The Nature of Opposition to Economic Reforms in India

By

Pranab Bardhan

In the discussion of economic reforms in academia as well as the media in India one finds a big gulf between the opposing sides, and in some quarters there are even signs of increasing polarisation. Each side describes the other in stereotypes and usually talks past each other. The pro-reformers identify the opposition as belonging to the 'loony left', caught in a time warp, oblivious of global changes and elementary economics. The other side paints the reform-mongers as 'neo-liberal' (a widely used term of abuse in certain circles) and lackeys of global capitalism oblivious of the poor and the dispossessed. Beyond these stereotypes there, mercifully, exist good many people who have problems with both extreme positions, and, of course, they themselves are somewhat divided. The issues involved are sufficiently important for us to engage our respective intelligent opposition in serious conversation.

Many economists and columnists in the financial press are not aware how unpopular, rightly or wrongly, the reforms introduced since 1991 are with the general public. (Politicians are, of course, too savvy not to notice this. Even politicians in any ruling party over the last decade who support reforms play them down during election time; a party that initiates some reforms is quick to oppose them when out of power. This duplicity is also currently in display within the Left: in the states they are in power, they are often driven by the inexorable logic of fiscal near-bankruptcy and competition for investment to be pro-reform; but in Delhi the unelected leaders of the same party can indulge in ideological grandstanding). In the National Election Survey 2004, carried out by the Lokniti-CSDS team, three-fourths of respondents who had any opinion on the subject say that the reforms benefit only the rich; the striking thing in their data is that even the majority of the upper classes (or, alternatively, of the upper castes, or of college-educated) in the sample believe that the reforms benefit only the rich (or none at all)—see Suri (2004). It is not, however, obvious that people always have a clear understanding of what is meant by economic reforms, when they are asked a question about this. If reforms mean reduction of subsidies, thus raising the user charges for many publicly provided goods and services or loss of jobs (or at least increased anxiety about it) in some old firms or occupations as a result of increased competition coupled with low opportunities for worker mobility, one can see why people involved (and their acquaintances) will be opposed. But if it were to be made clear to them that a higher electricity price means the ability of the public utility to provide less erratic power supply and fewer power cuts, or if more competition means also the rise of new firms expanding employment opportunities, or if deregulation means loosening the grip of corrupt inspectors over small enterprises, some of this opposition could melt away.

Left parties (and their allies in sections of other parties) who oppose some of the reforms, of course, use the standard rhetorical device of calling whatever they do not like as 'anti-people', but they mainly represent the salaried class, particularly the public-sector employees; almost all of the latter belong to the top quintile of the population (when the Left parties oppose pension reform or reform of the banking, insurance and civil aviation sectors, or reduction of subsidies to cooking gas or to interest on savings certificates or to higher education, the group they are pandering to is even a smaller fractile of the population) . This class is, of course, determined to preserve (and enhance) its salaries and perquisites, job security (irrespective of efficiency or merit), promotion on the basis of seniority, and a general lackadaisical work culture. To the extent reforms bring in more competition and threaten the pre-existing job culture and practices, this class is adamantly opposed to them. (I often flippantly tell people that the Left in India in aiming at the 'dictatorship of the proletariat' has given us instead the dictatorship of the salariat). But it is unfair to blame the Left alone for this as there is no major party in India which dares go against this class. The frequent strikes and *bandhs* that the leadership of this class organizes (effectively at the expense of the livelihoods of the much poorer day labourers and unorganized self-employed) are mobilizational gambits in their struggle for preserving their relative privileges. In other countries strikes are legitimate weapons (of last resort) in the process of collective bargaining; in India they are at times the reckless weapons of first resort in flexing mobilizational muscles for any general political cause which might potentially threaten the interests of the salaried, often having little to do with the process of collective bargaining or industrial relations.

