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THE IMPACT OF IMF AND WORLD BANK POLICY STANCES ON THE ECONOMIC PLANNING DEBATES IN INDIA

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Indian development economics has a long-standing intellectual support for "liberal" neo-Keynesian and "radical" neo-Ricardian visions of economics. "Liberalising" neo-classical economics is a relative newcomer though its rise to ascendancy in the 1980s was meteoric. Neo-Ricardian economics underpins wider dependency perspectives, with its Indian Gandhian variant, through its model of market prices at global and local levels merely reflecting and reproducing the underlying, structural power inequalities. Markets and technology transfer are not neutral with respect to power; and not to act consciously to create new political orders is to be complicit in perpetuating the in-built inequalities of the old orders. Neo-Keynesian planning models, with connection to Nehrovian perspective, are analytically similar but tended to be more sanguine on the possibilities of benign state indirect intervention. These rather economist approaches link to a wider contemporary "institutionalist" development literature in which any meaningful distinction between market and institutional forces disappears.[1]

Applying these perspectives to contemporary issues in India is producing a determined resistance to the application of "liberalisation" models which so dominate contemporary global political economy. This paper aims to demonstrate the underlying coherence of these India-based objections to "global liberalisation" drawing on an unpublished lecture by a leading Indian intellectual.

I. The Developmental Framework

The economic development issues receiving widespread attention in India today can be summarised as follows: (i) a quality problem with respect to the labour force and products in the public and private sectors, leading to doubts about effective labour productivity in terms of global competitiveness; (ii) arrival at an ecological frontier where internal environmental degradation is becoming a greater factor than natural resource based export opportunities.

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[1] See, IDS Bulletin (Volume 24 No.3, July 1993), for a collection of articles on the Political Analysis of Markets which represent the state-of-the-art in development thinking on interaction between institutions and markets.

In the current Indian context, difference between neo-Keynesian and neo-Ricardian (and neo-Marxian) positions have paled into practical insignificance in a context of constructing a challenge to power structures based on a mixture of market, political and cultural forces with the following major constituents: (i) influential religious lobbies with internally divisive agendas, not necessarily against market forces but potentially suspicious of global influences and aggressively nationalistic on the south Asian regional stage; (ii) a federal political structure with the States responsible for crucial social security and infrastructure programmes, but fiscal power resting predominantly with the Union centre which is more committed to a market-dictated development strategy than the State.

The critical positive question for many Indian intellectuals is how to re-form the state to remove the clear abuses of power through the mechanisms of faction politics and dysfunctional bureaucratic behaviour, including over-centralisation. Market forces are, at best, seen as a partial solution to local abuses of state power, and more likely to be a mere distraction from issues of powerless or, indeed, intimately integrated into reproducing powerlessness.[2]

In this context, "liberalisation" may decrease state violence used in the broad defence of bureaucratic rents, but will probably increase violence used in the broad defence of private profits. A more relevant approach to current abuses of power are the moves towards public sector reform, greater transparency in government and more open scrutiny, appraising, monitoring and evaluating of public sector activities.

II. The Nature of Economics in India

India has come relatively late to "liberalisation" – a crucial and major IMF loan in the early 1980s was negotiated before the major drive to Structural Adjustment, and was therefore obtained with relatively little conditionality. Only in 1991, was an explicit process of IMF/World Bank "encouraged" Structural Adjustment begun by a Congress Party government claiming to have no alternative.

This process has been heavily criticised on theoretical grounds. Predictably, much of this criticism has been from the neo-Marxist left strongly represented in the columns of Economic and Political Weekly (EPW). For instance, the EPW issue of 10 April 1993 on the 1993-94 central government budget was a comprehensive exposition of perceived structural weaknesses in revenue raising, equity consequences of expenditure cutting, and the low probability of export price elasticities being compatible with reducing international debt service ratios. This exposition concluded that liberalisation India-style was unlikely even to bring about the macro-

[2] Concern over authoritarianism is a continuing theme in Indian writing, notable since the 1975-77 "Emergency". See, for instance, Kothari, R., (1989), Politics and People: In search of a humane India, (Aspect Publications), and (1982) "Democracy and Fascism in India" (Asian Affairs, Volume 4 No.3).

economic balances it claimed as primary objectives let alone establish a fresh development process.

