopal gas tragedy which stunned the world by kiling about 2,500 people and injured upto 2,00,000 others in December 1984. The poisonous gas was methylisocyanate (MIC). Now, the industrial policy promises automatic approval for the production of all isocyanates. Many more Bhopals happen again?

Secondly, once the multinationals are allowed, the distinction between high priority and low priority industries will disappear. The Pepsi Cola is a recent example of this. The Government launched this project with much fanfare to increase exports worth Rs. 194 crores and generate employment opportunities on a significant scale, thereby bringing agricultural revolution in Punjab.

Neither the project led to export of processed agricultural products nor did it generate employment on a significant scale. In fact, Pepsi has cornered a good share of the domestic soft drinks and potato chips market. The exports by Pepsi include tea, rice and fish which do not require any multinational's intervention.

Moreover, Pepsi symbolises the emergence of new alliances among the multinational (Pepsi Co. International, USA), public sector (Punjab Agro Industrial Corporation) and private company (Voltas) catering to the growing market of the emerging middle class.

Furthermore, the industrial policy notes that public sector have shown a very low rate of return on capital invested. The remedy given in the policy statement is the takeover of sick units of the public sector by the private sector. This will benefit the private sector as the Government will transfer the assets at throwaway prices. The recent example of the handling of ownership of Uttar Pradesh State Cement Corporation to the Dalmias for a small sum of Rs. 26 crores as against the net asset value of Rs. 306 crores shows how the private sector will gain in the wave of privatisation. Secondly, what is the social security mechanism that the Government intends to create to mitigate the hardship of workers which are likely to be retrenched? The Policy is totally silent on this question. The Government has totally ignored the experiment of full employee-ownership as has been done in the case of Kamani Tubes which was a loss-making enterprise but has been nursed to health by employee-ownership.

Budget

The Union Budget which has come in the wake of the above market friendly reforms has put further burden on all sections of people. The prices of petrol, cooking gas, railways and sugar have been increased. The budget does not lay emphasis on the rural employment schement [sic] while the defence budget has been increased by another Rs. 600 crores. In order to legitimise the black money, all black money holders have been granted a total amnesty for all deposists made in the National Housing Bank. Out of this, only 40 per cent will be taken to the national housing fund while the rest will be washed white and restored to the owners.

IMF is here to stay

First came the IMF blueprint to help the country out of a severe balance of payments crisis. Now the IMF itself is here, physically and materially. The IMF has been permitted to open an office in India to closely "monitor" the economy. Twice in the past IMF's requests for permission to open an office in India were turned down. In 1981 when India first applied for a loan of 5 billion dollars, IMF made a strong plea for an office but it was turned down. Later in 1990, the proposal was revived but the Government did not agree. The opening of an office of the IMF has several advantages. Now the country will not spend foreign exchange in sending officials to Washington to seek advice to manage the economy. Now the process is only a few minutes of Maruti drive away. A telephone call to the Finance Ministry, and the work is done. The days of long distance monitoring and manoeuvring are over.

Till date, we have collected nearly \$2 billion in loan, another \$635 million has been cleared and is ready for withdrawl. India is also seeking a huge loan of \$7 to 8 billion from the Extended Fund facility. And when things worsen further, there is always the Extended Structural Adjustment Facility. Once the country succeeds in tapping this last facility there are enough reasons to believe that the IMF will move into the Finance Ministry itself.

Now pressure will be build up such as the threat of Super and Special 301 clause by the USA to open up new sectors to foreign capital-banking, insurance, service sector — and surrender on patents and intellectual property rights at the General Agreement on Tariffs and Trade (GATT) negotiations. Carla Hills has already arrived to sort out these issues with the Government. Very soon, India would be told to sign the Nuclear Non-Proliferation Treaty (NPT). In short, the government has signed on the dotted lines as dictated by the World Bank-IMF combine and dragged the country nearer to neo-colonial situation.

14

SOWING TROUBLE

Jayati Ghosh, *The Economic Times*, January 15, 1992

If reports on the "Dunkel Draft" for the current round of GATT talks are to be believed, the proposals contain much that is extremely disturbing from India's point of view and very little that is favourable. The major areas of concern relate to the proposed agreements on intellectual property rights, and on trade-related investment measures, both of which would imply a significant loss of economic sovereignty as well as major damage to several important domestic industries and reduced access to some basic goods like medicines for the poor. These are not effectively balanced by the so-called benefits, which relate to changes in MFA (which are unlikely to be of much benefit to Indian exporters) and some reduction in agricultural subsidies by the OECD.

The latter measure is being presented as a source of major advantage in some government circles, as the freeing of agricultural trade is supposed to improve the lot of primary product exporters. Our own policy makers are said to have greeted such a step with enthusiasm as one of the major plus points for India.

But is this really the case? The argument is that India will not have to change its agricultural price support policy since current rates of subsidy are below the acceptable limits specified by the draft. However, it will benefit from the higher international prices, particularly of foodgrains, in terms of more value in exports. This argument can be shown to be specious on a number of counts.

Firstly, although India's agricultural subsidies are small, they are currently being reduced at a faster rate than any other country, because of IMF pressure. Secondly, India is by no means a stable surplus producer of foodgrains. The fairly small export surpluses of wheat and rice which have been generated are not an indication of surplus so much as a very unequal income distribution and a desperate need to generate foreign exchange.

In this context of insignificant net exports, there is little overall gain from higher international prices. On the contrary, the poor who are net purchasers of foodgrains will suffer. Thirdly, India still requires to import commodities like oilseeds, the prices of which are also likely to rise as a result of this. Fourthly, India's main agricultural exports, including tea and spices, are tropical products which will not benefit from the removal of subsidies by the OECD countries.

Thus it appears that this great "benefit" is only of very limited value. They certainly do not justify the granting of major concessions in other spheres, as appears likely. But there is even more in the Dunkel Draft which should concern agriculturists and those interested in their welfare.

This relates to the implications of the TRIPS proposals on agriculture. There has been a tendency to see the intellectual property matters as pertaining only to areas like copyright laws and patent laws which affect the drugs sector. But there is much more to them. Essentially, Dunkel's proposals would amount to the granting of product and process patents to all bio-technological innovations including micro-organisms, and all non-biological and microbiological processes for the production of plants and animals. In other words, plant and animal varieties developed outside purely natural surroundings can be patented, and since more and more seeds are being developed in labs rather than purely 'biologically', this has the disquieting implication that most future developments in agriculture may be patented. Indeed, Dunkel goes beyond this, demanding protection of all plant varieties either by patents or by an effective *sui generis* system or by any combination thereof, and this has the potential that Indian farmers may soon have to pay royalty in some form for any new crop they grow.

Thus the net result of the proposals relating to agriculture will be more expensive food, little direct benefit for the producers, and in all probability a negative net impact on both the country's balance of payments and on its future food security. This is hardly compensation for the huge losses that Mr. Dunkel is asking the country to bear through his other TRIPS and TRIMS proposals!

15

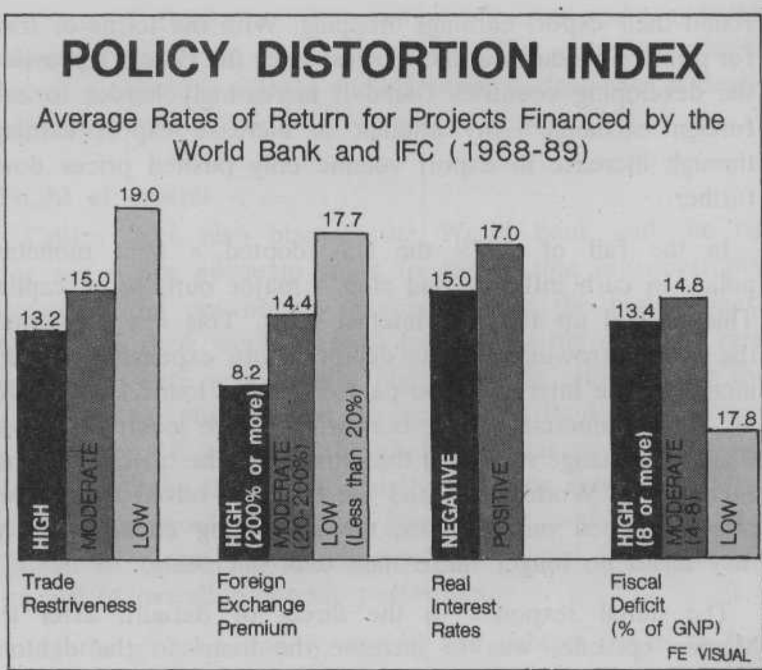
CRUMBLING UNDER A DEBT CRISIS

Sanjeev Sanyal, *Financial Express,* January 15, 1992

The debt-crisis could not have struck at a worse time. Already reeling under a crippling bout of depression, the new crisis has pushed the developing world to the brink of an economic disaster. SANJEEV SANYAL analyses.

It was in August, 1982 when the Mexican officials notified the U.S. Government that their country could not make the upcoming foreign debt payments. The news shook the U.S. banking system. Afraid that this might snowball into a wave of defaults, the International Monetary Fund (IMF) squeezed new loans out of American and European banks for Mexico and other developing countries. But this event marked the beginning of a new international problem — "Debt Crisis".

The crisis had been building up for some time, but its immediate cause lay in the way the developing countries quintupled their long term borrowings abroad during the 1970s. To many experts, borrowing money abroad made economic sense. Developing countries were growing at healthy rates.



The sudden slide

World prices for basic commodities produced by these countries had been rising in the early and mid-70s giving them the confidence that they would have ample foreign exchange earnings from exports to pay their debts. Further more, the banks were awash with OPEC revenues and were looking for outlets for investment. The steady growth in the developing economies made them look like very good areas for investment. In addition, the real interest rates were low and even negative due to inflation in the latter 1970s.

Then in the early 1980s the situation suddenly changed. The prices of the basic commodities exported by the debtors began to fall. The rise of the synthetic substitutes and protectionism in the Northern markets depressed the prices. So did recession and sluggish growth in the Industrialized countries. Due to the fall in prices the developing countries found their export earnings dropping. With the terms of trade for primary products at their lowest since the Great Depression, the developing countries found it increasingly harder to earn foreign exchange. Any attempt to increase export earnings through increase in export volume only pushed prices down further.

In the fall of 1979 the US adopted a tight monetary policy to curb inflation and stop a major outflow of capital. This pushed up the real interest rates. This not only made the new borrowings by the debtors more expensive but also increased the interest to be paid on earlier loans (since much of the commercial bank borrowings were contracted with floating exchange rates). At the same time, the official agencies such as the World Bank and the IMF also raised the interest rates. Trapped on all sides, the developing countries found they could no longer make their debt payments.

The initial response to the threat of default, after the Mexico episode, was to increase the loans to the debtors. It is felt that as long as debtors got some breathing space, they would sort out their economies and return to creditworthiness. However, one major weakness soon became clear. The strategy depended on the rapid resumption of growth in the debtor countries — on the assumption that the capacity to repay debt would start to grow faster than the debt itself. By the middle of the decade it was clear that this was not happening and the developing countries found themselves even deeper in debt.

The immediate cause for the 'debt crisis' may have been the lack of foresight regarding the future export earnings of the debtors and the future interest rates. But a more fundamental cause is the poor performance of the developing economies. This is the result of shortsighted economic policies and destructive government intervention. External finance has usually played a minor role in development as most of the investment is financed through domestic savings. Over the long term, the critical factor is, therefore, not the quantity of external funds but the quality of investment; and this depends greatly on economic policy. The direct correlation between economic policies and economic performance is clearly expressed in the World Development Report 1991:

Flight of capital

Critics have also blamed the World Bank and the IMF for not taking adequate steps to ensure that the developing countries did not borrow excessively. In the earlier years, the World Bank would finance projects, if the expected rates of return were undoubtedly high. But the critics argue that the borrower puts its best project to the Bank for financing i.e. projects it would have otherwise financed itself. Hence the project the Bank was actually financing was the marginal one which would not have gone ahead without the extra funds. In recent years, however, the World Bank has tied its aid to overall economic performance.

