

Economists' Diminished Role

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IN AN ECONOMY that has been going through a prolonged economic crisis, it is understandable that economist should come in for their share of criticism. After all, countries that lose wars do not easily forgive generals who fight them - why not the same with economists? To the man in the street there is a compelling logic to this argument, and we can see the result in a growing cynicism about the effectiveness of economist! - and more generally of economic policy as such - in achieving stated economic goals. Economists have developed a ready response to this type of criticism. It is unjust, they argue, because it greatly exaggerates the role of economists in actual policy formulation and, of course, it takes no account whatsoever of problems of implementation - and implementation as we all know is not the economists' responsibility! This intellectual separation between the design of economic policy and the so-called problems of implementation has generated enormous cynicism about economists and economic policy. The excuse seems all too perfectly tailored; by surrendering any claim to exercising real power, it leaves the economists enjoying the secure position of offering advice without responsibility.

This is clearly not a tenable position. The design of economic policy cannot be evaluated in an institutional vacuum, independent of the process or likelihood of implementation. Indeed, if there is a "technocratic" rote for economists to play - and which economist claims there isn't? - it surely consists in extracting from a particular economic system the best performance of which it is capable, with all its political and institutional constraints. This is obviously not a matter of determining a detailed blue print of action and then leaving it to the machinery of government to implement. The challenge of policy-making lies precisely in the fact that it cannot be reduced to a formalistic exercise based on a purely theoretical understanding of the economic system and its theoretical response to this or that stimulus.

The fact is we have an imperfect understanding of the working of the economic system, particularly of the driving forces within it, and we also have an imperfect appreciation of the constraints until we hit against them. Policy-making in such a situation calls for an atmosphere of flexibility and experimentation and, most of all, it calls for a continuous evaluation in terms of actual performance. Viewed in this context, implementation failures are not merely failures of administration - they are also failures in policy design. Economists cannot expect to enjoy the status (unique amongst social scientists) of specialized technocrats without accepting responsibility for such failures.

Viewed against the yardstick of economic performance, it is easy to see why the image of economists in India is somewhat tarnished. The fact is that the performance of the economy over the past several years has been unsatisfactory from almost all points of view. So much so that the term "Economic Crisis", as used in public debate, no longer connotes any special or unforeseen event but only the current manifestation of a long-standing malaise.

The latest time series on national accounts issued by the Central Statistical Organization provide a sobering "official" view on the long-term trends in the economy and the marked deterioration in these trends in recent years. The game of comparing growth rates over different periods is at best a tricky one, in which the outcome is often critically affected by the particular choice of base years and end points in defining periods for comparison. In this case, however, the facts are sufficiently stark to warrant some unambiguous conclusions.

(i) The two drought years of 1965-66 and 1966-67 mark a distinct break in the dynamic behaviour of the economy (Table 1) with performance being markedly worse in the later period. In the ten years before this break, the Net Domestic Product grew at the compound

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The views expressed in this paper are those of the author and not of the World Bank.

rate of about 4.3 per cent per annum. If we take up the count again in 1967-68, by when the economy had recovered to something approaching "normality", the growth rate in the subsequent six years averaged only about 2.9 per cent.¹

Table 1:

	Average Annual Rates of Growth			
	1954-55 to 1964-65	1965-66	1966-67	1967-68 to 1973-74
Net Domestic Products (1960-61 prices)	4.3	- 5.1	1.2	2.9
- NDP in Primary Sector	2.5	-13.2	-1.5	1.8
- NDP in Secondary sector	7.2	2.5	3.3	2.6
- NDP in Tertiary Sector	7.0	2.8	3.2	4.5
Per Capita National Income	2.1	- 7.3	- 0.8	0.6

(ii) Given the high growth rate of population, the decline in the rate of growth of per capita income - which is after all a more suitable index for measuring "acceptable levels" of economic performance - is even more precipitous. The growth rate of per capita income decelerated from an annual rate of 2.1 per cent in the first period to about 0.6 per cent per annum in the second.