But the intellectual opposition to "liberalisation" goes well beyond the columns of EPW. The argument here is that the objections to market-led economic change in India are exceptionally deep-rooted by international standards. This is due to a virtual ideologically hegemony of broadly defined neo-Keynesian/neo-Ricardian thought in academic economics in India since political independence in 1947.[3]

The following quote from Jay Dubashi, a leading member of the BJP – an authoritarian, religious party economically representing the interests of national capital – illustrate how the right can combine an element of protectionist neo-Keynesianism with trenchant nationalism:

> "liberalisation has to start from within the country. Getting foreign competition is not the answer. In fact we have to stimulate domestic industry ..... it's time to tell the IMF to mind its own business", *(India Today, 28 February 1993).*

The shift of Jay Dubashi, a leading syndicated economic commentator, from free-market advocacy in 1989 to an uneasy revival of "swadeshi" sentiments is a matter of public record in the English language press.

However, the focus of this paper comes, not from the orthodox left or the BJP, but from a leading commentator at the centre of Indian economics and politics. Much of the rest of this paper is a systematised commentary on an informal address by Professor Brahmananda to the Centre for Economic and Social Studies in Hyderabad in November 1992. This author was invited to the seminar to hear Professor Brahmananda advocate liberalisation, and instead heard a cogent comprehensive critique of liberalisation.

Thus Professor Brahmananda can be seen as a representative of the establishment "swing" economists who will have to be convinced by the Delhi School of Economics/World Bank arguments for liberalisation. The argument below suggests they have failed to date and are unlikely to succeed in capturing the high ground in the intellectual debate. It is hard not to conclude that strong arguments on the undesirability of liberalisation are widespread among leading Indian economic thinkers and will continue to represent a formidable obstacle to political commitment to IMF/World Bank Structural Adjustment Policies.[4]

[3] Chakravarty's, "The teaching of economics in India", (EPW, Volume XXI No.27, 5 July 1986), argues that university economics teaching in India has shifted towards neo-classical, marginalist economics; but citing Hicks replacing Marshall as the major indicator of the shift suggests a relatively mild displacement.

[4] The 1992 Third World Network Dossier (A-60 Hauz Khas, New Delhi 110016), on The Social and Ecological Impact of World Bank/IMF Structural Adjustment Policies in India brings together critical articles from all major English language papers.

III. The Basic Historical Premises of Brahmananda's Anti-Liberalisation Position

Professor Brahmananda's anti-liberalisation position sees the current crisis in India as a complex phenomenon which is better conceived as a coincidental peaking of a number of problems, each with its own appropriate response, than the outcome of single cause (government intervention) with a single cure (market forces). The problems of scarcities of foreign exchange, government revenues, and domestic savings for productive investment can and should be understood separately each requiring independent policy initiatives.

If there is a common underlying cause of these problems, it lies with the policy decisions of the mid to late 1980s and the consequent rise in imports and credit associated with increasing consumer durable consumption by a middle-income group of more than one hundred million people. Thus, the current crisis cannot legitimately be attributed to flaws in the whole Nehrovian Indian development strategy from 1947 or 1965, as is claimed by the harder and softer liberalisation advocates respectively.

For the Professor, the state still has a vital role to play in terms of mobilising savings and undertaking infrastructure investment as emphasised in much mainstream development economics thinking from the 1950s. Agriculture also has a strong claim for positive support by the state as a leading sector with vital quality of life implications for the whole of Indian society. Production for domestic consumption needs prioritisation above production for export. Moreover food production must not be sidelined in the pursuit of globalisation of manufacturing industry or growing fresh flowers for export.