It is not the Left parties alone that espouse the cause of the public-sector salaried class. The newly emergent, hitherto subordinate, social groups, often represented by primarily caste-based or regional parties, as they capture state power and reserved jobs, are obviously not too keen to give up the loaves and fishes of office or reduce the role of the public sector. Even though the vast majority of the children in these groups drop out of school by the fifth grade and have thus no chance of ever landing those reserved jobs, as a social symbol and a possible object of aspiration (however distant) public-sector job reservation acts as a tool of group mobilization. The economist's (correct) argument that this is a divisive and inefficient way of helping the historically disadvantaged and that there are better ways of helping them is secondary to the more pressing symbolic and political mobilizational goals. (In the National Election Survey 2004 respondents were asked about reduction in the size of government employees; among OBC, Dalit, and Adivasi respondents, who had an opinion, the majority was opposed to such reduction). Thus what has been undoubtedly a major sign of social progress and democratic expansion in the last quarter century in India can also serve as a political dampener on the attempts at economic liberalization and privatization. Not merely fiscal consolidation is particularly difficult at the state government level where these groups are now ascendant (with serious under-pricing of water and electricity, over-manning of the public payroll, and a long-standing refusal to tax the better-off farmers), but some of the remaining obstructive industrial regulations (for example, in the matter of getting electricity or water connection and land registration in starting a factory) are in the jurisdiction of these governments. Even at the Centre with the shaky coalition governments of recent years the regional party leaders bring their particularistic agenda and exercise their clout to redefine the central government policies. In a crucial infrastructural sector like the Railways, for example, successive Ministers over the years have let their regional and populist agenda supersede the goals of system-wide efficiency and long-term investment. The public sector has been a milch cow for the upper classes and castes for many decades, it is now the turn of these other groups, and the economist's argument about efficiency of management is often a secondary issue.

From the point of view of efficiency of management the arguments in our political arena for or against disinvestment in or privatization of state-run enterprises is often utterly confused. The Left parties are dead against sales of shares in profitable public sector companies; loaded terms like parting with family silver are bandied about in this context. If the *social* return on investment in a public sector enterprise is high, one should not privatize it even if it is losing money; if the *social* return is low, it should be sold even if it is making money. Often a highly inefficient public sector company makes money because it is a public monopoly. On the other hand, the supporters of privatization often ignore that converting a public monopoly into a private monopoly will do very little in terms of efficiency; the important issue here is the quality of public regulation over such monopolies. Particularly, unlike in countries where the takeover mechanism in the stock market acts as a possible disciplinary device, in countries like ours where such capital market discipline is weak, the issue of ownership of a large corporation is much less important for efficiency than the structure and practices of management, which can sometimes be quite streamlined and rationalised, with performance incentive systems in place, even in a public sector company. The main problem is that our politicians and bureaucrats will not easily allow independence and autonomy to the management of a public sector company (the recent attempt by the ruling party politicians to pack the boards in the public sector petroleum companies is only one instance in a long continuous history of disastrous interventionism in public enterprises). Those who are against privatization have the responsibility to devise and maintain adequate mechanisms of corporate autonomy; otherwise they act as unwitting tools of the meddling (and patronage-dispensing) politicians and bureaucrats.

A stark example of the gulf between the opposed sides on the reforms question was evident in the debates that raged for the last one year or so (for example, among activist groups and left economists on the one hand and the columnists in the ‘pink’, financial press on the other) around the recently passed legislation on employment guarantee in rural areas. Of course, the scheme as actually enacted made both sides unhappy. The proponents found the actual legislation a much watered-down and feeble version of what they had proposed—some of them, for example, believe that the ‘guarantee’ aspect has largely been whittled down. The opponents persisted in their strong belief that most of it was a colossal waste anyway, which will only line the pockets of corrupt officials and intermediaries involved in implementing the scheme. (Some in the latter group even claimed that there is not much underemployment among the poor, contrary to what a whole generation of researchers on rural employment conditions have shown; even if there were not much underemployment, availability of a fall-back option which the employment guarantee is supposed to provide can improve the weak bargaining power of the rural labourers. The likely stimulus to the rural economy from a rise in their purchasing power is also systematically under-emphasised).

Those who believe in the wastage story should keep in mind that Indians live in a welfare state for the rich. According to the estimates of a Ministry of Finance White Paper in 1997, based on an NIPFP study, the central and state governments together gave out in the middle nineties more than 10 per cent of GDP in the form of explicit or implicit budgetary subsidies for “non-merit” goods and services (largely accruing to those who are relatively rich). The standard estimates of the cost of the employment guarantee scheme as enacted do not exceed 1 per cent of GDP. Even if half of it is wasted, this is small in relation to the amounts the government lavishes upon the rich year after year. (This is even overlooking the tens of thousands of crores of loans defaulted by medium and large business organizations owed to the public-sector banks). There should be some sense of proportion before we work ourselves in some frenzy about the (undoubtedly large and regrettable) waste and theft in anti-poverty programmes.