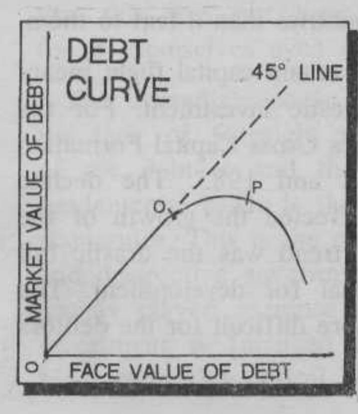
As the global economy slowed and debtors began to have real trouble in servicing their loans, they found that foreign creditors were no longer keen to lend them more. By the mid-80s we find that the debt service from the heavily indebted developing countries exceeds the new credit extended to them. Hence there was a net outflow of capital from these countries. According to the World Bank's 1989 Annual Report, it received $1.9 billion more in payments from 17 medium-income, highly indebted countries than it lent to them.

This outflow of capital and the resultant capital flight meant that less was available from domestic investment. For the group of 17 highly indebted countries Gross Capital Formation plummeted by 40% between 1982 and 1985. The decline in domestic investment seriously affected the growth of the developing economies. The related trend was the drastic fall in imports of commodities essential for development. The resulting stagnation made it even more difficult for the debtors to service the loans.

Various plans have been proposed to solve the debt crisis. In the early years, the most favoured strategy was Rescheduling i.e. renegotiation of repayment schedules, maturity periods and sometimes of interest rates. To co-ordinate their efforts the official creditors organised themselves into the 'Paris Club' and the commercial banks into the 'London Club'. The assumption underlying this strategy was that the crisis was a temporary liquidity problem. At the annual meeting of the IMF at Seoul in 1985, the US Treasury Secretary, James Baker, made some proposals. This was dubbed as the 'Baker Plan'. The plan basically proposed further credit and new lending. But due to the lack of enthusiasm among creditors and even debtors, the plan failed. In June 1988, at the Toronto Summit of G-7, a new range of debt relief options were discussed.

Debt write-offs

In April 1989, the Fund's Interim Committee endorsed a new approach proposed by Baker's successor — Nicholas Brady. 'The Brady Plan' emphasised debt reduction as opposed to rescheduling. It urged the banks to pass on the benefits of secondary market discount to the debtors, to write off part of the third world debts and grant temporary waivers on the payment of interest and principal for upto 3 years. The 'Brady Plan' assigned a greater role to the IMF and the World Bank for debt relief.



The idea of partial write off of debts had been put forward for a long time by eminent economists such as Jeffrey Sachs. The strategy is expected not only to benefit the debtors but even the creditors. A heavy debt tends to dampen economic performance of the debtors. It may do so in many ways. For instance, the burden of debt tends to increase taxes as well as the printing of notes leading to inflation. This deters investment and encourages capital flight. Furthermore, a country may be ready to put up with a spell of 'austerity' if it is assured higher future income, but few will be keen to go in for austerity and reform if the benefits are only going to the creditors. Thus a partial debt write-off would encourage investment and reform and hence improve economic performance. The creditors would benefit from this as they would at least be repaid the remaining debt.

Paul Krugman of MIT has expressed this idea with the help of a curve similar to the Laffer tax curve.

If the financial markets expect the debt to be honoured in full then the market value of the debt will be equal to its face value. This happens when the debt is at a low and easily serviceable level. The curve coincides with the 45 line in this case. But as we come to the higher levels of debt, the risk of default increases. Hence the market value no longer increases with the face value. Hence the curve falls away from the 45 line. If the debt continues to increase then we come to a stage that an increase in the claim of the creditor actually reduces the market value of the debt (i.e. for face value beyond P). Hence in these cases a reduction of debt will actually increase the amount that will be repaid.

Relief guidelines

Jeffrey Sachs has suggested certain guidelines. Firstly, the debt relief should be selectively granted. This will ensure that only the very needy countries benefit and will also protect the general notion that contracts must be honoured. Secondly, the relief should be distributed equitably across all creditors so that no one feels cheated. A reasonable guideline suggested by Sachs for selecting beneficiaries is as follows:

Relief should be given only to those countries that have already experienced an agreed percentage drop in per capita GDP. The rule has certain advantages:

1. Countries would not go out of their way to qualify for relief.
2. Selection can be objective.
3. Only the very needy would qualify.

However, this strategy of debt write offs is faced by the 'free rider' problem. To succeed, the write offs by the creditors must be coordinated. While it may be in the collective interest of the creditors to write off a part of the debts, certain individual creditors may not join in. Once a substantial part of the debt has been bought back by the secondary market price, the market value of the remaining debt will rise. This will unfairly benefit those creditors who did not join in (i.e. the 'free riders'). Therefore, the IMF and the World Bank must use all their power to avoid this problem.

As already mentioned above the fundamental cause of the debt crisis is the poor economic performance of the developing countries.

The proposals of the World Bank have met with criticism from experts who feel that government intervention is necessary in the developing world. They also feel that liberalisation of the developing economies would not help as long as protectionism continues in the developed countries. In a celebrated study by Kreger and Bhagawati of 23 liberalisation attempts in the 1950s, 1960s and 1970s, it was found that only 4 out of 23 could be described as successful on the long run.

Despite all the criticisms, the idea of liberalisation has become very popular in the third world countries as diverse as Ghana, India and Argentina have gone in for liberalisation. While it is still too early to decide whether or not the step has been successful, we must hope that this will finally solve the curse of the 'Debt Crisis'.

16

A POVERTY OF CREATIVE INITIATIVES

L. C. Jain*, *The Pioneer*, December 21, 1991

We can meet a part of our fiscal crisis through more creative rather than clerical interventions. Alas, our reformers have taken a rather narrow view of our economic problems and possibilities, laments L.C. Jain.

The pot of our economic policy is being stirred. But as every housewife knows, if you stir only the top, there is a danger that the milk will get burnt at the bottom. We face a similar danger — note the increasing incidence of starvation deaths and suicides by handloom weavers in Andhra Pradesh.

One is really pained to find that only the tail of the elephant is being twisted. If our economic package was to be compared to the elephant, then its body, the trunk and the legs on which it stands are not on the agenda of our economic reformers. And on this basis, it is quite clear that even such good as could come out of the twisting of the tail would not be sustained over the long run and may in fact prove counter-productive.

* Mr. L. C. Jain is former Member, Planning Commission, Government of India, New Delhi.

The Finance Minister has reiterated that the solution of the unemployment problems is the primary concern of the Government. Second is the containment of prices. And this is important for our objective of poverty alleviation.

What we may do for poverty alleviation through a few selected programmes only makes a marginal difference in terms of absolute numbers affected. But inflation or the price rise pushes millions of people below the poverty line en masse.

Therefore, both from the point of view of equity as well as for maintaining our competitiveness in the international markets, price management is one of the most important dimensions.

The third is optimisation, that is, getting more output from the domestic economy (labour, capital, infrastructure) across the board, which would mean higher output from the smallest farm going upto the biggest industrial unit in which we have invested substantially.

The package of reforms which have been introduced so far deal with only one end of the production spectrum, namely, the foreign investment segment of the economy. At its best, this segment would only be a very small part of the whole.

The passion, speed and thoroughness with which the path of foreign investors is being smoothened is not visible for domestic economic agents. Among the domestic producers in the industrial sector, 80 per cent of the space in terms of employment is occupied by the small industry and the rest by the organised industry.

In the package of reforms that has been put forward relating to the small industry, declarations have not been followed up on the ground. No significant reform has yet been translated into actual practice.

For example, it was promised that the small entrepreneurs would be liberated from the tyranny of inspectors. Some 30-35 inspectors are known to bear upon an individual entrepreneur. In the circumstances, no one can therefore reasonably expect him or her to concentrate on output, on productivity, on marketing or management, let alone expanding the existing output and employment and therefore the policy declaration recognised that liberation from inspector raj was a very critical factor in energising the small industry to deliver its contribution to the economy.

On August 6, the Government promised to "cut down this interference within a specified time frame of three months." More than four months have elapsed, yet not a single step is in evidence. What is evident is utter indifference towards domestic toilers.

Similar indifference has been heaped on the bulk of the labour force, nearly 70 per cent of which is engaged in agriculture and allied activities. In the reform package, there is no provision for them, not even an indication as to what kind of stirring is proposed for this vital sector. The potential productivity increases and yield increases of our farms, especially rainfed ones, are estimated by scientists to be three times what we are obtaining today. And within the increase of productivity in these areas is also embodied the potential for increase in employment on a very substantial scale.

Not only is there no interest in exploiting the potential for additional employment, the Government is forcing the liquidation of handlooms and thus existing employment of thousands of weavers at the altar of "structural adjustment in the textiles industry with a human face."

Even if the policy makers were immune to unemployment the flood of the fiscal deficit alone should have led to a reform of agricultural regimes. Cutting down the amount of subsidy from 'x' to 'x minus y' requires no intelligence.

On the other hand, we have the option to create conditions by which the subsidy can be rendered redundant. For example, we are producing surplus food only in about 10 to 15 per cent of the districts while 85 to 90 per cent of the area is in deficit. We have to carry this food from the surplus areas to the consumers in the deficit areas at enormous overhead costs which are beyond the means of consumers in the deficit areas who already suffer from low purchasing power.

Therefore, in this very skewed pattern of production, it is implicit that people at the lower end with lesser purchasing power will have to be subsidised. On the other hand, if we are able to create an effective institution at the village level, empower it to develop its own soil, water, vegetation and resources, we can significantly improve production in these areas.

Thus the deficit areas will be able to increase their own supply of food through local production. And if that happens, the necessity for us to carry across from Punjab, Haryana, and western UP to the rest of the country will be vastly reduced and eventually food subsidy will become redundant.

Similarly, the consumption of fertiliser in irrigated areas is high per unit of output. But farming cannot take that large quantity of fertiliser per unit output. Secondly, dry farming areas are also heavily dependant on animal power for survival during the drought period. Therefore, their access to organic manure is high, which again reduces the degree of reliance on chemical fertilisers.

Given these two factors, the dependence of fertiliser subsidy can be brought down. Thus we can meet a part of our fiscal crisis through more creative rather than clever interventions. Alas, our reformers have taken a rather narrow view of our economic problems and possibilities.

17

GIVE NDC A CONTINUITY

K. S. Ramachandran, *Financial Express*,
January 4, 1992

The time has come to give the National Development Council a more active role than what it now performs. Last week's decision to constitute a standing committee of the Council that would meet more frequently is a belated recognition of this need. But, more than the formation of a standing committee, what is called for is giving the Council a specific functional responsibility. While it cannot obviously perform the functions of the Inter-State Council, it must be entrusted with certain key areas of development where a national consensus is necessary.

This is a role that the Planning Commission cannot perform given its identification — mistakenly though — with the interests of the Centre. Yojana Bhavan is viewed by the states as part of the Central bureaucracy that readily says no to the aspirations of the states. The National Development Council constituted as it is, and given the Prime Minister's firm commitment to a consensus on major issues, can be more responsive to the views of the states and provide a convenient forum for debate.

Activising the NDC and giving it a continuity are warranted when we consider that, over the years, the meeting of the Council has become a ritual of sorts. The latest on December 23 and 24 has been no different. Every time it met, the Council has been discussing more or less the same themes without much variation and we are having to make more or less the same observations. The only thing that helps break the monotony is the size of the Plan that the NDC is having to consider and endorse. There are, of course, inter-state issues which divert the participants as much as the commentators. This time, one thought that the diversion was provided by the Cauvery waters dispute — though it did not come up during the formal meeting — apart from the Union Finance Minister's statement in Parliament on the commitments made to the IMF.