From this perspective, India can become more outward oriented without giving up the capacity to have periods of inward orientation for whole sectors of the economy. A useful metaphor from Professor Brahmananda is that Indian economic policy should seek to create the characteristics of a hovercraft, an amphibian capacity for the economy to move as smoothly on the global oceans as on Indian soil as circumstances change. At this time, circumstances have thrown up a number of problems that need specific treatments rather than IMF/World Bank panaceas with the high risk that the operation will be successful despite the death of the patient.

IV. Resolving the Foreign Exchange Problem

There are inherent contradictions within the IMF package of measures relating to international trade. The conventional stabilization measures of exchange rate devaluation and higher interest rates may work to stop a drain of foreign reserves, but this process will be hindered by the simultaneous Structural Adjustment policies of reducing import duties and export subsidies and lowering other barriers to imports. Even devaluation and interest rate hikes without tariff reductions are "cures" with potential negative side-effects of raising price inflation and discouraging productive investment. Therefore minimum doses are desirable with a bias towards controlled devaluation rather than continuing high real interest rates.

In contrast to the ahistorical neo-classical economics formulae of the IMF stressing the non-comparability of individual choices, Professor Brahmananda stresses the importance of understanding the internal structural condition of the Indian economy and its major component groups today.

The Indian foreign reserves problem is due to a sharp rise in imports associated with consumer durables production whose ultimate consumers are a relatively small part of the population. In no senses are these imports essential for the needs of the mass of the population, or for technology transfer to develop the resource base of India.

In addition, given the weak prospects for growth in the global economy and the fierce international competition in the consumer durables sector, there must be doubt over the present pattern of imports as a candidate for underpinning an export boom – if such a boom is feasible in any case given the global economic performance in recent years, the tendency towards regional trading blocks, and the bias towards world recession built into the present international institutional arrangements.[5]

It is likely that the IMF self-defeating formulae would lead India into a spiral of increasing international debt. The alternative would be to take advantage of the opportunity to scrap physical controls over trade which are open to abuse by gate-keeping, public officials in conspiracy with privileged private sector managers, and use taxes and subsidies and partial convertibility to discourage inessential (defined in terms of not increasing production capacity for meeting basic needs) imports. There would still be some need to encourage exports but this should be planned on a longer term and not left to opportunistic calculations masquerading as comparative advantage.

V. Closing the Fiscal Gap

The IMF/World Bank approach to fiscal questions centres on: (i) reducing the "fiscal deficit" as a percentage of total activity; and, (ii) reducing the overall level of public sector activity. The former is seen as having implications for the growth of the money supply and hence for price inflation. The latter is seen as leading to replacement of non-profit-making (and hence prima facie non-productive) public sector activity by profitable (hence productive in the terms of neo-classical economics) private sector activity.

[5] S.P. Shukla, the former Indian Permanent Representative to GATT damningly indicts the Uruguay Round in Third World Economics (Issue No.66, 1-15 June 1993). Even Jagdish Bhagwati as Economic Policy Advisor to Director General GATT seems to be stepping out of his normal free trading role to argue for an Indian commitment to an "Asian identity" in India Today (15 July 1993).

Professor Brahmananda pointed to macro-economic limitations of this IMF argument in practice. A fiscal deficit does not necessarily result in an increase in the money supply. If the gap is treated as a Public Sector Borrowing Requirement and resources are borrowed by government then there is no fiscally caused increase in the money supply – and the IMF position would depend on demonstrating that directly productive private investment has been squeezed out by indirectly less productive public infrastructure development.

Also, the money supply might increase, independent of fiscal policy, due to a factor such as private banking sector creation of money or mechanical conversion of inflows of foreign exchange into Indian Rupees. It was such conversion that Brahmananda argued increased the money supply sufficiently to explain current price inflation. The government neglected its responsibiliy for the domestic money supply by not acting to counteract the impact of the conversation of large inflows of "hot money" in search of high financial sector returns.

Though the Professor was willing to argue provocatively for a gold-standard approach to monetary control to ensure appropriate discipline automatically – especially given the Indian propensity to trade in gold – the main thrust of his argument appeared to be that the government needed to be more interventionist in the foreign currency markets to restrict growth in money supply, rather than reducing its activity.