Another bone of contention between the two sides relates to labour reform in the industrial sector. As is well-known, the labour laws (particularly Chapter V-B of the Industrial Disputes Act) make it very difficult to sack workers in large firms even when they are inefficient (or when the market in some line of production declines) or to employ short-term contract labour; this discourages new hires by employers, induces capital-intensity in production, and inhibits entry and exit of firms. The pro-reform people often cite this as a major constraint explaining the limited progress in India of large-scale labour-intensive industrialization which has transformed the economies of China and Vietnam. The adverse effect of the labour laws are particularly visible, they point out, in the textile and garment sector where Chinese international success on the basis of large firms with economies of scale has far outstripped that of India (a country with a long history of textiles) in recent years. Others point out that the debilitating effects of the labour laws may have been exaggerated. They cite the Business Climate Survey carried out by the World Bank (in collaboration with CII in India) and reported in the World Development Report 2005, which indicates that less than 17 per cent of firm managers in India cited labour regulations to be a major constraint. One of the very few econometric studies on the impact of the job security regulations in the Industrial Disputes Act, carried out by S. Dutta Roy (2004), found the impact to be statistically insignificant for most industries over the period 1960-61 to 1994-95: the rigidities in the adjustment of labour were about the same even before the introduction of stringent job security clauses in the law (the 1976 and 1982 amendments to the Industrial Disputes Act). Another large case study of labor practices in 10 states and 9 industries over 1991-98 by L. Deshpande and associates (2004) suggest that the Indian labour market is not as inflexible as it is made out to be; many firms were able to change employment as they wanted or increase the share of non-permanent (casual and temporary) workers. This is clearly an area where more detailed micro-empirical studies are absolutely necessary before we can come out with firm conclusions on one side or the other. As for China, their Statistical Yearbook 2005 has a Table which suggests that a large majority of the joint-ventures and foreign-owned firms in the textile industry are now relatively small (less than 300 workers). That production scale may not matter particularly in weaving and garments is evident from Japanese and Taiwanese experience in the past where textiles firms were small, but were supported by large trading houses that secured economies of scale in marketing. It is the marketing scale economies (and reputation of timely delivery) that are crucial, and some in India believe that with the proposed arrival of international retail marketing chains like

Wal-Mart things will change in the right direction. Others are worried about, among other things, the notorious record Wal-Mart has on labour rights in the US.

In any case labour laws are implemented at the state level (apart from state-specific legislative amendments) and it is well-known that many state governments look the other way when the laws are openly violated—some have referred to this as ‘reform by stealth’. (This, of course, may work more easily for domestic than for potential foreign investors). Clearly on job security there has to be a package deal; allowing more flexibility in hiring and firing has to be combined with a reasonable scheme of unemployment compensation or adjustment assistance, from an earmarked fund to which employers as well as employees should contribute. No Indian politician has yet gathered the courage or imagination to come up with such a package deal. There is also a lot of scope for improvement, as the National Commission on Labour pointed out in 2002, in other aspects of labour laws, other than job security regulations which get all the attention. Some of these relate to relaxing the stringent restrictions on shifting workers between different plants or to new jobs within the same plant, or changing the current law enabling any 7 workers to form a union or any splinter group, however small, to call strikes, etc. Some of these changes will actually strengthen the labour movement by curbing the excessive fragmentation of labour.

In a country where there is very little social protection for the manual workers and where their lives are brutalised by the lack of economic security, economists and journalists who preach the benefits of market competition and free trade have an obligation to argue at the same time for adjustment assistance programmes that can help these workers in coping with job losses and getting retrained and redeployed. (In recent years in a few Indian states the Department of International Development of the UK Government has started small-scale programmes of assistance to displaced workers from bankrupt firms, implemented in collaboration with local NGO’s). In the initial years of reform in China the disruptions and hardships of restructuring were rendered somewhat tolerable by the fact that China has had some kind of a minimum rural safety net, made possible to a large extent by an egalitarian distribution of land cultivation rights that followed the decollectivization of 1978. In most parts of India for the poor there is no similar rural safety net. Household-level survey data suggest that Indian land (and in general wealth) distribution is much more unequal than that in China even after a quarter century of China's long march to capitalism. In addition, the more severe educational inequality in India (the Gini coefficient of inequality in years of schooling in the adult population is 0.56 for India and 0.37 for China) makes the absorption of shocks in the industrial labour market more difficult (to the extent that education and training provide some means of flexibility in readjustment). So the resistance to the competitive process that market reform entails is that much stiffer in India.