Changes in the Gadgil formula have always worried the state governments and during the discussions on December 23 and 24, the modification proposed by the Planning Commission evoked divergent views from the participating Chief Ministers. Generally, the deliberations of the Council always tended to be dictated by political considerations with the Chief Ministers belonging to the ruling party at the Centre toeing the stand taken by the Centre and those of opposition parties adopting a critical — sometimes, even a strident — posture.

Last week, however, with the Prime Minister, Mr. P. V. Narasimha Rao actively seeking to promote a national consensus on major issues, political as well as economic, the stridency of past years was missing. This one could say despite the West Bengal Chief Minister, Mr. Jyoti Basu's warning that the commitments on economic policy made to the IMF posed a threat to the nation's economic sovereignty and the strong observations by the BJP Chief Ministers of Rajasthan and Madhya Pradesh on amendments to the Gadgil formula for Central assistance.

Now to the rescheduled Eighth Plan (1992-1997), which the Council has endorsed, with growth in GDP slowing down — according to available indications the growth this year may be less than three per cent — the projected growth of 5.6 per cent annually during 1992-97 cannot be deemed to be on the high side. With the Government committed to reducing the rate of inflation to nine per cent by end March, 1992 and to six per cent by end March, 1993, mobilisation of financial resources for the Plan should not pose as great a difficulty as would have been the case with the rate of inflation continuing to be in the region of 15 per cent or more. Though it is unrealistic to go by the rate of inflation in terms of movements in the wholesale price index for purposes of Plan financing, a modest rate should put Yojana Bhavan under less pressure than the one that we had witnessed earlier.

Yet, as the Prime Minister pointed out, the negative trend of Government saving needed to be reversed both at the Centre and states. There can be no complacency on this. The commitment to reducing the overall public sector deficit to 8.5 per cent of GDP during 1992-93 is only the first step towards this. But, with a projected investment in the public sector of Rs. 3,42,000 crore at 1991-92 prices and an outlay of Rs. 400,000 crore, taking the first step itself poses a big challenge. But, with Government not free to miss the fiscal target, the Planning Commission must prepare itself to face the consequences. Yojana Bhavan has faced a perpetual resource crunch, but the next financial year in particular is going to be a difficult one especially with the manufacturing sector performing abysmally, considering its implications for resource availability and for overall growth.

Apart from adopting the directional paper for the rescheduled Eighth Plan, the NDC was able to finalise a revised formula for Central assistance to states. The Gadgil formula has been tinkered with every now and then, though one could not say that all this tinkering has been done because of the changed socio-economic realities. The question whether it would have been better to leave the formula alone has not also received the attention due.

State governments have never agreed on the need for amending the Gadgil formula and consensus at last week's meeting of the National Development Council did not emerge until after a lot of discussion. Indeed, on the first day of the meeting, a number of State Chief Ministers refused to accept any modification, while there were others who did not accept the changes proposed by the Planning Commission. In fact, the amendment as adopted by the Council is at variance with the proposal mooted by Yojana Bhavan. Now, as to the merits or otherwise of the altered formula, there can be no quarrel with either the 25 per cent weightage for per capita income or 7.5 per cent for the performance of the states in matters relating to tax effort, fiscal management and performance regarding national priorities, including population, literacy, completion of externally aided projects and land reforms. There can also be no objection to 7.5 per cent of the Central assistance being provided specifically for tackling the special development problems of the states.

More important than the manner of distribution of Central assistance is how the funds provided are spent. In this context, the warning held out by the Union Finance Minister that state governments would have to fend for themselves was very pertinent, so was the Prime Minister's stress on austerity. Dr. Manmohan Singh was quite right in drawing the attention of State Chief Ministers to the fact that while a substantial part of the Central fiscal deficit was on account of Central assistance, the states own deficit ran up to 3.5 per cent of GDP. The Union Finance Minister was quite right in asking the state governments to give up "political pricing" of electricity, allow private transport operators and improve the returns on state-assisted agricultural inputs like water and fertiliser.

The Prime Minister used the opportunity to announce a series of austerity measures and it is now for the Chief Ministers to take similar steps. With the Centre having committed itself to keeping the overall public sector deficit to 10 per cent of the GDP during the current financial year and, even more so, to reducing it in the coming year to 8.5 per cent, austerity — not populism — will have to be the core of fiscal policy, both the Centre's and states'.

The proposed standing committee of the NDC can play its part in keeping the pressure on both the Centre and states, without attracting the criticism — that Yojana Bhavan would — that it is tougher towards the states. In so far as fiscal discipline demands a national effort, the committee must be constituted early so that it can address itself to the task ahead. In the process, the NDC itself will acquire a continuity that is warranted in the interest of healthy and responsible federal relations.

18

EXIT POLICY: NEED FOR BOLD INITIATIVES

Arun Kamath, *The Economic Times,* January 6, 1992

Unless the various hurdles to exit are cleared, the exit policy will only mean a rephrasing of the existing processes.

Whatever be its final shape, the very talk of an exit policy within the corridors of power signals a turn around in government thinking to the widely-held view that non-viable sick units are a drag on the country's resources and should be shown the door to allow for more productive redeployment of human and capital resources. The protagonists of an exit policy in fact, see sick industries as a potential source of increasing an economy's performing stock of capital and thereby the returns from it.

A Bill seeking amendments to the Sick Industrial Companies Act (SICA), 1985 has recently been passed by the Lower House of Parliament. As part and parcel of the policy, a safety net for labour is also planned in the form of a National Renewal Fund to take care of redeployment of labour thrown out of employment due to the closure of industrial units. All this has led to a lot of conjecture on the nature of the exit policy to be pronounced by the government. In the midst of all the din, however, the question arises as to whether the much-talked about exit policy seeks to bring into being a hitherto unavailable option to industry or is just a fresh attempt to look at the options already available to sick industrial units.

Industrial sickness was first taken serious note of in the mid-1970s. There was no organised approach then to tackle the problem. The productive assets remained idle, there was the spectre of large-scale unemployment and banks and financial institutions were saddled with mounting bad debts and non-performing assets. Against this background, the Reserve Bank took the initiative in 1976 for evolving a common approach. The efforts spearheaded by the RBI to bring about an organised approach to industrial sickness ultimately culminated in the enactment of Sick Industrial Companies (Special Provisions) Act, 1985, and the constitution of the Board for Industrial and Financial Reconstruction (BIFR) in January 1987. The Board, a quasi-judicial body, was vested with wide ranging powers with regard to sick industrial companies coming under the purview of the Act.

All industrial companies confirming to the definition of a 'sick industrial company' vide Section 3 of SICA would need to be referred to the BIFR. Briefly stated, sick industrial companies are those companies, not being government or shipping companies or small scale industrial units, registered for at least seven years, which at the end of any financial year have accumulated losses equal to or exceeding their entire net worth and have in addition suffered cash losses in that year as well as the preceding year. The BIFR, on being satisfied that the reference was sustainable, would entrust the case to a financial institution or bank (called the operating agency of the BIFR or OPA) already involved in financing the sick company, to study and report upon the viability of the company.

In doing so, the OPA would have necessarily to seek the cooperation and consent of all other agencies involved in the consensus, the BIFR was free to adopt any other measures including the recommendation to the high court for winding up the sick industrial company. A policy on similar lines was also available for small scale units incorporating the important principle that the rehabilitation of the SSI unit would be undertaken only in case its potential viability could be established.

Thus the BIFR acted, as it continues to do till today, as the single window for nursing a unit back to health or, as in hopeless cases, for allowing it the exit route. Though restricted to the private corporate sector it manages to cover the bulk of industrial sickness in the country. It is evident that the basic policy thrust has always been, to use the oft repeated expression in rehabilitation circles, to subsidise the operations of a potentially viable sick unit and make it profitable in the long run. A hard headed financier could easily call it a transfer mechanism by which profits of financing agencies concerned are transferred to the aided sick unit in an effort to bolster its bottom line and enable it to stand on its feet.

With this thrust on the rehabilitation of potentially viable enterprises, a clear policy indication was available for not continuing with financial support to terminally sick units. In fact the only recourse available to them was to close down, once all 'life giving' supports were denied.

In this context the BIFR's powers under its Act to recommend to the High Courts for closure of a sick industrial company and its winding up thus provides the essence of an exit policy. While rehabilitation circles still debate on the effectiveness or inadequacy of powers of the BIFR in administering the death sentence on such units, it is clear that a sizeable number of units referred to the BIFR and adjudged non-viable, have been allowed to exit. This is borne out by the fact that of the 775 references disposed of in the BIFR there are about 137 cases where it has recommended to high courts for winding up the companies.

This being the position it cannot be denied that an exit policy is an integral part of the rehabilitation policy in vogue until now. In that case, the question now boils down to what could or should be different about the much talks about proposed 'exit policy'. Will it mean only a restatement of already existing policy aspects? It would surely seem so in the context of the bulk of sick units which already have recourse to the BIFR. For them it would only mean the continuance of the existing policy, albeit more rigorously. The thrust should definitely be in the direction of ensuring a speedier exit for sick units, since even after the advent of BIFR, the much expected speedy closure of non-viable units has not materialised. Even in cases where the BIFR has recommended for winding up, perhaps none have as yet done so.

One reason for the hesitancy stems from the governmental concern for the labour force. It appears that with government policy oriented towards the objective of social justice more than social welfare, quite often the threat of laying off labour even with adequate compensation became an insurmountable problem and many rehabilitation projects could not be implemented due to this reason. In some cases units had to be kept running on so-called socio-economic grounds. The government surely appreciates now, more than ever before, that any meaningful exit policy needs as prerequisite, an economy free from the stultifying effects brought about by the immobility of labour. In this context, therefore, the new policy thrust may make a material difference. The much publicised proposals for 'safety nets' for labour funded by World Bank lends further credence to this view.

Another major difference that the new initiative could bring about is through roping in sick units in other segments of industry like government undertakings, small scale units and shipping companies into the ambit of the BIFR machinery.

The government has already declared its intentions of bringing public sector units within the jurisdiction of the BIFR. As of today the government has indicated that sick PSUs account for 78 per cent of the losses made by public sector units, 98 of which according to the government, are sick with accumulated losses running to more than Rs. 10,000 crores. Once again the existing arrangements for closure of sick industries is sought to be extended to one more segment of industry.

All said and done the need for and significance of an 'exit policy' arises out of the conscious endeavour to do away with the existing legal and other control instituted to ensure the very opposite. It might have made economic sense in the context of a highly regulated economy. But in the process it has only brought about the bigger malaise of festering industrial sickness which is threatening to eat into the fabric of the economy itself. The government has thus far seen the solution, in creating and even fostering a parallel machinery in the form of a quasi-judicial body like the BIFR. The professed aim has been to expedite the process through bypassing the extent administrative and legal obstacles by means of a BIFR decision. However, it has been found that even the BIFR decision would still be subject to a review on appeal to the Appellate Authority for Industrial and Financial Reconstruction (AAIFR).

The phenomenon of rising references to the AAIFR is indicative of the problem. Thereafter, once the case goes to the high court for the 'final rites' it has to perforce travel the arduous path of the normal judicial process. The danger therefore lies in the fact that the "expeditious" process of the closure of units may itself get bogged down in an avoidable and protracted process of adjudication. Anyone casually acquainted with the judicial processes in India would bear this out. In effect, planting a new process of controls to subvert the earlier one has its own disadvantages and more importantly could be incongruous with the general atmosphere of liberalisation.