More fundamentally in terms of the size of the public sector, Professor Brahmananda saw the public sector as vitally productive in providing infrastructure for agriculture. Thus,rather than being obsessed with reducing expenditure and "exit" policy using "golden hatchets" for displaced workers (a highly evocative Freudian slip of the Professor's eloquent tongue), the government should be willing to aggressively raise revenues for such productive use and transfer public sector workers into more productive work.

Taxes should be raised wherever feasible looking towards about two extra percentage points of GNP on aggregate. The niceties of pure taxation theory should take second place to more pragmatic calculations on how extra revenue might most effectively be raised, which is likely to include extra direct taxation on salaries. The fiscal gap is quantitatively a revenue side question, though expenditure needs to be qualitatively improved.

VI. Domestic Savings as a Key Issue

The IMF implicitly views every economy as having an aggregate savings schedule dependent upon the individual willingness of each member of the population to abstain from current consumption and accept risks. Combining that schedule with the probabilistic patterns of productivity from investment will produce an equilibrium between-savings and investment at a "natural" real rate of interest and a "warranted" rate of economic growth.

Governments are not seen as determining economic growth rates. Foreigners' savings may play a role in augmenting the national savings rate, provided the domestic factor costs (with the emphasis on wage rates) in foreign currency terms offer opportunities of returns higher than elsewhere.

The chances of such foreign savings significantly augmenting the national effort must be weighed up in the context of a fiercely competitive global situation. For instance, Russia has devalued to such an extent that its unit labour costs look lower than India's in foreign currency terms. To effect in India a mixture of further devaluation and downward pressure on Indian unit wage costs to offer comparable returns to footloose foreign savings would be impossible without the whole fabric of Indian economy and society being placed at risk, as it has been in Russia.

In national terms, Professor Brahmananda argued that India's aggregate savings are too low for a socially optimal level of economic growth and that the vast bulk of savers in India rationally seek a low level of risk. Loss of savings for them means loss of their only financial social security resources. The public sector has a responsibility to offer secure havens for such savings with a sustainable, realistic rate of return. A large and active public sector institutional structure to mobilise savings and protect their value is needed, as the private financial sector cannot be trusted to quantitatively or qualitatively to meet small savers' legitimate needs.

VII. The Financial Sector: Socially Responsible Scanning or Speculative Scamming?

For the IMF, an internationally exposed, private financial sector is a necessary, and almost sufficient, condition for a healthy real economy. Financial institutions are seen as scanning all the opportunities available and placing control over resources with those enterprises with the highest rates of expected profitability (and hence social worth in the terms of neo-classical economics). A global financial system now exists to ensure competition – only those financial institutions survive in the "long-run" whose forecasts about the real economy are proved accurate.

Professor Brahmananda does not recognise this description of the private financial sector. His view appears to be much closer to Keynes in the General Theory of Employment, Interest and Money. Keynes described the activities of the British Stock Exchange as akin to a "casino" to which the running of a nation's economic affairs "was not well left". Financial sector markets can be as relying upon abusing market principles through selectively concealing information and obscuring ultimate intentions with dealing being done from up one's sleeve rather than at "arm's length".

The various forms of abuse by financial institutions have acquired a rich language of their own metaphors in the West. "Insider trading" where prior information ensures the outside public can only trade at a loss. "Junk bonds" where the ultimate real basis of the financial instrument is so pyramided to be non-existent.

Australia contributed "Sydney Harbour Bonds" where the ultimate responsibility for payment on a financial instrument has been so obscured as to be equivalent to being at the bottom of Sydney Harbour. And this does not include the outright fraudulent "off-shore piracy" apparently involved in the collapse of BCCI or the legal, but morally dubious, activity of "asset-stripping" often leaving people unemployed without even a gesture of consultation or compensation.

