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from the ringside

Priority action for 2006

With the New Year festivities behind us there is need for real action. The Prime Minister has over the last few weeks articulated some priorities of the Government. Some of these must include the following:

First and foremost Governance. Having achieved considerable success on foreign policy and strategic alliances, and with the economy on a roll, the neglect of improved governance needs redressal. The compulsions of coalition politics cannot indefinitely postpone action. The organisation of the central ministries and their mindless aberrations, having grown with successive governments, needs correction. If size is the issue, every coalition partner, including the Congress, can accept a proportionate hair cut. Regrouping of departments and ministries must reflect needs and priorities of this government. The overdue Cabinet reshuffle can be an occasion to signal some changes.

Linked with this is Civil Service reform, particularly a transparent methodology to evaluate performance. It also means greater protection to bona fide decision making. Absence of trust breeds indecision. Civil servants are often penalised for misjudgments or wrong-doing but rarely for delayed decisions, passing the buck and implementational infirmities. Fire-walling civil service obligations from excessive politicisation and incentivising good performance in state governments remain a daunting challenge. At the same time, mere security of office makes bureaucracy imperious to new thinking with indifference towards relearning and keeping abreast with changes to make governments relevant.

True, some of these are inextricably linked with revisiting the structure of Centre-state relations but many are so obvious that they need not await the recommendations of a yet to be constituted commission on Centre-state relations. Earlier reports, including the one on constitutional reforms headed by former chief justice M N Venkatachaliah, need not be viewed with excessive political suspicions. Many of their recommendations are non-political and worthy of consideration. The intellectual and moral stature of the Prime Minister invests him with the authority to leave an imprint on governance reform.

Second, in the economic sphere, the need to implement policies on which articulation and loud thinking has now gone on for quite long. We need to significantly enhance the existing investment rate of 26.3 per cent to sustain a 8-10 per cent growth rate. Adhering to targets on fiscal consolidation through monitoring expenditure quality, completing the tax reforms, better targeting of subsidies, increased application of user charges, particularly appropriate energy prices, remain critical.

The Incremental Capital Output Ratio (ICOR) at 3.6 is modest by international standards. For example, in China Capital Output Ratio was 5.2 and that of Korea 6.2 between 2000-04. Improving productivity of capital, no doubt, involves improving the efficiency of infrastructure, technological upgradation, and enhancing skills of labour, but these cannot be divorced from labour reforms. An excessively labour-protectionist policy induces increasing adoption of labour-saving technology even in a country whose comparative factor advantage lies in elastic labour supply. While additional employment generation to absorb the backlog as well as new accretion of labour force depends on several factors like inter-sectoral employment, flexibility in labour law is a critical component.

The Mid-Year Economic Review recommends significant enhancement of domestic savings, and draft on foreign savings particularly long-term borrowing and foreign direct investment. Notwithstanding high-profile foreign investors showing keen interest, actual flows remain modest. We would need to sustain a favourable investment environment over a much longer period even while improving our infrastructure quality and procedural simplification to transit from mere investment opportunities to investment flows. Hopefully, the recommendations of the Sharad Pawar Committee would address some concerns and its speedy implementation would be keenly awaited.

Notwithstanding recent improvements, the manufacturing sector contributes less than 25 per cent of our GDP and this would need swift acceleration both for high growth and more so for creation of significantly higher employment. The recommendations of the National Manufacturing Competitiveness Council under V Krishnamurthy and National Commission on Enterprises in the Unorganised and Informal Sector under Arjun Sengupta have many worthwhile suggestions, but action on them has been tardy. No doubt, improvement in investment environment, infrastructure quality at affordable cost with assured credit availability will remain overarching conditions.

Third, agricultural growth has been disappointing. The Tenth Plan envisaged a 4 per cent growth in agriculture to achieve the targeted growth rate of 8 per cent through the Plan period, against which the sector which contributes 24 per cent of GDP has grown at a low of 1.3 per cent. To achieve a 4-5 per cent agricultural growth the Mid-Term Plan Review suggests slew of actions. The Prime Minister mentioned many of these in his recent address to the Indian Science Congress. While a number of these pose scientific and technological challenges, there are others which pose managerial challenges. Changes in regulatory requirements, amendments to the Marketing Act, freeing movement of foodgrains, encouraging contract farming, improvements in PDS, revisiting the monopoly procurement and the MSP regime require enormous administrative tact and political will.

No doubt improved production technologies, water-conservation strategies and cropping patterns—which while enhancing farm incomes optimise water use—crop diversification in consonance with changing consumer preferences, improved seeds and plant care practices, less harmful use of both chemical fertilisers and insecticides are areas where the learning curve needs significant enhancement through Science & Technology. While this must receive priority the recommendations of the Swaminathan Committee and Mashelkar Group on revamping our agricultural research institutions are in limbo. A white paper on agriculture reforms has been on the anvil for a while. Its early adoption, along with an actionable plan, and building consensus with states to implement them will make a credible difference in this neglected area.

We are fortunate in beginning the New Year on a positive note. The economy is doing well, external relations—both economic and political—are at an all-time high. The agenda for domestic reform has been known for a while and many things are more doable now given the economic buoyancy. This is a window of opportunity. Expectations run high. Failure to act will disappoint and dissipate this momentum. Unfortunately time passes quickly.

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