Where are we headed?

Have our policymakers, in pursuit of short term populism; the holy grail of environment; the politics of distribution imposed on them by a super-cabinet; lost control over all macro-economic variables? The fisc is already groaning. To add to burdens, the current parliament session will also see the introduction of the Food Security Bill, recently opposed even by Congress-ruled states. But chances are that it will go through since the super-cabinet so desires. The question is: can we afford all the social programs we are committing ourselves to, both fiscally and, perhaps even more importantly, in terms of the administrative resources needed to implement them with a modicum of efficiency and honesty? Are these expenditures not coming at the cost of investments, so necessary for future growth on which the availability of resources for social programs depends? Isn't there greater wisdom in the old adage that it is better to teach a hungry man to fish, than to give him fish to eat? Remember that all these expenditures are over and above the various subsidies – food, fertilizer, oil products and the rest. Even the *reported* fiscal deficit is going out of control, let alone the true deficit inclusive of the unpaid subsidies.

Worryingly, the government seems to be losing control of other macro-economic variables as well:

⇒ The balance of payments. The falling rupee is merely a symptom. The basic problem is that, with a change in the exchange rate policy to market determined exchange rates a few years back (to be on the right side of the Americans in the G20?), the current account deficit has galloped from $ 9.6 bn in 2006-07 to $ 44.3 bn last year. With the successive deficits, our net external liabilities have jumped up four times. Is it not truly amazing that we should be debating the establishment of a sovereign wealth fund, when our net external liabilities are so high? Where is the wealth – in reserves of questionable quality? Actually, we have become an economy over-dependent on persistent and increasing capital inflows to balance our books. We obviously are not learning anything about the risks of doing so, even from the current crises in the southern countries in the euro zone!

⇒ Inflation. A series of hikes in the policy interest rate have done little to bring down inflation which remains stubbornly near double digits. As we keep pumping resources in the economy through fiscal deficits and increasing the minimum support prices for food-grains, how can inflation be brought down through monetary measures? What monetary measures have done is to bring down the growth rate sharply, with all that this means for government revenues and resources.

Major segments of the public sector are in a mess. The railway finances are crumbling with the refusal to increase passenger fares, yet another manifestation of the politics of distribution. The power sector, much of it state-owned, is facing shortages of coal on the one hand and money on the other, and has warned of blackouts. In the power sector alone, projects involving an investment of Rs. 1.5 lac crores are held up because of regulatory delays. If any project manages to overcome regulatory, land and environmental hurdles, it has to face the “no-change” crowd of supposed do-gooders. The distribution companies, many of them state-owned, are incurring huge losses. Unless subsidies are released, the Food Corporation may have no money to buy grains when the crop comes in the market. The Indian Oil Chairman has cautioned that IOC is facing a resources crunch and fuel supplies could be affected from next month.

In the recent agitation in Maharashtra about higher cane price, both the farmers and the factory owners agreed that the correct solution was to allow exports of sugar so that the sugar companies can afford to pay the higher cane price demanded by the farmer. The government does not allow this -- to keep consumer prices from rising (it has since allowed the export of 1 mn tons, which is neither here nor there). The cotton farmers in Vidarbha are agitating for a doubling of the price. When will we realize that higher prices for the producer but lower prices for the consumer, is an equation impossible to balance?

Are we heading for a crisis? The “tipping point” could be a major global event – “the west” is preparing grounds for Israel to attack Iran because of apprehensions about its atomic ambitions (remember Iraq’s “weapons of mass destruction”?). Surely, that will take the oil price to $ 200 a barrel plus? And that will add to the adverse pressures on all the macro variables discussed above. Meantime, our political masters continue to make policy by holding a wet finger in the wind, conceding the demands of all articulate minorities who can, say, stop traffic, or have enough nuisance or vote bank value otherwise. But a global crisis such as an attack on Iran, or even a global recession which looks more likely each day, could come in useful: all our problems can then be blamed on that!

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