(iii) Underlying this marked deterioration in growth performance*¹ after the mid-sixties is a calamitous decline in the rate of growth of the secondary sector (manufacturing, construction, and electricity) from 7.2 per cent in the first period to 2.6 per cent in the second. While a good deal of attention has been focussed on this "industrial stagnation" (and it undoubtedly accounts for most of the decline in over-all growth), it is also important to note that the other sectors show a similar, albeit less marked deceleration. It is particularly worth noting that the rate of growth of the primary sector (mainly agriculture) declined from 2.5 per cent to 1.8 per cent and this despite the fact that the second period under consideration includes the output increases achieved during the all-too-shortlived "wheat revolution".

(iv) For those who find National Income statistics too abstract to relate directly to "perceived economic reality", the implications of these trends are even more grimly revealed in the statistics on food production and employment - the two indices most directly linked to the degree of economic distress, especially in urban areas. Total production of food-grains (cereals and pulses) which grew at the annual rate of 2.0 per cent in the first period slowed down to 1.5 per cent per annum in the second period. The picture on the employment front is equally grim, mirroring as it does the prolonged stagnation in the secondary and tertiary sectors of the economy. Total employment in the organized sector (public and private) grew at the annual rate of 5.6 per cent between 1960 and 1965. By contrast, over the period 1968-1974 it grew at only 2.8 per cent per annum.

(v) Finally, it is worth considering whether our poor performance represents in some sense a deliberate sacrifice of growth for reasons of social justice or equity? Much has been made in the recent economic debate of the need for tempering growth with social justice which raises the question whether behind our dismal performance in one field lie some unheralded achievements in the other. Judgments in this area must necessarily be reached without the

¹ The average growth rates reported in this section are obtained by exponential interpolation between end points. We have also estimated annual growth rates by fitting trend lines and (found that the results reported are not materially affected.

benefit of any official statistics monitoring performance we have docs not point to any improvement in this field. If anything, the literature on this subject suggests some deterioration This is true whether we look at estimated numbers and percentages of the population below the poverty line, the rising unemployment statistics, or simply observe the de facto abandonment of public distribution of foodgrains in all except large cities and industrial areas in times of scarcity.

These trends provide powerful testimony for the full extent of the economic crisis and its by now fairly prolonged duration. It is particularly important to note that the real measure of our economic failure is not that the economy has not performed according to the target plans: that is to judge by an all too-unrealistic standard never achieved since the over-fulfilment of the rather modest first plan. Much more seriously, our recent economic performance has been unsatisfactory even when measured against actual achievements over an earlier ten year period. It does not take any great feat of prophecy (o state that the continuation of these trends in the future beam little hope for social and political survival. It is a sure fire recipe for slow economic strangulation with bleak visions of recurring food shortages, growing unemployment, increasing tension in industrial relations, and a steady erosion of the quality of life in urban centres towards the kind of bottled up mess that is Calcutta today. What has gone wrong? And more important, do economists have solutions to offer?

Faced with this depressing record, the major contribution economists can make to the national debate is to "explain" the deterioration in economic performance and force the policy discussion to focus on the relevant lessons for the future. This is particularly important because a full recognition of the extent of the crisis has been slow in coming for a number of reasons. In the late sixties, the good news from agriculture kept us from paying too much attention to the symptoms of a persistent sluggishness of industry. Then came the Bangladesh crisis during which the economic debate was more or less suspended by national consent. When the focus of the national debate returned to the economic scene, it WM at a time when the "populist progressivism" of the garibi hatao campaign was being given concrete shape in the fifth plan. The questions of feasibility of the fifth plan - a recurring feature of our Plan exercises - had hardly begun to be raised when the Plan itself was rendered largely academic by the rise in import prices.

It has certainly been an eventful period and indeed many of these events have provided specific explanations of poor performance in particular years. The Bangladesh refugees in 1971, the weather in 1972-73, and oil prices and world inflation thereafter - each of these undoubtedly provides some excuse. But, looking back with the advantage of hindsight, we can also discern another, and more worrying, possibility. This is the lurking suspicion that the observed slowdown is not to be explained simply in terms of a sequence of adverse circumstances - it is better explained as a more deep-seated crisis of the economic system, a crisis arising from the internal contradictions of the system and the policy framework in which it operates.