It is therefore necessary to do away with controls rather than bypassing them in limited measures. As an example, it could be a good idea to scrap the stipulation in the ID Act for every unit closing down to seek the permission of the state government concerned. When the entry, existence and growth of an industry is to be dictated by market forces, the same forces should also determine the exit of an industry from the market. It would seem paradoxical therefore, in case restrictions were to continue, in whatever way, upon the exit of an industry. This is especially so in case of certain industries which have outlived their utility due to the changing patterns of demand for their products or due to their production technology itself being highly obsolete and outmoded.

The most effective exit policy of course, would have been no policy at all, leaving it to market forces to decide on the survival of its participants. Such an indication is not as yet available and probably the new effort would again be channelled through the BIFR medium.

It is imperative to clearly formulate effective programmes for retraining and redeployment of displaced labour through the media of safety nets on the lines of the National Renewal Fund. Industry itself could be made to contribute to such a fund. The National Renewal Fund which is proposed to cover only public sector units at present could also be extended to the private sector. A properly conceptualised safety net could go a long way in convincing labour of the government's sincere intentions. The right approach should not be in hesitating on the issue but in carrying labour along in the endeavour to formulate an effective exit policy.

19

DEVELOPMENT WITH A HUMAN FACE

Mahbub Ul Haq*, *Indian Express,* January 13, 1992

It is fully recognised by now that the ultimate end of all development strategies must be people and their welfare: economic growth is only a means. Income generation is necessary but it is not the sum-total of human life. Development must enlarge the range of choices at the disposal of the people. These choices include not only income and employment but also health, education, physical environment, human dignity and freedom.

A comparison of the income level and human development level in various countries is revealing. For instance, Saudi Arabia has 15 times the per capita income of Sri Lanka but a much lower literacy rate. Brazil has twice the per capita income of Jamaica but four times the child mortality rate. The USA ranks sixth in the world according to its per capita income but forty-fourth according to its child mortality rate. These comparisons bring out the critical disparity

* The author is an economist from Pakistan and is currently the special Adviser to the UNDP Administrator. This article is an edited excerpt from his keynote address to a UNDP seminar in Bombay in early January 1992.

between economic and social progress in many countries, underscoring the uneven distribution of the benefits of economic growth.

More disturbing are the wide disparities within Asia. South Asia, containing over one billion people, has a life expectancy 10 years lower than East and Southeast Asia but a literacy rate of 42 per cent as compared to 72 per cent in the latter. In fact, South Asia has the lowest literacy rate of all the regions of the world. Three-quarters of the world's illiterates live in the five most populous Asian states — China, India, Pakistan, Bangladesh and Indonesia.

The task ahead is clear. Sustainable human development must move to the top of the priority agenda for the year 2000. The most important goals are: universal access to basic education, primary health care for all, elimination of serious malnutrition and provision of safe drinking water to all the population. For Asia, their achievement by the year 2000 will cost an additional amount of $14 billion a year during the 1990s.

Can these human goals be financed? The answer is a resounding yes. Let me propose a four-point agenda for meeting these goals.

First, let us consider freezing all increases in military spending and releasing additional resources for human development. If the Asian countries manage to freeze their military spending increases in the 1990s — not cut them by 3 per cent to 4 per cent every year as industrial nations are beginning to do but just freeze them — it will potentially create a peace dividend of around $150 billion over the next decade, enough to finance all their essential human goals.

Second, in many countries — particularly in South Asia — governments over regulate their economic systems, with consequent inefficiency and corruption. The losses of public enterprises could be avoided by privatisation of some of these activities and by diverting much-needed resources to social sectors.

Third, let us ensure that money is spent efficiently within the social sectors. There are far too many inefficient and inequitable priorities; urban hospitals for a privileged few rather than primary health care for all; enormous subsidies for the universities while basic education goals await their turn in the budgetary queue; piped water supply to the higher income groups rather than standpipes for the masses.

Fourth, if the Asian countries make a determined effort to achieve human development goals by the year 2000, the international community must lend a helping hand. This can be done in three ways: One, by increasing aid allocations. Two, aid priorities should be changed in favour of human priority expenditures on basic education, primary health care and safe water. Three, trade barriers must be progressively dismantled so that developing countries can share more of the global economic opportunities.

What is true of Asia is even more true of India. Its life expectancy of 59 years and adult literacy rate of 43 per cent is significantly lower than the average for all developing countries. In contrast, Malaysia has a life expectancy of 70 years and adult literacy rate of 74 per cent.

More than one-third of the world's poor live in India. In 1990, there were over 400 million people below the poverty line in India. About 75 million children (of which 54 million are girls) are not in school. Nearly 47 million children under five, suffer from malnutrition. About 216 million people are without access to safe drinking water. Five specific suggestions can be made to eradicate these forms of human suffering.

First, I hope that Indian planners will draw up a long-term strategy, covering the next 10 to 15 years. Such a strategy should clearly identify the human development objectives that India hopes to reach — particularly in the field of education, health and technology — through a judicious investment in its human capital.

Second, no worthwhile objectives can be achieved or sustained for long without a generous injection of economic growth. It is encouraging that India has broken away from the 1.5 per cent per annum growth in per capita income during 1965 to 1980 to a more respectable growth rate of 3.3 per cent during the 1980s. Even this growth rate will need to be accelerated considerably. This is where the recent experiments in deregulation of economic controls and privatisation of some public enterprises will help. But, when markets are freed, there is even a greater need for social action because markets are not particularly friendly to the poor and the vulnerable. The new ideology of the market place must be tempered with a judicious amount of social compassion so that efficiency and equity march in step.

Third, India must raise the level of its social expenditure. Its present expenditure on human concerns (basic education, primary health care, safe drinking water, child nutrition, family planning) is only 2.5 per cent of its GNP, compared to 12.7 per cent in Zimbabwe and 7.7 per cent in Botswana. There is also fairly limited investment in science and technology.

Fourth, there are a number of avenues that India will have to explore to find additional resources for human investment. The most feasible and promising avenues lie in restructuring existing budget priorities. A reduction in losses of public enterprises through phased privatisation would definitely help. So would the restructuring of development priorities towards programmes which have a beneficial impact on poorer income groups. But the major potential lies in a sensitive area, often talked about in barely audible whispers in international fora. I mean the level of military spending.

The present level of \$14 billion a year of military spending in South Asia mocks the extremes of their human deprivation. I do not wish to single out India since many countries in the region are guilty of the same crime against their own poor people. But it is only natural to expect that India will give a healthy lead in the new milieu where global military expenditures have already begun to decline.

Fifth, the global economic environment has not been particularly friendly to India, as has also been the experience of most developing countries. It is not clear why official development assistance (ODA) should be so allocated as to provide India only \$2 per capita while Botswana gets \$124, Jamaica \$105, Jordan \$70 and Egypt \$30. Lack of concessional assistance has obliged India to incur hard debts which exploded over the last decade, mortgaging India's future options. The trade environment has not been too favourable either. There is no doubt that a more favourable global economic environment will considerably help India in accelerating its economic growth and ensuring sustainable human development in the coming decade.

20

EIGHTH PLAN: TANGLED APPROACH TO STRATEGY

K. S. Krishnaswamy*, *The Economic Times,* December 23, 1991

The Planning Commission's approach document fails to meet the nations's requirement for development strategy

The Planning Commission's document on "Objectives, thrusts and macro-dimensions of the Eighth Plan" leaves one completely foxed about the commission's place in the present order and even more about its development strategy. The medium-term action programmes on the fiscal, trade, industrial and monetary fronts have already been written into the government's commitments to IMF and World Bank.

The Prime Minister, Mr. P. V. Narasimha Rao, has made it amply clear that the process of liberalisation and globalisation is irreversible, indeed will soon be speeded up. A good part of the commission's task has thus been hijacked, and the national objectives, at least for the next five years, have been redefined.

* The author is former Deputy Governor, Reserve Bank of India.

What precisely does the document propose? The Eighth Plan, it is said, will focus on: Clear prioritisation of sectors/projects for intensive investment in order to facilitate operationalisation and implementation of the policy initiatives taken in the areas of fiscal, trade and industrial sectors and human development; making available resources for these priority sectors and ensuring their effective utilisation; creation of a social security net through employment generation, improved health care, and provision of extensive education facilities throughout the country; and creation of appropriate organisations and delivery systems to ensure that the benefits of investment in the social sectors reach the intended beneficiaries.

Once it is recognised that the initiatives already taken by the finance, commerce and industry ministers amount to transferring the core of development decisions to the private sector and allocation of resources to the market, what exactly does "prioritisation of sectors/projects" by the Planning Commission mean? With progressive liberalisation and involvement of private foreign investment, the selection of projects and investments over a large part of the economy will be "prioritised" not by the commission but by the trends in prices and profitabilities.

The only investment decisions that lie with the government are those relating to that part of infrastructure and social services left in the public sector, more or less as a residual claimant of investible resources. The government's principal concern these days is not planning or finance for public investment, but bringing the fiscal deficit down to 6.5 per cent of GDP in 1991-92, and further to four per cent by 1994-95. For this purpose, the means chosen include a cut-back in real investment in the public sector rather than any increase; and in the immediate future, whatever remains for public investment will be absorbed by projects on hand — none of which is, if the past is any guide, likely to be suspended or given up.

Against this background, it is obvious that shorn of the verbiage of Yojana Bhavan, there are no foci in the approach but only empty spaces. This is even more obvious when we look at the proposed macro-dimensions of the Eighth Plan (1992-97). To achieve an average GDP growth rate of 5.6 per cent, the Mukherjee Commission wants total investment (public and private sectors together) of Rs. 792,000 crores, presumably at 1991-92 prices, for the five-year period; and for a 6 per cent growth rate, of Rs. 850,000 crores. How these resources are mobilised or distributed between the public and private sectors is not yet clear, though press reports suggest that the public sector's share could be around 50 per cent.

However, at the macro-level, since the commission assumes an aggregative incremental capital/output ratio (ICOR) of 4:1 — which is the same as that used in the Hegde Commission's approach document of June 1990 — the domestic investment ratio for the 5.6 per cent of growth rate works out at 22.4 per cent of GDP. Net inflow of foreign resources is taken at 1.4 per cent of GDP, giving a required domestic savings ratio of around 21.0 per cent. These numbers, as well as the projected average annual growth of 13.6 per cent in the volume of exports, are not very different from the dimensions mentioned in the Hegde Commission's document.

Since the Hegde Commission's starting position and objectives were both different from those of the present commission, this similarity in projected numbers raises a variety of questions, even allowing for the fact that the new document has been put together in great hurry. The Reserve Bank estimates gross domestic saving and investment in 1990-91 at 21.6 per cent and 24.4 per cent respectively. Compared to these estimates, the dimensions projected for the Eighth Plan are both lower. This clearly is neither adequate nor consistent with the structural adjustments expected in the economy. With an external debt of massive proportions and the tapering off of "exceptional assistance" from the Fund and the Bank by 1993-94, gross domestic saving by the end of the Eighth Plan to reach a level adequate to provide for a net reduction in external liabilities and yet support a higher level of domestic investment.

With the growing dominance of the market segment of the economy, and no specific programme of income redistribution, the aggregate propensity to save should logically rise with rising total income. Similarly, if the government seeks to reduce the fiscal deficit through a drastic curtailment of public consumption expenditure, public savings also should go up. There is little indication in the approach document that these are recognised in the commission's strategy — unless they have been carefully hidden from the public.

Unfortunately, the commission has made light of its task of reworking the strategy by saying that we are moving towards a system of indicative planning. Save perhaps in the earlier stages, the five-year plans have always been more indicative than obligatory. But today, when we are faced with serious prospects of stagflation, what is needed i[s] some proactive supply management, as a counterpart to Dr. Manmohan Singh's demand management policies. It is not enough to assume — as the World Bank reports and government advisers assume — that with the removal of controls on private enterprise and foreign trade, perhaps to be followed soon by financial reform and rupee convertibility — domestic supplies will become automatically elastic and domestic factor productivities will automatically adjust themselves to international standards.