India contributed its own form of "financial scam" in 1992, when public sector money was channelled through prestigious banks to less prestigious brokers to drive up a "bull" market in commercial shares. The scam produced the proposition from a major actor (affectionately known in his heyday as "Big Bull" Mehta) in the affair that the "basic economic laws of demand, supply and price work in just the opposite way [to the economic textbooks] in the stock markets" (Harshad Mehta, Business Today, 22 October 1992). A proposition recognisable to Veblen as well as to Keynes though uncomfortable for neo-classical, free market economists.

In Professor Brahmananda's world, people's life savings and productive investment are too important to be left to the private financial sector. An active, public sector dominated, financial system is needed. Banking must be firmly regulated with binding constraints on portfolios, including tough reserve ratios. Speculative "booms" should be determinedly damped by forcing up short-term interest rates to deny fuel to the flames. In the Professor's own evocative terms, it is the task of government to provide conditions for a productive "real boom" not a counter-productive "money boom".

VIII. Sectoral Priorities

The IMF and the World Bank are content to let the pattern of economic activity in India be decided by market forces detecting India's global comparative advantage. This does not rule out agricultural products, but dismisses any view of food security as being a goal to be approached through greater food self-sufficiency and rural small-scale industrialisation as desirable for socially responsible employment generation.

In direct contrast, the Professor makes a case for concentrating the public sector efforts on agriculture – regretting the failure of those drafting the Eighth Plan in 1992 to make this choice. Professor Brahmananda's case for agriculture rests on a claim that existing markets around agriculture are very imperfect. Lack of infrastructure gives rise to actual private farmer costs much higher than potential social marginal costs. Achieving these lower costs through infrastructure provision may reveal greater export potential, but would also fundamentally redistribute income towards relatively low income groups with sufficiently high income elasticities to consume India-produce goods – even without redistributive land reform – to ensure domestic effective demand for the increased agricultural output.

Professor Brahmananda's arguments appear close to the operation of linkages surrounding middle farmers, as described by John Mellor in The New Economics of Growth (1976). Such linkages spread benefits of agricultural growth sectorally but largely within the rural economy at a low net foreign exchange cost.

This re-affirmation of confidence in agriculture does not exclude industrial development, indeed Professor Brahmananda, like the BJP and Communist Party (Marxist) in West Bengal, welcomed direct foreign investment in industry if it is unconditionally forthcoming. However, there is an implicit scepticism about India's ability to replicate the South Korea and China-Taiwan (and Japanese) experiences and subtly balance a mix of protected national market and aggressive exporting.

There is a strong case that these economies grew in a special niche in history combining privileged Cold War statuses as frontline states with the, now departed, room for manoeuvre of the USA combining an outflow of technological and investible resources with access to its market. There may also be justifiable concern that it is not feasible or desirable to attempt to emulate the "new NICs" of South-East Asia, who can be seen as over-exploiting natural resource export bases (an issue of importance to the very active environmental movement in India), and, in exchange, not receiving significant, effective transfer of technology through foreign investment while still paying monopolistic rents to TNCs.

The case can be made that in India's situation in the current global economy, success in increasing agricultural production for, firstly, national and, secondly, global consumers is a necessary, if insufficient, pre-requisite condition for success in sustainably developing industry. But, for Professor Brahmananda, the advocacy of agriculture appeared to go beyond a mere sequencing of sectoral priorities but reached towards the very definition of development itself.

IX. Development with People as Means or as Ends?

The IMF and World Bank are very conscious of the criticism, strongly associated with UNICEF, that poverty has increased alongside liberalisation in sub-Saharan Africa, Latin America and the Caribbean. World Bank arguments for a shift towards "human capital" based development reflecting relative factor proportions at the beginning of the 1980s, were augmented to become Social Dimensions of Adjustment, Human Resource Development targeted programmes, and maintaining social "safety nets" at the end of the decade.[6] These programmes had multiple rationalisations: (i) the abstract recognition that the market for future labour services is inherently imperfect and borrowing against future potential income to pay for current education and health services is very restricted; (ii) the concrete recognition of potential political resistance to liberalisation by groups of workers being forced

[6] The articles by Cameron and Stewart in Mosley (1992), Development Finance and Policy Reform (Macmillan), summarise the international critiques of Structural Adjustment that emerged in the 1980s/1990s.

out of the public sector and protected private sector and the need for "transitional" programmes to ease their "search" for new sources of income; (iii) the grudging recognition that significant groups of households, notably women-headed households, do not possess asset and skill portfolios suitable for benefitting from global trading opportunities and may actually lose consumption opportunities as an outcome of liberalisation unless counter-measures are introduced.