There is in fact a remarkable consensus among economists of widely divergent persuasions that the poor record of recent years reflects a serious systemic crisis in the sense that economic policy formulation on a "more of the same" basis will not lead to any marked acceleration in economic growth. The economic system as it has been working appears to have few defenders. But it is one thing to agree on the fact of failure and it is quite another to agree on the underlying causes and corrective action. Not only is there no consensus on this issue but the debate when it is joined tends to be bitter and recriminatory with more than a little political innuendo. It would be naive to expect otherwise. Economics is not a subject that permits the kind of engineer's understanding of the working of the economic system which would enable all discussions on economic policy to be conducted with dispassionate objectivity. For all their emphasis on quantification and theoretical formalism, economists base their theories of development on "grand simplifications", and they disagree because they simplify different things. The debate on the cause of the economic crisis in India exemplifies this problem.

The dominant theme struck by economists in explaining the slower growth of recent years is the "resources problem". The simplest - and oldest - theories of development have treated investment as the key determinant of economic growth and, as a result, economists have traditionally given pride of place to questions of the volume and pattern of investment as the major instruments of development planning. Following this tradition, economists have emphasized that the observed deceleration in recent growth can be satisfactorily explained in terms of the decline in resources devoted to development. Thus, it has been argued that the rates of savings and investment in the economy have declined significantly since the mid-sixties. Along with this particular explanation of slow growth, there is an entire litany of familiar complaints: mobilization of savings through additional taxation has been rendered impossible by vested interests, the nature of our policy makes it impossible to limit the growth of government consumption, public sector enterprises have failed to generate investible surpluses, and so on and on.

The preoccupation with resource mobilization is only natural in a poor country with limiting investible surpluses and there can be little doubt that additional investment resources would contribute to growth in India. But (the time has also come to question whether problems of resource availability tell the full story. The other side of the coin is the efficiency in use of available resources and we need to ask ourselves whether a significant part of the explanation for poor economic performance does not lie in a deterioration on this front. If this is indeed an important phenomenon, future economic policy should focus at least as much on this problem as it traditionally has upon problems of resource availability and investment levels.

The most recent data on savings and investment published by the CSO provide some support for the argument that the slow rate of growth of the economy cannot be explained solely by a decline in resource availability in recent years. Once again, we take the two drought years of the mid sixties as the "break points" and compare the average rates of savings and investment achieved in the period before and after. The following features of the data in Table 2 are worth noting.

Table 2:

	Percentage of NDP Current Market Prices			
	1960-61 to 1964-65	1965-66	1966-67	1967-68 to 1973-74
Investment				
Net Domestic Capital Formation	12.0	13.8	15.5	12.2
Net Fixed Investment	10.9	12.7	12.3	11.7
Net Public Fixed Investment	7.0	8.0	6.8	5.7
Net Private Fixed Investment	3.9	4.7	5.8	6.0
Savings				
Net Domestic Savings	9.2	11.2	11.9	10.9
Net Foreign Inflow	2.8	2.6	3.6	1.3
Public Sector Resources Tax Revenue of Centre and States	11.1	12.8	12.4	12.6
Government Consumption	8.8	10.0	9.5	10.0
Public Sector Savings	2.6	2.6	1.6	1.8

(i) So far as total investment by the public and private sectors is concerned, there is clearly no decline in the average rate of net investment in the economy in the latter period. This is true whether we look at domestic capital formation (which includes stock-building) or fixed

investment only. If anything, the rate of investment is slightly higher in the second period.² It is interesting to note that the data faithfully reflect the much-talked of "peak" in the rate of investment in 1965-66 and 1966-67, but these high ratios are deceptive because they reflect to a large extent the depressed levels of Net Domestic Product in the drought years rather than any landmark of achievement on the investment front. The observed peak in the savings rate in these years is, of course, a mirror image of the same statistical illusion.

(ii) There is definite confirmation of a substantial decline in the rate of public investment in the second period. Public net fixed investment, which was maintained at an average rate of 7.0 per cent of NDP in the first period, declined to 5.7 per cent in the second period.

It is also clear from Table 2 that this decline is not due to the failure in resource mobilization as much as due to the rise in government consumption. The ratio of tax revenues to NDP, for example, is higher in the second period than in the first, but so is the ratio of government consumption to NDP. The result is the marked decline in public sector savings.

In interpreting these trends obvious that much depends upon our assessment of the critical role of public investment in the economy. By itself, the fact that the total investment ratio was more or less comparable in the two periods, while the growth rate of the economy declined drastically, suggests that the problem lies not so much in the levels of resource availability in the aggregate as in the low returns obtained from invested resources. Against this it can be argued (and with considerable validity) that public investment has such a crucial role to play in the growth process, that a decline in public investment cannot be offset by an equivalent increase in private investment.

