ADJUSTMENT : WHO SHOULD BEAR THE BURDEN?

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The policies which are presently being put in place for stabilisation and structural adjustment of the economy have been described as a 'calculated risk' by Finance Minister, Dr. Manmohan Singh. The calculation, presumably, is that these policies will help to shift the economy from an unsustainable high inflation, high growth path to a low inflation, high growth path. The risk is that adjustment policies can also miss their mark.

Several reviews of the international experience of adjustment programmes are now available, the latest one having been undertaken by Professor Frances Stewart of Oxford University. These reviews show that, as often as not, things can go wrong with an adjustment programme. The expected break through in exports may not come and the trade balance might continue to deteriorate. Alternatively, as pointed out by Prof. Amit Bhaduri, who has recently reviewed the Polish adjustment experience, the restrictive macro-economic policy stance might compress supplies more than they compress demand. In either case the economy could slip into a stagflation trap with inflation rising while growth declines, with consequent effects on the rate of unemployment and general distress.

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Even assuming that the stabilisation-adjustment programme will work, lower growth and a higher unemployment rate in the transition period is unavoidable. it would be foolish to pretend that one can make any accurate predictions in these matters. Much depends on the world trade environment, domestic responses to the policy reforms, adjustments in the labour market and so on. Also we do not have in India the weekly, monthly or even yearly employment statistics necessary for accurate forecasts. However with the help of excellent surveys conducted by the National Sample Survey and the observed relationship between population, labour supply, output and employment it is possible to make some projections based on plausible assumptions.

My own calculations suggest that, depending on how we perform on the foreign trade front, growth would vary between about 2% to 3% next year and 4% to 6% the year after. There would be a corresponding increase in employment from around 350 million persons today to about 354 million persons next year and 355 million to 360 million persons the year after. Meanwhile the size of the labour force may increase from around 364 million persons this year to over 370 million persons next year and 380 million the year after. In other words, the growth in labour supply will outstrip the growth of employment thereby raising the unemployment rate from around 3.5% to 4% to around 5% to 6.5% during the next two years.

Since a part of this higher unemployment rate will be attributable to the stabilisation programme, it is important to ask how we got into the economic mess in the first place. It is important to fix responsibilities in order to determine who must now bear the burden of adjustment. The government is forever lecturing to labour and industry on the need for efficiency, austerity, belt tightening and so forth. However, quite apart from external agencies like the IMF and World Bank, numerous documents put out by the Government during the past few years like the Long Term Fiscal Policy, Seventh Plan Mid Term Appraisal, Ninth Finance Commission report, a report of the Economic Advisory Council and several Economic Surveys have all pointed out that the government itself is largely responsible for bringing about the present economic crisis through its profligate unproductive spending, excessive reliance on debt to finance such spending and other ill conceived policies.

The citizens of India, both labour and industry together, must therefore make the government pay for its past sins. Government itself must bear the main burden of adjustment. It must tighten its own belt first in order to compensate citizens for the additional unemployment and distress which they may now have to suffer for irresponsible government behaviour of the last. It must, in particular, create a safety net for low paid, unprotected informal sector workers and casual labour, who are likely to face the brunt of extra unemployment or reduced wages on account of the stabilisation programme.

How can this be done? The government's successful drought relief operations of 1987 - 1988 are a helpful guide. It must first of all release large stocks of food grains, both through the public distribution system and through the open market in order to contain the rise in food prices. Additionally, it must offer relief through a much expanded employment programme, located in rural areas to draw the unemployed away from a stressful, high cost, urban environment.

My own calculations suggested that, in order to be effective, the expanded employment programme should provide for an additional 6 million persons over and above the existing programme during 1992-93. A recent Supreme Court ruling requires the payment of statutory minimum wages even for such programmes.

This works out to a national average of about Rs. 16 per head per day. Offering employment to 6 million persons on alternate days at that rate would add up to an additional annual wage bill of Rs. 1,750 crore and additional total programme cost of Rs. 3,500 crore.

How can such additional expenditure be financed, within the tight fiscal deficit target, especially if allowance is made for revenue losses which may arise on account of tax reform measures? The Indian public must be made aware that their Central Government has budgeted to spend over Rs. 113,000 crore in the current year, An aggregate expenditure of similar order is incurred by all the state governments put together. The additional safety net budget therefore amounts to less than 2% of total government expenditure.

If the cabinet is told that this small diversion of government expenditure is not possible on account of existing expenditure commitments, they would be ill advised to accept that proposition at face value. Fortunately, Dr. Manmohan Singh has enough experience in Government to know that the reality is different. Literally thousands of crores of wasteful government expenditure on activities of dubious social or economic value could be eliminated. This would finance a substantially expanded safety net, offset revenue losses, if any, on account of tax reform and still meet the fiscal deficit target. Practical proposals in this regard are already available with the government.

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