It is precisely this area that ought to be the Planning Commission's concern — how to organise the rest of the economy in such a way that the supply side of the domestic system is strengthened and made more efficient. On these matters, the approach has nothing more than platitudes to offer. Since industry and trade have largely been taken out of the public sector under the new economic policy, the commission is concerned with investment choice only in the energy, transport and communications sectors, besides irrigation, agricultural infrastructure and "human resource development."

As regards infrastructure, the commission says that schemes or projects that do not make "economic sense" will be weeded out. With severely limited plan resources, this may be desirable. But what precisely is economic sense in this context? Is it just the commercial profitability of the project, its internal rate of return, or the dynamism it imparts to overall development? What, moreover, is the commission's time-horizon or value-basis in this regard? If the commission has any specific criteria for investment choice, the document gives no indication.

As in the past, the document lists all the "desirable" objectives viz., employment generation, population control, literacy, health, including drinking water, rural electrification, irrigation (including intensive use of watershed management), diversification of agriculture to horticulture, wasteland development, etc., with emphasis on promotion of agricultural exports. Oddly, when there is so much concern about exit policy, closure of public undertakings and foreign competition leading to increased industrial unemployment, the commission has little to say about the strategy for employment generation. Nor is it specific on the programme for small-scale and hand industries or on rural employment in the context of opening up the economy for foreign competition and large-scale industries. There is also no mention of how the agricultural sector is to be restructured or reoriented to attain higher levels of growth, productivity or exports. Admittedly, a brief document of this nature cannot go into details; but it has surely to indicate the broad features of the development strategy to be adopted in the principal sectors.

As far as one can gather, the strategy of the commission consists of resource allocation to priority areas: through Central assistance, resource mobilisation by states, private sector participation and the raising of external resources; and by creation of single window village/block/district level self-managing organisations. Exactly what these mean in operational terms can only be inferred from other statements of the commission, both in the document and elsewhere.

In one of his recent speeches, the deputy chairman of the commission emphasised the need for additional resource mobilisation through tax and tax administration policies, by the Central as well as state governments. Since the finance minister has to trim his tax proposals to suit the needs of domestic and foreign investors, much of additional taxation will inevitably consist of indirect taxes of one kind or another — including an element of tax in the pricing of public enterprise products. But more importantly, pressure will be exerted on the state governments to raise more resources, failing which their plans will be pruned.

The lever for exerting such pressure is Central plan assistance. As is well-known, resource transfers from the Centre to the states have in recent years been dominated by discretionary transfers under plan loans and grants — a large proportion of which is covered by Centrally sponsored schemes. At the meeting of the National Development Council in June 1990, the decision to cut back drastically on Centrally sponsored schemes and enlarge the allocative freedom of state and local self-governments had been approved. But the full Planning Commission has now decided to go back on this, and adhere to the recommendations of the Narasimha Rao sub-committee — which make only marginal changes in Centrally sponsored schemes.

It would thus seem that while private industry and trade are being released from the grip of Central ministries, the state governments are to be put increasingly under their thumb. The recommendation that for "human development", resource allocation be through self-managing organisations at the village/block/district level does not by itself alter this much. The Constitution (seventy-second amendment) Bill, 1991 before Parliament does of course envisage that Panchayats should be enabled to function as units of "self-government". But the devolution of authority to them is limited to the preparation of plans, with implementation being limited to only such schemes "as may be entrusted to them" by state legislatures.

Past experience shows that state legislatures are not particularly keen to transfer adequate resource, or endow local bodies with enough allocative freedom. If in terms of strategy, the commission has any idea of encouraging effective area-planning by local governments, the concept of controlling local level self-managed organisations through resource allocation measures does not convey that impression.

Chances are that single-window operations will become [an] extended arm of the Central bureaucracy at district and lower levels, reducing at one stroke the economy of both state and local self-governments. This apprehension is further enhanced by the commission's intention to create a 'National grid' of non-governmental organisations (NGO's) whose work is to be recognised, encouraged and supported — presumably by the Planning Commission.

Likewise, the commission intends to set up a network of trained and motivated experts/individuals to work in an honorary capacity in rural areas. Laudable as these seem to be, they run the risk of becoming a means of extending patronage and profit to favoured parties regardless of their relevance for local bodies when organised and controlled from New Delhi. Harnessing of NGO and individual voluntary contributions are best left to local governments to work out, on the basis of their specific needs and their knowledge of concerned organisations or individuals. To talk in terms of national grids is to seek to convert them into surrogate bureaucracies.

We have already embarked on structural adjustments which are oriented towards global integration, on the assumption that there will be *pari passu* national development. There is no guarantee that this will happen; nor is there any world body which can, like national governments, use fiscal devices to ameliorate unequal distribution of benefits. In this milieu, it is incumbent on the Planning Commission to give very serious thought to the additional measures we should take, to ensure that economic development not only gathers momentum but goes with social justice and effective democracy. One hopes that when the NDC meets on December 23, the nation's policy-makers will keep this in mind and not just add their signatures to a hopelessly, tangled approach.

21

NO CONSENSUS ON IMF CONDITIONALITIES

Ashok Rao*, *Indian Express*, January 27, 1992

It has been argued that India had, and still has, some form of consensus, cutting across party or class lines in matters of foreign policy. Now, considering the changed political and economic scenario of the world coupled with India's balance of payment problem is it still possible to arrive at a broad consensus on the direction that the Indian economy is taking?

To answer this question, it would be necessary to understand the thinking of the Government, i.e., the ruling party and then either agree or disagree on the possibility of a consensus. No specific long-term indicators of the Government's thinking are available except that it has initiated the stabilisation and structural reforms suggested by the IMF.

At a recently concluded workshop on "Social Dimensions of Structural Adjustment" organised by the International Labour Organisation (ILO), an economist working for the Government of India, hinted at the kind of reforms that the Government may think, are called for. According to him the legal job protection for workers should be replaced by hiring workers

* The author is the President of the National Confederation of Officers' Associations of Central Public Sector Undertakings.

on contracts. Thus, he wanted to abolish all laws which prevented the closure of firms while at the same time providing minimum compensation to the workers.

He also wanted the replacement of the present excise duties and corporation tax by a flat rate value added tax with minimum rebates and exemptions. Further, the economist argued that custom duties should be levied on a limited scale to protect new industries and not as a source of income. Moreover, the Government should also be subjected to stringent budgetary constraints and all capital investment of the Government should be routed through mutual funds.

The aim of the trade policy, according to the economist, should be to debureaucratise trade, and to level off exports and imports. Furthermore, price and distribution of agricultural goods should be abandoned with export controls.

The idea of bringing in direct foreign investment is neither to tide over the balance of payment crisis nor to bring in the latest technology, but to bring in new forms of management, he added. For this, he thought, all regulations should be abolished except making dividends or interest on foreign investment payable out of exim scrips. To prevent foreign investments from achieving control of the economy a list of the 300 biggest firms in sensitive industries should be drawn up and they should not be allowed to accept foreign investment over 10 per cent of their equity.

As for the distinction between the public and private sector, this should be removed by issuing of public shares, the economist claims. The economist feels that regulations on the stock market should also be minimised.

He recommended that interest rates and banking should be deregulated and private banks, be allowed to open while closing public sector banks that are bankrupt.

What would be the impact of these policies in a country where half the population is still below the poverty line? According to him, the economy should be able to maintain a growth rate of 6.7 per cent, if the capital-output ratio came down to 3 to 3.5. And if, as a result of the reforms, saving rates go up to 30 per cent, the growth rate would increase by 8 to 10 per cent giving rise to a per capita growth rate of 6 to 7 per cent. The effect on employment growth would be equally dramatic the economist claimed.

The policy measures listed; however, are nothing more than a step towards the implementation of the IMF stabilisation and structural reforms in areas of deregulation, privatisation and liberalisation.

It would be interesting to examine the results of such policies in Africa and Latin America which have been under the IMF stranglehold for more than a decade.

A net positive inflow of $38 billion to the capital accounts of developing countries in 1979 was transformed by 1986 into a net negative outflow of $50 billion. Today, the negative flow has only increased. Taking into account loans, aid, repayment of interest and capital, the South is now transferring at least $20 billion a year to the North. And if one were to take into account the transfer of resources as a result of reduced prices paid by the industrialised nations for raw materials, then the annual flow from the poor to the rich might be as high as $60 billion each year.

The per capita income of the average Latin American was on an average 9 per cent lower in 1989 than in 1980. In most countries the standard of living slipped back to what it was 20 years ago. The GDP per capita in late 1990 is 9.6 per cent lower than in 1980, consumption has fallen by 6 per cent and inflation has soared, reaching an average of 1,500 per cent in 1990. Today, one third of Latin America's population — 130 million people — live in dire poverty.

In Sub-Saharan Africa, out of 44 countries only 12 have been able to service their debts. In 1986-87 debt service charges amounted to over 20 per cent of their total export earnings. In 1988-89 the situation was such that the debt servicing of $21 billion was so high that there was too little to finance the imports and to promote higher growth. In general, for heavily indebted middle income countries, the rate of growth in 1987 was only 1.6 per cent. In case of Africa, the ILO has estimated that the number of poor people rose from 210 million to 278 million from 1980 to 1985.

In Latin America, the change in the nature of employment towards less productive activities has meant underutilisation of the labour force from 40 to 42 per cent during 1980 to 1990. Jobs became more precious, and resulted in greater instability in employment, the replacement of full-time employment by part-time employment, and the growing recourse to sub-contracting. The deterioration in the quality of employment was accompanied by a drop in wage income. Real wages fell faster than per capita income. Workers in the modern sector experienced a drop in their wages as a result of higher inflation. In particular, public sector employees experienced wage reductions often accompanied by job losses.

Is any more evidence required in order to dismiss out of hand any possible consensus on the basis of the IMF conditionalities? If a consensus is to be achieved than what is required is an agreement on the type of society that we seek for our children, particularly for the less priviledged and on that basis to draw up plans. Then it is important to fall back on the vast resources of trained scientific, technical and managerial personnel and a large army of skilled and unskilled workers in order to ensure full utilisation of the already build up manufacturing and technical institutions, based on the principle of self reliance. If this is the basis of the consensus and if there can be an effective control on the licentious regime of corruption and black marketing then there should be no logical reason for not being able to demand, and obtain, sacrifices from the working people.

22

FOR A MORE EQUITABLE WORLD TRADE

Duvvuri Subbarao, *The Economic Times,* January 19, 1992

Development And Underdevelopment: The History, Economics and Politics of North-South Relations by H. Elsenhans, Sage Publications, 1991, 176 pp. Rs. 160

Some people claim, rather fanatically, that Adam Smith was the first development economist. It is difficult to find a more towering father figure. Even then, Development Economics had to wage an uphill battle to be accepted as a distinct discipline by the orthodoxy. In the end, it was a battle very decisively won, for Development Economics has not only gained acceptance but even respect, often bordering on glamour. The credit for this goes to a number of eminent economists who lent their intellectual calibre to the development of this discipline. Indeed so prolific has been the literary output that it is difficult to say anything new. In this book under review — despite the grandiose, if also hackneyed title — Elsenhans makes no pretence to saying anything new. In fact what he has attempted is to say some of the things already said in a new perspective. The result is a competent effort that should provoke thought and debate.

Elsenhans' new perspective consists in refuting, on an empirical and historical basis, the anti-imperialist arguments in the contemporary development debate. These arguments, which have their intellectual origins in Marxist orthodoxy as well as the latter day Dependency theory, blame the North for the exploitation of the South, for imposing on it unequal specialisation and for the deformation of its economic and social systems.