There is obviously a great deal to this argument. Most of the increase in private investment recorded in Table 2 comes from increased, direct investment by households in physical assets, a category which includes such relatively "unproductive" items as housing.³ Nevertheless, the magnitude of the decline in public investment simply does not suffice to explain the substantial deceleration in the rate of growth in the second period. Suppose we allow for the "unproductive" nature of private investment by making an extreme assumption, viz., that the entire increase in the ratio of private investment represents unproductive investment. If we then take "productive" private investment in the second period at no more than 3.9 per cent of NDP - which is the ratio of private investment to NDP in the first period - and combine this with the rate of public investment, we have a "productive" total investment rate of 9.6 per cent in the second period. This is only about 12 per cent lower than the level achieved in the first period. A decline of this magnitude should not have led to the observed 33 per cent fall in the growth rate of the economy.

None of this is to suggest that resource mobilization measures geared to raising public investment are not important; they obviously are. But the experience of recent years suggests that economic policy must also focus on the efficient use of available resources and the policy instruments and policy environment that is likely to promote efficiency. In their long preoccupation with investment as the engine of growth, economists have tended to downplay this aspect of economic policy, and it is important to correct this imbalance. This is particularly true if we consider that the economy faces severe constraints on the mobilization of resources for investment so that the costs of inefficiency in resource use cannot be offset by raising the quantum of resources.

² It should be noted (that the latest revised series issued by the CSO is the *National Accounts Statistics 1960-61-1972/73* differs from earlier CSO figures in that investment figures have been revised upwards quite substantially. In the paper we assume that the CSO revisions reflect improvements on the earlier published series.

³ Too much should not be made of this argument. In addition to housing which may be treated as unproductive (especially when it is in the luxury sector), this category also includes direct investment by farm households as well as the investment of unincorporated business.

We will return to this problem later in this paper, but for the moment it is enough to say that past experience suggests that we have systematically tended to overestimate real resource availability. Realism in planning therefore calls for a recognition of these limitations and this points even more urgently at the question of efficiency in resource use. The argument on efficiency presented thus far is essentially tautological. We have defined efficiency to be the extent to which investment generates growth, and we have observed that the decline in growth is disproportionately larger than the decline in investment. By itself, this tells us very little about the specific forces at work in the economy which may have led to this deterioration and which need to be countered by policy. Some indications of these forces can be obtained by considering separately the performance and prospects of the industrial and agricultural sector of the economy.

The performance of the industrial sector since the mid-sixties has been much lamented by all concerned and its role in bringing down the over all performance of the economy is well known. In terms of direct impact, the prolonged stagnation in industry obviously accounts for the bulk of the observed decline in the rate of growth. As shown in Table I. the rate of growth of the secondary sector was 4.6 percentage points lower in the second period, and this deceleration directly accounts for a one percentage point reduction in NDP growth compared to the observed reduction of 1.4 percentage points.

How do we account for this disastrous slowdown in industry? The simplest explanation of this is the relative decline in investment by the public sector and probably also by the private corporate sector in the second period. On this view, the slow growth in the industrial sector is to be explained in terms of the slowing down in capacity creation. This is combined with a "demand recession" in the investment. Some mechanism of this type is undoubtedly at work, but does it really tell the full story? The essence of this argument is that the crisis in the industrial sector is due to the structure of production. The decline in investment leads to a loss of output in the capital goods producing industries and excess demand for consumer goods industries - a sort of disproportionality crisis of the "classical" type.⁴ But the available data on the utilization of capacity in the manufacturing sector (Table 3) point to a slightly more complex process at work.

It is interesting to note that levels of capacity utilization are significantly lower in the second period not only in the capital goods producing sectors of the economy but also in the other three sectors. The decline in capacity utilization is clearly greatest in the capital goods industries, as predicted by the demand recession hypothesis, but at the same time there is also a decline in utilization levels in the other branches, including consumer goods industries. The fact that the utilization of existing capacity actually declined in the second period compared to the first is surely some indication that the growth of industrial output was not entirely purely limited by the slowing down in capacity creation.