The combination of these factors has reinstated the discussion of distribution as part of the wider development debate, an acceptance exemplified in the poverty theme in the 1991 World Bank World Report – a theme last seen in 1980 at the height of discussions on Basic Needs Development Strategies. But even the rhetorically born-again World Bank would like to confine the discussion to minimum technical human capital and transitional resourcing, that is people as a means to market efficiency.

Professor Brahmananda, and many other leading thinkers on development (notably Amartya Sen) are not willing to accept such a limitation to the argument and propose the quality of life of the poorest people as a development end in itself, not as a mere means to raising profitability.

Both Professors could find many economists who would substantially agree that a major role for economists is to place the rights of power oppressed people (and consequentially consumption poor people) on the political agenda as a central development issue.

Professor Brahmananda's arguments can be seen as representing the central position of many intellectual commentators in India – inside and outside economics as conventionally defined. Civil liberties campaigns in India have initiated active struggles for greater accountability and transparency in public sector decision-making. The thriving Indian NGO sector is involved in widespread experiments in empowerment. Marketisation tends to diminish the field for ethically-engaged debate and non-violent collective action which so distinguish much of Indian society and thus erodes the core of Indian mores and undermines identity leaving a society more vulnerable to social tension.

The primary reason why global "liberalisation" finds such strong intellectual opposition in India may not be due to technical disagreements in the discipline of economics – though there is much room for such technical disagreement drawing on internationally recognisable neo-Ricardian and neo-Keynesian economics principles.

A more fundamental objection may be rooted in the whole package of implicit cultural and political assumptions that the so-called economic "global liberalisation" carries with it. These implicit assumptions run counter to the processes that have historically operated to produce a distinctive form of society in India, the intellectual manifestation of which has its own dynamics. A manifestation which is unusually antithetical and resistant to the pressures towards cultural and political globalisation.

X. Implications

If the intellectual, and wider mass, resistance to liberalisation in India is effective, then Pakistan is likely to become the pace-setter for liberalisation in the South Asian region with India appearing as a rather reluctant laggard. Conditions in Pakistan are more conducive to liberalisation for the following reasons:

i) Pakistan is already more externally open than India and there are fewer vested interests in protectionism and there is already some experience with Structural Adjustment Loans – including manipulation of conditionalities;
ii) Pakistan can privatise more easily as a well-established elite has an immediate interest in reversing the "statisations" of the 1970s and has sufficient control of the banking and political systems elite without the demands for spreading ownership to a wider public as in India;
iii) Pakistan can reduce the size of public sector expenditure more easily as casual employment in the public sector is probably more common and spending on the Annual Development Programme is determined by immediate financial exigencies. Also there will not be mass political resistance to particular cuts – the widely pervasive military influence on the public sector budget will set a limit to cuts but experience elsewhere suggests this will merely mean additional pressure will fall on the already politically weak social sector;
iv) The relative weakness of the labour movement in Pakistan and probable wider use of casual contact labour in the large-scale industrial sector should mean greater ability to meet the demands of any direct foreign investment for low labour costs;
v) There is a greater confidence in the public sector's performance and potential as a development agency in India across the political spectrum.

A faster pace of "liberalisation" in Pakistan will itself induce additional pressure on the Indian government from external agencies to match Pakistan's "best practice". But a slower rate of "liberalisation" in India will also give India an opportunity to observe the balance of costs and benefits of large country, latecomer "liberalisation" in the 1990s. If the costs are seen to outweigh the benefits in Pakistan (and China), then India will have kept open an option of returning to a modified version of its own historic development strategy.

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