

A VIEW FROM THE OUTSIDE

Why good economics works for everyone

Author: P. Chidambaram (2007)

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P. Chidambaram's book is a collection of articles that were published in the 'Indian Express' during the period August 2002 to March 2004, when his party was out of power. This insightful work is a good precursor to Nandan Nilekani's more publicized recent book, *Imagining India – Ideas for the New Century*, calling for not merely economic growth, but reform and innovation in all sectors of public life.

While Nilekani travels the entire gamut of caste politics, labour reform, infrastructure, higher education, the English language in India and the role of the State in a globalised world, Chidambaram confines himself to what he is best at : Economies, Finance and of course, politics.

As an individual involved in India's economic reforms since 1991, Chidambaram brings a fresh outlook, a practical approach and a passion for change to the field of Economics, in which he has had no formal academic training. The book lays bare his deep – rooted conviction about the connection between economic freedom and political freedom and consequent transparency, good governance and empowerment.

Chidambaram views poverty as the biggest hurdle to empowerment. His vision of an empowered India is a nation where everyone in the working age group has work, access to goods and services, especially food, clothing, education and healthcare, and where everyone can exercise her political and human rights without fear, discrimination or oppression.

The topics covered by the author can be clubbed into:

Policies, Ethics and Governance

- Budget, Taxation and Monetary Policy
- Role of the Finance Minister
- Foreign Investment and Disinvestment
- Agriculture and WTO, and of course
- Politics and Elections

A careful reading of the book gives the reader a clear picture of the economic and political ills plaguing the still developing Indian nation, giving the roadmap to a glorious future, if appropriate policy measures are implemented.

The author puts forth an effective argument for a frontal attack on the two biggest problems India has to tackle viz, poverty and unemployment. This would require large amounts of capital, the best technology, global scales of production, and access to world markets. Only a rapid growth of the industry and services sector would throw up more jobs and make a dent on poverty. This is not to ignore the villages, where 70 percent of our people live, but no country ever achieved growth and prosperity through a village based model of development.

The author is firm in his views on investment policy. Just as water finds its level, money would flow into business and agriculture, if interest rates were pegged low. Because of high interest rates, our best companies borrow abroad. Lower interest rates would trigger new investments in Greenfield projects, banishing the gloomy economic outlook. Chidambaram is of the firm conviction that the policy of job creation should focus on less educated and un educated youth and women. 'Let the highly educated or qualified take care of themselves for the time being' he opines.

The author is very much troubled by India's low rank in the Human Development Index. The

countries ranking high in this regard such as Norway, Sweden, Australia and Netherlands have perfected a system of governance, delivering results. The policy clusters set out in the Human Development Report 2003 are applied to the Indian situation. Some of them are: raising the productivity of small and poor farmers, human rights and empowerment of the poor through democratic governance.

The author's comments on the civil service, 'neither civil, not serving' are note worthy. He feels the gulf between the people and the civil service has only grown wider. India has 1.4 civil servants per 100, and by numbers India's Civil service is not too large. But the structure leaves much to be desired, with ninety three percent of government employees constituting class III and IV category. These 'support staff' only add to the prestige of their immediate bosses. Chidambaram calls for more teachers not clerks, more health workers not peons, and more nurses not typists.

Lenin, the Communist Visionary from Soviet Union had emphasized the two essential 'E's for building a modern state: Education and Electricity. Chidambaram puts forth other imperatives crucial to rapid development: Infrastructure, Investment, Information Technology, and International trade. Besides all this, a world – class legal system is absolutely essential for an economy aspiring to be world class. India needs to take a hard look at its commercial laws and the system of dispensing justice in commercial matters.

The author takes a look at unfinished projects in India in irrigation road, works, railway lines, power plants and buildings, in which Rs 1,00,000 crores have been sunk. He strongly feels bureaucracies all over the world, are the curse of the system, slowing down decision making.