Exploitation was manifested through the appropriation of value from the South, thereby incapacitating its facility for capital accumulation. Unequal specialisation was the result of a continuous deterioration in the terms of trade for the commodity exports of the South, which locked them into low technology, low skill based manufactures, while the North, with its 'comparative advantage' in capital, skill base and entrepreneurial ability continued specialisation in products and processes that intensively utilise these resources. Exploitation and unequal specialisation led to economic and social deformation whereby poor countries were deprived of those avenues of production which can generate employment and enhance productivity.

It is with these arguments that the Third World justifies its demand for a New International Economic Order, which would give them [it] greater control of their economic destinies. Many of these theses have strong emotional and political overtones. Facts, therefore, tend to get distorted and arguments frequently turn into assertions. Yet there is a great deal of truth in these generalisations.

Elsenhans himself concedes early on: "it is impossible to dismiss the list of inequities which the South charges the North with. After all, the events presented as evidence are facts of history. The invasion of the Great Empires of the Aztecs and the Incas, spurred by the craving for gold, has become enshrined in the West's corpus of tales of daring and adventure. The colonial wars of the 19th century were fought with extreme brutality, for here, the antiquated firearms and spears of the native peoples were pitted against the machine guns of the colonists. The recruitment of the Red Indians as bonded labour and the transportation of approximately ten million Black Africans as slave labour to America were carried out in terrible conditions. The peoples of the Third World were stripped of their cultural identity. Even though educated Europeans were, till 1880, aware that organised states with developed legal systems existed in sub-Saharan Africa, Africans were divested of their freedom and considered unfit to govern their own communities only twenty years later."

Having conceded the fact of North's discrimination against the South, Elsenhans makes a point of departure to contend that the industrilised countries do not owe their affluence to the underdevelopment of the South. Exploitation of the South did not constitute a precondition for the process of economic growth in the North, but it was merely attendant phenomenon. In fact, such a thesis is inherently self-contradictory. If the South had indeed been exploited by the industrialised countries, it must have been deprived of value in terms of purchasing power. These countries are hardly fit customers for potential exports of the industrialised countries.

In his well articulated critique of the Marxist world view that the former colonial powers prospered through the supply of cheap raw material and foodstuffs from the poor countries, Elsenhans does not dispute the veracity of the historical evidence. He disputes its significance to the growth of the industrialised countries. He says, prosperity came to them through simultaneous expansion of investment during the industrial revolution and the rise of mass incomes.

Text books in Economic Development often talk about the False Paradigm model, which centres on questioning the relevance of the western experience of development through the 18th and 19th centuries to contemporary problems of

Third World development, given that the attendant domestic and international scenarios are so different.

Elsenhans differs from this point of view and maintains that the western experience is relevant. Only we have drawn the wrong lessons for inference. Yes — west's development was based on capital accumulation but that, in fact, was not the attendant necessary condition. The necessary condition is the expansion of mass consumption through reorienting the productive structures, without which any strategy of economic development will fail regardless of the stand on particular issues such as external economic relations, technology policies and inter-sectoral priorities. Export-oriented industrialisation will have too low an impact to clear the labour markets. Import substitution will avoid new dependency on foreign technology only if it is geared to expanding mass markets and local technology production. Multinational enterprises will continue to contribute to monopolisation and profit remittances, if local markets do not expand and create new outlets for investment. Increased earning from commodity exports and higher levels of aid can contribute to development only if the internal social and economic set-up is changed.

In addition to ill-adapted productive structures, the other major impediment to Third World development, according to Elsenhans, is the class structure. State intervention, which is typically pervasive in Third World countries, has resulted in a coalition of civil servants, politicians, managers of state enterprises and leaders of state controlled mass organisations, who constitute the 'State Class', so called because of their near total domination of the functions of the State both in the political and economic spheres. The key to Third World growth lies not in attempting the dismemberment of this State class but in using its clout and influence to further the development objectives. This sounds like making a virtue out of necessity but Elsenhans argues that this is much more than a second best solution.

Elsenhans' blueprint for growth — what he calls an 'egalitarist' strategy — centres on this linkage between expanding mass incomes and development. The centrepiece of this strategy is agricultural development including land reform, for this is the sector with the greatest potential for expanding employment and raising mass consumption levels. A long-term increase in agricultural output however require additional industrial inputs such as fertilizers, irrigation pipes, pumps and tractors; only when these are produced indigenously will the balance of payments position remain favourable, despite a rapid modernisation of agriculture. Apart from developing a sector producing agricultural inputs, production capacities for mass-consumption goods must also be set up since farmers will not be willing to invest more work in return for mere paper money.

While in sympathy with the need for a new International Economic Order, Elsenhans believes that the South has not presented its case properly, for demands for more aid and a more equitable terms of trade were not accompanied by any promise of internal changes within the countries of the South. He advocates a development pact between the rich and poor nations which combines commitment to social reform in the South with increased flows from the North to the South in the framework of a New International Economic Order.

It is easy to dismiss Elsenhans' thesis as a biased view, especially given his rather valiant effort to vindicate the industrialised countries of responsibility for Third World underdevelopment. But then, is there such a thing as an unbiased economic prescription? Isn't a predetermined value bias inherent in all economic thought? It is possible to disagree with Elsenhans but his book deserves to be read for presenting its case with conviction and transparent academic integrity. It certainly provokes thought and debate. And a debate on the North-South divide is essential, for this is an issue that will be with us long into the future.

23

ABJECT SURRENDER BUT NOT TO THE IMF

Suresh Tendulkar,* *The Economic Times,*
September 16, 1991

The Left intellectuals have produced a loud chorus that the Budget, which is a part of the new economic policy package, has been an abject surrender to the IMF. I would not have taken note of what has over the years come to be regarded as the routine response of this group to any reform proposal. Here I do so because the reality has turned out to be exactly the opposite of what the Left intellectuals are saying.

The new economic policy package is going to fail precisely because the government has surrendered to our own indigenous, well-entrenched, vocal and organised interest groups. By conniving in this act, the IMF has also transitively surrendered to the same interest groups. Hence, the Left intellectuals who are an integral part of these same organised interest groups have every reason to celebrate.

The new economic policy package has two inter-connected elements. The first relates to macroeconomic stabilisation

* The author is Professor, Delhi School of Economics.

involving correction of fiscal and balance of payment (BoP) imbalances. The second relates to economic restructuring, which seeks to introduce internal and external competition so as to reduce the wasteful use of scarce resources and improve international competitiveness. This is expected to put the Indian economy on a higher growth path by raising resource productivity and greater participation in international trade.

The open economy macroeconomic theory teaches us that the same absolute level of BoP deficit (within tolerable bounds) is consistent with varying levels of participation in international trade and that, in general, a higher level of participation in trade is usually associated with a higher rate of growth of real GDP. This has been validated not only by the "small" East Asian countries but also by the biggest country in terms of population, namely, China, since 1978.

There does not seem to be much disagreement over the first element of the package, namely, the need to correct fiscal and BoP imbalances. There seems to be sharp disagreement over the second element, namely, the need for economic restructuring. The Left intellectuals seem to argue implicitly or explicitly that there is nothing wrong with the current production structure and our current levels of participation in international trade are more or less optimal. This eliminates, in their opinion, the need for economic restructuring. The advocates of the reforms totally disagree with this prognosis.

The IMF loan as short term facility aids stabilisation efforts, whereas that in the name of structural adjustment loan (SAL) is expected to facilitate economic restructuring. It needs to be understood clearly that the IMF loans of both varieties are only mere facilities that would soften the adverse transitional impact of stabilisation and economic restructuring. They do not constitute a magic solution or a painless substitute for the transitional costs of macroeconomic stabilisation or economic restructuring which have to be borne by the citizens of the concerned country.

Why are there transitional costs? The same macroeconomic theory teaches us that when an economy lands itself into acute fiscal and BoP imbalances, and wants to correct them without allowing inflationary pressures to rise, there is no alternative but to temporarily contract economic activity. This course of action is bound to affect some or all segments of the society adversely. The period of contraction needed to bring the fiscal and the BoP imbalances within reasonable limits is the transitional period after which the economy is in a position to choose the growth path with an appropriate level of participation in international trade.

The economic restructuring would indeed add to the magnitude of costs during the transitional period, but is considered to be an acceptable cost of the future benefits accruing to the economy after the transition. The point to note is that even macroeconomic stabilisation without economic restructuring is not going to be painless. It is also important to emphasise that the transition period for economic restructuring with SAL would also involve generating additional export capability over this period, sufficient at least to make it possible, to repay the IMF loan after the transitional period.

If there is a failure on this count, the BoP imbalance would get much worse — a sure invitation to the debt-trap. The responsibility for this plight does not lie with the IMF but lies squarely with the government of the country and the society which fail to bring about the necessary economic restructuring.

In India the higher growth path of the economy since 1980 (from 3.5 to a little over 5 per cent per annum) was achieved at the cost of fiscal irresponsibility — by an indiscriminate expansion of current expenditures of the government (recall, apart from subsidies, defence and interest on public debt, the implementation of the Fourth Pay Commission recommendations and its widespread spillover effects), often at a rate much faster than capital expenditures and incurring debts both domestic and foreign to bridge the yawning fiscal gap.

The BoP gap also got bigger because of the need to keep the domestic inflation under check — mainly through bulk imports. Careful and detailed studies at the National Institute of Public Finance and Policy have clearly established that the trade liberalisation of the 1980s cannot be held responsible for the worsening BoP. While this diagnosis is often contested, without counter-evidence, the non-viable nature of fiscal and BoP deficits is conceded by everybody and consequently the need for short-term macroeconomic stabilisation.

It is the need for economic restructuring that is hotly contested by the Left intellectuals. Their stand can be understood only in terms of the acceptance of rules of the game under which the organised sector in India operates. These have been enumerated by my colleague, Professor Mrinal Datta Chaudhuri as follows:

- Nobody is permitted to go bankrupt;
- Nobody gets fired however lousy the performance in the assigned task;
- Everybody is protected from both internal and international competition; and
- Economic rewards have no relationship to productivity but are proportional to the bargaining strength aided and abetted by the judiciary and the politicians.

The necessary complement to the implicit social acceptance of these rules of the games was the complex, discretionary regulatory regime which effectively restricted internal and external competition in the organised segment. In this system, there was no incentive to cut down costs or raise productivity thereby fostering the wasteful use of resources. The cost of this wasteful use was being borne by the hapless users and consumers of goods and services produced in the organised segment — a subset of which also happened to be the beneficiaries of the system. As a consequence, the profitability of unproductive rent-seeking activities tended to overtake that of productive investment on honest productive work.

Who are the privileged beneficiaries of this system? As a good approximation, they consist of industrialists in the organised sector, skilled professionals (the group to which I belong), central and state government employees, industrial workers both in the private and public sector, employees in the public sector banks and other financial institutions and rich farmers. It is important to underline the fact that the operation of the above mentioned rules of the game (especially the last) has generated parasitic rental element in the incomes of the capitalists as well as in the incomes of the organised industrial workers or for that matter in the incomes of the organised college and university teachers, organised doctors, organised bank employees and so on. It is these groups which have been claiming a share of GDP far in excess of their productive contributions and thereby squeezing and exploiting the unorganised segment of the economy.

The new policy package of exchange rate devalution, the changes in industrial and trade policies and the central Budget 1990-91 has elements of both stabilisation (as reflected in the Budget and the devaluation) and economic restructuring (as reflected in all the measures). As I understand it, the economic restructuring policies seek to move away from rent-seeking that was encouraged by the earlier system and restore the rightful place of incentives to encourage productive investment based on market signals and productive performance based on threat of entry and fear of exit. This economic restructuring, if and when successfully completed, would certainly accelerate growth by reducing wasteful use of resources and a higher level of participation in international trade. I, therefore, unhesitatingly welcome the direction of change sought to be imparted through economic restructuring.