A similar kind of resistance to market reforms is provided by environmentalists and those concerned with the rights of Adivasis, urban squatters, and other marginalized people. Markets, and development in general, have become identified with uprooting the livelihoods of the little people and despoliation of the environment. In effect this is a serious argument about the type of rather narrow development goals we are following and the perceived need for more broad-based and environmentally harmonious goals that give a great deal of weight to the over-all improvement of the lives of the vast masses of destitute people, an argument with which the pro-reform people often do not engage, except just referring to the standard trickle-down process of economic growth. There are serious differences on the empirical judgment on the adequacy of growth trickle-down. Estimates of growth elasticity of poverty reduction in different states in India suggest a substantial variation (i.e. the same growth trickles down at substantially different rates), much depending on initial conditions, including land and human capital distribution—see Ravallion and Datt (2002). In any case the data on poverty, based as they are on private consumer expenditure surveys, do not capture the erosion of local environmental resources (like forests, fishery and irrigation water) on which the livelihoods of the rural poor vitally depend. Household survey data suggest a significant decline in the growth elasticity of employment in the last two decades even in the vast informal sector, and to blame this on the labour laws impinging on the large factory sector is asking the tail to wag too large a dog (in a country where more than 80 per cent of workers even in the non-agricultural sector work in informal activities). Similarly, the growth-enthusiasts do not get as worked up about the systematic reneging of the promises by the development authorities of resettling and compensating the oustees in different infrastructure projects like roads and dams and the wasted lives it brings about, as they are about the waste in anti-poverty programmes. The activists, on the other hand, do not pay enough attention to the fact that populist interference with market prices often leads to substantial environmental degradation (for example, irrigation water at zero or throw-away prices leads to overextraction of groundwater and water depletion) or diversion of precious resources (like the kerosene subsidy in the name of the poor, to a large extent used by non-target groups in adulteration of diesel fuels in vehicles).

Much of the active NGO movement in India is both anti-state and anti-market (in general market reform opponents among the Gandhians are at least as many as among the Left, even though the latter gets most of the blame in the financial press), worried as they are as much about the ravages of market competition by the large on small producers as about the marauding and corrupt state bureaucracy. Instead many of them look to the local community organizations and traditional community institutions and practices, guided by NGO activists, as protectors of the little people against both the market and the state. But like market and government ‘failures’, there are also many ‘community failures’. In a country with a long history of social and economic oppression in village communities, the oppressed often look to the state for protection and relief. The local community organizations are often captured by powerful people, or, alternatively, they collapse as the rich and the talented ‘secede’ from local communities and community-run services. Often the market can bring new opportunities for local people which the small-scale closed village society cannot by itself generate.

The discussion on economic reform is preoccupied with issues of fiscal and trade policy, financial markets and capital account convertibility, and constraints on corporate investment. Reform would have been more popular if it were equally and simultaneously concerned with reform in the appalling governance structure in the delivery of basic social services for the poor that we have in large parts of the country (in education, health, drinking water, child nutrition, etc.). In our euphoria with the high growth rates of recent years (which has given the Indian elite superpower ambitions for our country) one should, for example, keep in mind that the atrocious condition in our health sector (affecting the lives of the overwhelming majority of the people) is worse than that in even some African countries (for example, the percentage of underweight children in India is not just five times that in China, it is worse than most African countries). Continuing on the governance issue but more generally, it is anomalous to expect reform to be carried out by an administrative setup that for many years has functioned as an inert, heavy-handed, corrupt, over-centralized, and uncoordinated monolith. Economic reform is about competition and incentives, and a governmental machinery that does not itself allow them in its own internal organization is an unconvincing proponent or carrier of that message. Yet very few economists discuss the incentive and organizational issues of administrative (and also judicial) reform as an integral part of the economic reform package.

The two sides in the reform debate usually give different weights to equity and efficiency, even though most of the serious participants in the debate are concerned with both. The pro-reform people occasionally overlook that the equity-efficiency trade-off, which is the staple of (Walrasian) Economics, is exaggerated, and that there are many ways of enhancing equity (for example, improving public delivery of health and education, or land reform, or restructuring of the credit market to alleviate credit rationing of the small producers, or encouraging a more equitable and participatory management of local environmental resources) that can also improve production efficiency. On the other side, for those who fundamentally object to market reforms as a sign of our drift away from basic socialist or communitarian goals, it is incumbent upon them to show viable, incentive-compatible, and thus sustainable ways of constructing alternatives to capitalism in different sectors of the economy. They have so far come up with very few new constructive ideas and history has not been kind to their old ideas. Above all, there is a great need for respectful and constructive conversation between the contending groups, instead of the mutual sniping that is much too frequent.

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