Based on the views on globalization expressed by

Joseph Stiglitz, winner of the Nobel prize in Economics, Chidambaram makes a frontal attack on the planning commission and finance ministry, for turning large sections of the poor hostile to economic reforms. He is especially caustic about investment in agriculture at a pitiful 1.3 percent of GDP. Was he able to turn the tide when he later on became the finance minister?

Commenting on the (National Human Rights Commission Report 2001-03) Chidambaram make a strong plea for improving the lot of the most vulnerable sections of the Indian people: Women children, detainees, dalits, bonded laborers and patients.

Commenting on the then finance minister Jawant Singh's Budget 2003-04, the author emphasizes the dominant role of the government in sectors such as : power, telecommunications, steel, petroleum and mining.

This former Finance Minister's insights into monetary policy are worth noting. unless the fiscal deficit is brought down to 3percent or below, we cannot gain mastery over inflation. His belief is that a strong reason for an all round decline in ethics is the grinding poverty, and the slow rate of growth witnessed in the first three decades after independence.

Commenting on the role of the finance minister, Chidambaram feels coalition governments have generally constrained the finance minister, denying win him and the government, the required political space. Rising deficit, inflation and sliding investments could turn the 'feel – good factor' expressed by the then Finance Minister Jawant Singh, to a false dawn.

Chidambaram strongly feels that our attitude to foreign investment continues to be ambivalent, not only among those ideologically opposed to foreign capital, but even among reform minded

persons asking for applying the brakes when the accelerator should be pressed. Due to this, we are missing a huge opportunity to enhance investment and the rate of growth.

Chidambaram makes a strong case for adopting a more aggressive stance on liberalization, with the following suggestions:

1. Prepayment by the government and corporates of high – cost overseas loans
2. Reduction of the timetable for tariff reduction
3. Funding by government to key manufacturing and service industries to explore new markets, by extending lines of credit to importing countries to source their products and services from India.
4. Revitalization of the Tarapore Committee report on capital account convertibility

If India is serious about 8 percent growth in GDP, it should get serious about attracting a much higher level of FDI. With only 220 of the Fortune 500 companies, having some presence in India, Chidambaram suggests setting FDI targets for each ministry.

Speaking on tourism, why does India attract only 2.2million tourists annually, while China attracted 89 million in 2001? Sitting on goldmines such as the Taj Mahal, snow lad mountains, a rich archaeological heritage, Buddhist trail the long coast line, the deserts of Rajasthan and river – rafting, we need more aggressive promotion of our tourist attractions. But 26/11 is not going to help though!

Indian farmers need market access and a more competitive world market, where prices are not distorted by the 'domestic support' extended by the US the EU and other countries. India needs more agreements in the World Trade Organization (WTO). A 'no deal' WTO will hurt the developing countries more than the developed countries. India must also use

Regional Trade Agreements (RTAS), as building blocks.

The politician that he is, there definitely is a segment on politics and elections, setting forth his views. He offers a few guidelines as to what the consumer voter should look for in the Vision statement and Manifesto of any political party:

1. Investment: Passages detailing with measures to encourage saving, promote domestic investment and attract foreign investment
2. Agriculture: Investment proposals in dams, canals, water harvesting, irrigation facilities, improved seeds, soil testing, better fertilizers and pesticides, storage facilities, transportation and access to markets
3. Disinvestment / Privatization: A public sector enterprise that can compete and be successful in our open market economy should be allowed to remain in the public sector. All other public sector enterprises must be privatized.
4. Inflation: Look for passages on controlling government expenditure. The voter should learn to vote as 'Home economicus'

Finally he devotes a segment to subjects closest his heart – children, women's empowerment, secularism, terrorism, HIV/AIDS, the millennium development goals etc, issues remaining unresolved with us, and seemingly unresolvable. He strongly feels that no democracy can survive unless these problems are confronted directly. On the whole, the book is a 'must read' for any student of management, any serious voter interested in economic welfare, and any executive / academic trying to get a grip on the complex economic realities confronting India.

Reviewed by : T Rangarajan. He is Executive Director at ISBR Business School. He can be reached at : trangarajan@isbr.in