24

ECONOMIC REFORM: HOSTAGE OF INTEREST GROUPS

Suresh Tendulkar,* *The Economic Times*,
September 16, 1991

Where, it may be asked, is the compelling need for economic restructuring? Can we not go on with our old ways? Pranab Bardhan, Ashok Rudra and P. N. Dhar have already traced the emergence of the organised interest-groups in India's political economy in different ways. The empirical studies on some of these groups carried out by Ashok Rudra and his associates (and published in the Economic and Political Weekly — a journal with impeccable leftist commitment) have already pointed out how these groups have managed to maintain their real levels of living that are way higher than what could be expected on the basis of their formal reported incomes.

P. N. Dhar had argued the dynamic non-viability of the system because of the progressive rise in the number of new claimants in the vocal, organised segments as well as their progressively rising, demands on the limited growth of GDP which could not grow any faster because of wasteful use of resources. Some demands were exerted through bilateral

* The author is Professor at the Delhi School of Economics.

bargaining, others were mediated by the judiciary and the government whereas still others were exerted by putting organised pressure on the government. The first two were reflected in continuing and widespread industrial sickness, and persistently loss-making public sector enterprises whereas the last got reflected in the fiscal irresponsibility. To my mind, these are important enough reasons to justify the need for economic restructuring.

Who are the losers in the proposed move away from the rules governing the earlier system? Obviously, the very same interest groups who have been the recipients of the rental benefits distributed by it. It is these groups which have acquired power with overt or covert connivance of all the political parties to hold the nation to ransom by organising strikes and bandhs. The losers from the bandh are the public exchequer and the casual workers and self-employed poor in the unorganised segment of the economy. They lose their precious daily livelihood. It is the organised interest-groups who are threatening to launch a "struggle", against the new policies.

The government's response to some of their moves already provides significant pointers of things to come. There is already a roll-back on fertiliser subsidy by introducing a messy, unworkable and ineffective procedure which is bound to create fertile ground for discretionary distribution of a scarce input at subsidised prices and it would finally reach the rich farmers. On top of this, the partial withdrawal of fertiliser subsidy has provided a convenient excuse for bringing about further increases in procurement prices announced recently to confer additional benefits on rich farmers. Even without this excuse, the indiscriminate rise in procurement prices readily granted during the last three years have contributed in no small measure to the rise in market prices of foodgrains despite three successive good harvests and added to the inflationary pressures.

Secondly, the day before Dr. Manmohan Singh was to meet the trade union leaders on August 17, there was a news item in the Delhi edition of the *The Times of India*, dated August 17, 1991. It mentioned that the IMF wanted a further cut in the government expenditure by additional Rs 1500 crores during 1991-92. Dr Singh reportedly agreed to do so. But how? Not by cutting down the current expenditures which are benefiting the organised interest-groups. Instead, he met the Deputy Chairman of the Planning Commission and persuaded him to cut down the plan expenditure by the same amount! In other words, the government did not even try to persuade the leaders of interest-groups concerned to accept the transitional costs. On the contrary, it chose to protect their current overt and covert subsidies by sacrificing long-term growth.

Thus the government has given unambiguous signal that in the face of protest or threat by the organised interest-groups, it is willing to yield rather than make efforts to explain, argue and persuade the leaders of these interest-groups. It is a pity that Dr Manmohan Singh has emphasised in his budget-speech mostly the carrots to be expected after the transition rather than the impact of the stick on different interest-groups during the transition period. Perhaps, this is an illustration of the political compulsions.

Can we expect any responsible behaviour from the national political parties? Unfortunately, no party has resisted the temptation to reap cheap, populist short-term gains. To illustrate, let us start with the party with impeccable radical posture; the CPM. Its most respected leader, Jyoti Basu readily granted the striking college and university teachers their pay during the strike period in the mid-1980s while he had no qualms in cutting the industrial workers' wages during the strike-period! The treatment he has meted out to the prestigious Presidency College by deliberately permitting it to go down the drain is another action taken by him under the influences of the very same populist intellectual supporters whom he bribed during the teacher's strike. He has also been officially sponsoring the bandhs whose inequitous effects have already been noted.

Such are the radicals on the Left and their left intellectual supporters.

We have the fake "social justice" advocates of the Janata Dal variety who want to effectively placate the miniscule (less than one per cent) elite group amongst economically and politically powerful other backward classes (BCs) through the reservations in government jobs. The Janata Dal is also threatening a stir for a complete roll-back on the fertiliser subsidy. It may very well buy the support of the Tikait Sena to spread the reign of terror. It also proudly claims credit for the most dubious and economically most disastrous loan-waiver scheme which has contributed in no small measure to the erosion in the credibility of the financial institutions.

The current ruling party has shown no courage to scrap the loan-waiver scheme precisely because it gives cheap, immediate dividends. The erstwhile Congress party spokesman who now happens to be the Deputy Chairman of the Planning Commission, had the temerity to condemn as "national betrayal", the eminently sensible measure of pledging 20 tonnes of consfiscated gold taken by the then finance minister for debt-repayment and to help roll over short-term debt. The same party also did not allow him to present the budget which could have saved precious time that has been lost.

As regards the Rath yatra fame BJP, the less said the better. When everything is burning all around they, too, had no qualms in holding the Lok Sabha proceedings to ransom, over a remark made by a cabinet minister outside Parliament. One can multiply such instances and bring in regional parties as well. The point is simple: each party indulges in irresponsible behaviour to garner immediate political gains. If this kind of utterly irresponsible behaviour persists, and if the organised interest-groups manage to keep their hold on the polity (they have their influential godfathers in each national party) and by that on the organised segment of the economy, it should be obvious that economic restructuring has no chance to succeed.

The simple point to highlight is that there are no more free lunches available. Every desirable major economic reform will invariably have politically unpalatable consequences with respect to one or more organised interest-groups. Every political compromise involves economic costs in terms of sacrificing long-term growth and, more importantly, slowing down the pace of reform and hence lengthening their transitional period or worse still, the slow pace itself may fail to bring about the needed economic restructuring.

In view of the above analysis, if the ruling political party has no credibility or courage or political will to resist pressures for compromises on economic reforms through the established democratic processes, it has no justification to rule and the only action to be expected is the surrender to the organised, vocal interest-groups with all its disastrous consequences — the proposition that we argued in the beginning — paradoxical though it may sound.

If the foregoing argument is accepted, it has two implications one for the IMF and one for Dr Singh. These offered as unsought advice.

To start with the IMF, it needs to be said, is taking a uni-dimensional view of the fiscal deficit. It does not seem to be bothered about how the fiscal deficit is lowered so long as it is lowered to a given level. There are many ways of cutting down fiscal deficit — either by reducing current unproductive government expenditure or by cutting down government investment expenditure or by raising revenue or by combining all the three. When the current unproductive government expenditures including transfer payments to important interest-groups are maintained as reflected in the Central budget 1991-92, it is a sure evidence of a surrender to the interest-groups. It also implies that apart from sacrificing long-term growth, the surrender to these groups is again a sure evidence of a strong chance of failure on economic restructuring programme. In that case the IMF should either insist on more rigorous specific conditionalities or not give the loan at all. Under the present circumstances, they seem to be allowing the heart to rule over the head for reasons best known to them.

As for Dr Singh, if the scenario presented here is plausible, he should choose to unilaterally suspend negotiations with the IMF, forget about economic restructuring and meet the left intellectuals and the leaders of the established organised interest-groups (some of whom may be interchangeable) and leaders of the national and regional political parties to discuss concretely the burden-sharing arrangements as well as the acceptable length of the transitional period during which fiscal and BoP deficits are to be curtailed in a phased manner while accepting the consequences of whatever rate of inflation that may be consistent with the agreed burden-sharing arrangements. Of course, in doing so, he will have to resist the temptation to invoke the names of Indira Gandhi and Rajiv Gandhi because, with these names, he can never manage the national consensus. He should coolly play the role of a teacher that he has once been and patiently spell out the inexorable logic of open-economy macroeconomics and its political consequences on different interest groups.

Having written extensively on the incidence of poverty, I have deliberately avoided bringing the poor into the picture in this discussion. The omission is intentional, for two reasons. None of the vocal, organised, interest-groups I have mentioned contain any poor — either rural or urban. Secondly, the real poor in the unorganised segment of the economy have been residual claimants of GDP after the organised interest groups sort out their claims plus whatever they manage to get after leakages from the anti-poverty programmes and they have possibly learnt to be thankful for such small mercies.

If this statement is a plausible approximation to reality, then I have every reason to believe that a higher growth rate of GDP in general and that of agriculture in particular that would result from better resource use and higher level of participation in international trade will be the best anti-poverty strategy. Hence, I would fully support the fastest feasible programme of combining stabilisation and economic restructuring with all the unpalatable political costs associated with it. It is the organised interest-groups who would suffer during the transitional period, and who would come in the way of implementing such a strategy. They would indeed glorify their opposition in the name of the poor but, in actual truth, try to maintain their comfortable life-styles.

25

CONG-I
IN THE
THROES OF AN IDENTITY CRISIS

Prabhu Chawla*, *Indian Express,*
February 1, 1991

Seven months after Rajiv Gandhi's tragic death, the Congress(I) is passing through an identity cirsis. With Finance Minister Dr. Manmohan Singh and his World Bank-trained advisors pushing the country into a market economy at jet speed, the Congress(I) leaders are wondering whether their core constituency of the poor, the backwards, the minorities, and of the industrial workers is being destroyed systematically. And wondering, too, whether the reforms, if implemented, would finally bring in economic prosperity, and consequently consolidate vote banks.

But if the tenor of the brainstorming session currently on in the Congress Party is any indication, the rank and file is skeptical about its future. During the last one week, both Prime Minister P.V. Narasimha Rao and the Finance Minister have met important party leaders to dispel their fears on this count. But not with much success. For example,

* The author teaches at the Delhi School of Economics.

in the first meeting of the AICC office-bearers, held last week, its permanent treasurer and the Union Welfare Minister, Mr Sita Ram Kesari, reinforced the Congress ideology and indirectly warned the Finance Minister against diluting it.

He asserted: *Garib aur pichde verg Congress ki constituency hai, hamari arthic neetiyan aisi nehin hon, jisse hum inko bhi gavan deen* (The poor and backwards constitute our basic support, our economic policies should not allow us to lose them). Mr. H.K.L. Bhagat, another general secretary, echoed Mr. Kesari's sentiments when he asked "What is happening, none of us know." Earlier, similar questions were put to Mr Chidambaram, the articulate Union Minister of State for Commerce, who was also directed by the Prime Minister to brief the Congress(I)'s office-bearers about the likely thrust of the nations's international trade policies.

Not only are the ordinary Congressmen confused about the party's actual political and economic policies; even important Union Ministers are not able to digest substantial dilution of the party's traditional commitment to the socialist and Nehruvian model of economic development.

In fact, the Congress(I) fought and won over 200 seats in the June elections on a manifesto which spoke about job reservations for the poor, rolling back of the prices, and making the public sector more efficient. But what has happened during the last six months is exactly the opposite of what was promised in the Congress manifesto. Prices of essential commodities have gone up by over 20 per cent. public sector losses are burgeoning and there is no sign of rolling back the prices.

These failures were brought to the notice of both the Prime Minister and the Finance Minister during their meetings with the MPs and other members of the Congress(I) Parliamentary Party Executive Committee. The party leaders sought an assurance from the Prime Minister that not only hike in the issue price of both wheat and rice be withdrawn, but also that the Government must ensure that the prices of essential commodities are not allowed to rise for the next three years.

