

Managing Economic Slow Down

*Note: Editorial for Economic Journalist: 2002 **

Editorial

The decade of 90's saw wide spread changes in the development paradigm in the context of the Indian economy. The industrial licencing system was largely abolished and the list of industries reserved for public sector considerably reduced. At the same time MRTP Act was diluted to facilitate establishment of new undertakings, and amalgamation and merger of existing ones. Doors were further opened for foreign direct investments, including technological and financial tie-ups.

Initially these changes were in response to a crisis that Government faced in early nineties, and were ushered in without much debate. Subsequently, as its benefits became apparent, more considered steps were taken towards liberalization, privatization and globalization of the Indian Economy, the most important of which being disinvestment of public sector enterprises and more free entry of FDI.

However, after the initial spurt in annual rate of growth of GDP ranging close to 7 to 8 percent, the rate of growth has been showing signs of steady decline and in the current year the rate of growth of GDP is estimated close to 5 percent. Have the gains of liberalization plateaued, or is it that reform process itself has plateaued? GDP growth rate must be enhanced if the gap between growth rate in peoples aspirations and growth rate of GDP is to be abridged. Peoples aspirations under impact of media and otherwise, are growing much faster than the GDP growth rate, which unfortunately in recent years has been shrinking. And this leads to much frustration.

Reforms at the Gross Root Level

Considerable attention is being paid to accelerate the economy by bringing to bear upon it the second phase of the reform process. But not much seems to move. Apart from hastening reform process at the policy level, reforms also need to be

Managing Economic Slow Down

inducted at the grass-root level where actually business is to be done or a production facility is to be set up. It is at this point that land use is to be changed, water and electricity is to be provided, and connectivity both by road and electronics is to be extended. And here, a large part of our grass-root system at present, fails.

While basics may be strong external environment does not provide much help to the Indian Economy to move forward. It, therefore, has to rely more on domestic policies, more precisely domestic spending, preferably led by increased domestic investments. This can be accomplished by drawing upon surplus funds with the banking system, supported by considerable reduction in interest rates. The process of increased investment can also draw upon idle foreign exchange reserves, which have reached record levels and can be constructively utilized to kick-start the economy. Foreign exchange of that order need an evaluation in terms of optimization and alternative uses – one of which is to make the economy move and to pull the economy out of the declaration process.

Inflation is under control and has been so for sometime. Again it needs careful study as to what extent, in the balance, it may be useful to fuel inflation, may be through deficit finance, to accelerate economic development. Only limiting factor in inflation management should be that we do not get out of alignment with global inflation rates, specially of the advanced economies which are also our major trading partners.

Foreign investment inflows also need further attention since having reached the maximum of about 2 percent of GDP earlier have now declined to about 1 percent of GDP. WTO provides new opportunities and reasons for being competitive in a world economy. Also attract more foreign investments specially in technology intensive areas. At the same time, if not handled carefully, it will make equity in technology more difficult making technology gap between developed and developing economies wider. In the world economy of today there are better opportunities for countries with high technology levels or with resources under the land. Indian economy, therefore, faces difficult options and while

Managing Economic Slow Down

updating its technologies it should also intensify its search for assets under its lands.

Thus we have to use resources generated through disinvestment, deficit finance, banking loans, FDI, and drawing down of foreign exchange resources as means to enhance levels of investment as percent of GDP from the present about 22-23 percent to about 30 percent. Only then we can get close to achieving a rate of growth of 7 to 8 percent. Accelerated disinvestment can provide further reserves for investment in desirable sectors of HRD, health, housing and social development, which will further spur the economy. Very simply, a 7 to 8 percent rate of growth of GDP through the next few years is not only feasible but is easy to achieve. It only waits on a reasonable policy mix. This policy mix, we hope, the Finance Minister will provide in the budget 2002-03.

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