But the Prime Minister was not in a position to give an assurance. One way the Government could have curbed the price rise was through subsidies. But in order to get the IMF and World Bank loan, the Government is committed to abolish all kinds of subsidies. In fact, Indira Gandhi introduced subsidies on essential commodities as part of her political strategy to retain her electoral base of the rural rich and the urban poor. By extending the subsidy on fertilisers, and by raising the procurement prices, she ensured the continuous rise in real incomes of the rich and middle class peasants, and by distributing cheaper ration in the urban areas she retained the support of the poor and middle class.

But Dr. Manmohan Singh is seeking to knock out both the constituencies, and therefore he is in conflict with both the rural and the urban lobbies in the Congress. For example, Union Agriculture Minister Balaram Jakhar made it clear that any attempt to withdraw subsidy on agricultural inputs and products should be sufficiently compensated with other fiscal measures. He has already begun his own consultations with the farmers and rural leaders regarding budget proposals. So, while Manmohan Singh is determined to demolish the system of subsidy doles, Jakhar is fighting to retain it in some form or the other.

The ideological conflict is being seen in labour policies too. Barring those Congressmen who either belong to top industrialist families, or are part of the urban elite, none else is in favour of the Exit Policy being pushed by the Manmohan-Chidambaram duo. The ideological stress is being felt acutely by those who have made their way up the political ladder through the trade union movement.

The Congress-affiliated Indian Trade Union Congress (INTUC) leaders have expressed their inability to support the proposed Exit Policy which will permit retrenchment and redeployment of surplus labour, and they are expected to oppose it strongly.

Union Minister of State for Law, Mr. P.R. Kumaramangalam has made his opposition to it known to the Prime Minister and others.

Various other Congress leaders have also expressed their reservations about the content and nature of economic reforms. According to these leaders, these reforms will adversely affect the indigenous industry and benefit the multinational corporations.

The Congress(I) rank and file is also finding it difficult to reconcile to its top brass' love-hate relationship with the BJP. During the inner-party discussions, they have made it clear that the Congress electoral base in North India will be substantially eroded if the party is not perceived as a political alternative to the BJP.

In fact, the party's basic political plank has been anti-BJP, and during the last election Rajiv's frontal attack was on the BJP and not on the other opposition parties. Congressmen like Mr. Arjun Singh feel that there is of late a leaning in the party's leadership towards the BJP, which seriously dilutes the basic philosophy of the party. Mr. Singh even justified to the Prime Minister his anti-BJP stir in Madhya Pradesh on the ground that it was necessary to dispel the image of the central leadership of the party being pro-BJP, because otherwise the party would lose in Madhya Pradesh as well.

The identity crisis of the Congress(I) has seeped down to the state level now. In Uttar Pradesh, the party's leadership is unable to formulate any coherent strategy against the BJP government. Says a PCC-I office bearer: "The AICC-I cannot tell us if the BJP is friend or foe." The same incoherence with regard to policy afflicts other state units too.

In West Bengal, the PCC-I has not launched any agitation against the ruling Left Front because of the awe in which Chief Minister Jyoti Basu is held by the Centre. Firebrand West Bengal Congress(I) leader Priya Ranjan Dasmunshi has repeatedly gone on record complaining about the central leadership's ambivalence about the Marxists in general, and about Mr. Basu in particular.

According to the middle level young Congress leaders, the identity crisis has been caused by the sudden disappearance of tall leadership from the top. During the last 20 years, the party could win elections not on the basis of any major electoral issues; but on the strength of charismatic leaders, who could carry the masses with them. It is for the first time, the Congressmen are feeling that they would not be able to piggy-back on someone else's electoral pull.

Since issues like price rise, unemployment, corruption, inefficient public distribution system are important, they should identify themselves with these rather than with the leadership which is formulating economic policies on the basis of hard realities rather than on popular issues.

Job reservations is yet another area where the party's own stand is not clear. Senior leaders like Mr. Kesari and Mr. P. Shiv Shankar recently told the Prime Minister that if the party failed to formulate its stand on this vital issue, it would further erode its following in the rural areas. They have even reasoned that over the last two years the party has lost the minorities, backwards and upper caste Hindus due to its ambivalance on various issues. And if it persists with the market economy approach, it would lose industrial workers' support as well.

Some others have pleaded for returning to the Indira-style of politics. In fact, she used Mr. Narasimha Rao for giving representation to backward castes in the Andhra government during his chief ministership. She even encouraged the late Devraj Urs in Karnataka and Mr. Madhavsinh Solanki in Gujarat to play the backward community card. In the north she used the Communists against the RSS and the then Jan Sangh. And she was able to position her revived Congress as pro-poor by coining the slogan of *garibi hatao*. But now the party seems to be losing its original ideological moorings after having lost the leader.

26

DECLINE IN SOCIAL SPENDING

Krishna Ahuja Patel, 'The World Economic Crisis and its Impact on Women' in *Women and Development*, Kit No. 6 Pt. 1 Geneva, (JUNIC/NGO), 1990

Adjustment to the debt crisis has forced many governments into reduced public spending. But health and education, which help to meet basic human needs now and to invest in human capacity for the future, have been cut back disproportionately.

Central government expenditure on education, health and defence, as a percentage of total government expenditure, 1972 and 1986

	EDUCATION		HEALTH		DEFENCE	
	1972	1986	1972	1986	1972	1986
Bangladesh	14.8	9.9	5.0	5.3	5.1	11.2
Burkina Faso	20.6	17.7	8.2	6.2	11.5	19.2
Kenya	21.9	19.7	7.9	6.4	6.0	8.7
Malawi	15.8	11.0	5.5	6.9	3.1	6.0
Pakistan	1.2	3.2	1.1	1.0	39.9	33.9

contd...

Sri Lanka	13.0	8.4	6.4	4.0	3.1	8.0
Tanzania	17.3	7.2	7.2	4.9	11.9	13.8
Uganda	15.3	15.0	5.3	2.4	23.1	26.3
Zaire	15.2	0.8	2.3	1.8	11.1	5.2
Low-income developing countries						
Bolivia	31.3	11.6	6.3	1.4	18.8	5.8
Botswana	10.1	17.7	6.1	5.0	0.0	6.4
Chile	14.3	12.5	8.2	6.0	6.1	10.7
El Salvador	21.4	17.5	10.9	7.5	6.6	28.7
Marocco	19.2	16.6	4.8	2.8	12.3	16.4
Tunisia	30.5	14.3	7.4	6.5	4.9	7.9
Turkey	18.1	11.9	3.2	2.2	15.5	13.5
Lower middle-income developing countries						
Korea Rep.	15.8	18.1	1.2	1.5	25.8	29.2
Mexico	16.4	11.5	5.1	1.4	4.2	2.5
Oman	3.7	10.1	5.9	5.0	39.3	41.2
Uruguay	9.5	7.1	1.6	4.8	5.6	10.2
Upper middle-income developing countries						

Source: 'World Development Report 1988', World Bank, Washington DC

27

FALLS IN PRIMARY SPENDING

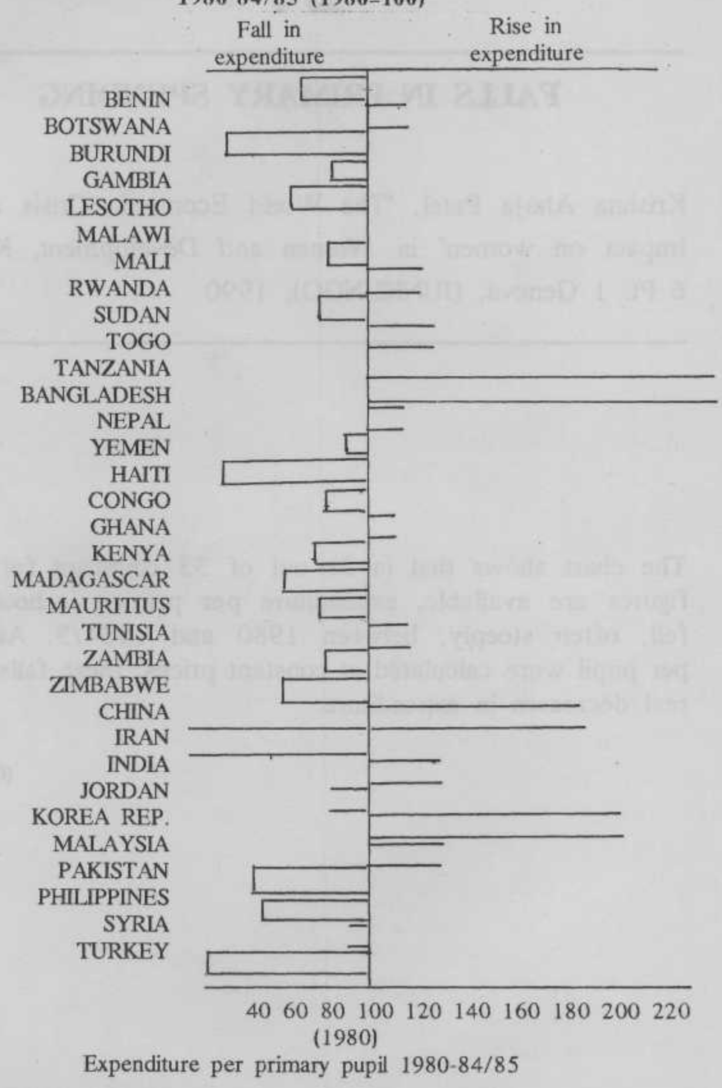
Krishna Ahuja Patel, 'The World Economic Crisis and its Impact on women' in *Women and Development,* Kit No. 6 Pt. 1 Geneva, (JUNIC/NGO), 1990

The chart shows that in 21 out of 33 countries for which figures are available, expenditure per primary school pupil fell, often steeply, between 1980 and 1984/5. As costs per pupil were calculated at constant prices, these falls reveal real decreases in expenditure.

(Contd....

Indices of recurring unit costs in the first level of education at constant prices

1980 84/85 (1980=100)



Source: The Educational Fallout Adjustment (forthcoming) by D. Berstecher, D&C Development and Cooperation, German Foundation for International Development, Bonn. All data from UNESCO Office of Statistics.

BIOGRAPHICAL NOTES

Maithreyi Krishnaraj is currently on a teaching assignment in Women's Studies in the Institute of Social Studies, The Hague, Netherlands. She has been associated with the Research Centre for Women's Studies, SNDT University, Bombay, for over a decade, from where she retired as Director recently. She has degrees in Economics and Education and some of her areas of interest are women and economic participation and feminist ideology.

Devaki Jain is currently Director of the Institute of Social Studies Trust (ISST), New Delhi and Bangalore. She is trained as an economist at Oxford and writes on issues relating to development and poor women. She was a member of the South Commission and has served on many national and international committees on gender and poverty. She is now the President of the Indian Association for Women's Studies.

Ratna Sudarshan is currently Research Fellow, Programme Development, in the International Development Research Centre, New Delhi. She is trained in Economics in the University of Cambridge and has worked as Research Associate and Project Coordinator at ISST, New Delhi.

C. P. Sujaya belongs to the Indian Administrative Service and is currently on a year's study leave. She has worked in several administrative positions dealing with development in Himachal Pradesh and as Joint Secretary (Women's Development) in the Government of India.

K. S. Krishnaswamy is an eminent economist, long associated with the Planning Commission and the Reserve Bank of India. He served as Deputy Governor of the Reserve Bank from 1975-81. He has been closely associated with planning and formulation of economic policies in India.

Sudha Deshpande is Reader in Demography in the Department of Economics, University of Bombay, since 1979. Her major areas of research are migration, employment, unemployment and labour market issues particularly those relating to women workers. Recently the ILO published her paper on problems of large cities with special reference to Bombay.