Table 3:

Potential Utilisation Ratios	(percentages)			
	1960-65	1966	1967	1968-72
All Manufacturing	87.9	83.2	79.8	79.6
Basic Industries	87.5	85.2	80.8	83.7
Capital Goods	81.9	69.4	63.5	59.5
Intermediate Goods	89.3	83.3	83.2	80.3
Consumer Goods	88.8	86.6	81.9	83.7

Two factors are important in understanding the industrial stagnation of recent years and these have a direct bearing on the design for future economic policy, (i) The first of these is

⁴ See for example, Intermediate Goods S. Chakravarty, "Reflections on the Growth Process in the Indian Economy" for an exposition of this argument in the context of classical treatment of the industrial and agricultural sectors

the linkage between the agricultural sector and the industrial sector, whereby any slowdown in the former has a multiplier effect on the latter. This linkage points to the central role of the agricultural sector in determining the prospects for medium term and longer-term growth and is discussed further below, (ii) The second factor is the existence of an industrial climate and a policy environment that is not conducive to high growth rates in industry. The time has come for economists to define an unambiguous position on the second question. It is of course no small step to move from a diagnosis of increased inefficiency in the industrial sector to prescriptions about the design for further policy, not is there a consensus on this issue. But the weight of evidence is surely piling up for the view that an industrial climate characterized by numerous administrative and bureaucratic controls and interventions will simply not deliver the goods. In other words, if we want to develop an efficient and flexible industrial structure and, in particular, if we are serious about the need for imparting a greater export orientation to the manufacturing sector, industrial policy will have to shift towards the minimization of administrative intervention in the economy.

It is certainly not within scope of (his paper to cover the many arguments for and against these issues with which economists have entertained each other for so long - the literature on this subject is too extensive and well known for this to be either feasible or necessary.⁵ Suffice it to say that a growing number of economists are agreed that the industrial policy framework which covers essentially the foreign exchange regime and the system of industrial licensing - has proved highly inefficient and must be redesigned. There are indications of some shifts in this direction but the full extent of these shifts is by no means clear.

When the reckoning is done two general charges stand out for serious consideration. The first is that this system has produced a high cost, overcapitalized, import dependent industrial structure with few of the market induced disciplines that would ensure efficiency in production. Whatever the initial justification of developing such an overprotected inward looking structure and such justification is not hard to find - there can be little doubt that the time has come for the emphasis of policy to change in the opposite direction.

Quite apart from the creation of a high cost industrial structure, there is another criticism of our policy framework that is even more damaging, viz.. that the industrial climate created has not been one which has favoured growth and expansion. If there has been a shift in the economists' perception of the long term costs of the control system, it is essentially to emphasize that this aspect may have been much the most damaging. In the broadest sense, dynamic entrepreneurship has not received the premium it deserves against the sluggish "rentier" mentality of reaping quick profits by cashing in on the many premia created by the system of administrative controls. It is a system that has created strong incentives for the pursuit of "trading profits" instead of efficiency and industrial expansion. In this context, it is ironic that the resulting sluggishness of industry itself becomes a reason for continuing with the system because the observed performance of industry does not suggest much scope for dynamism how often have we heard it argued that the Indian entrepreneur is not dynamic and cares little for anything other than quick profits? Nor can it be claimed that this cumbersome system has served the objective of preventing concentration of income and wealth. If anything, established "big business" has found it easy to do well out of the system at the ultimate expense of consumers and potential new producers into the jealously guarded market. A comfortable symbiotic relationship has developed between corporate business on the one hand and "corporate government" on the other.

⁵ For a recent review of most of these issues see T.N Srinivasan, "Foreign Trade Regime* and Economic Development of India". Discussion Paper No. 105. Indian Statistical Institute, which summarizes results of a case study of Indian experience conducted by Jagdish Bhagwati and T.N Srinivasan; see also Jagdish Bhagwati. 'India in the International Economy: A Policy Framework for a Progressive Society', Lal Bahadur Shastri Memorial lecture. 1973.

It would be unfair to suggest that support for this system has come solely from economists. The "symbiotic" relationship between corporate business and corporate government referred to above provides substantial pressure for its continuation. But, it is also true that despite all the evidence on the beneficiaries of the system, economists, especially of the Left, have long provided vociferous support and intellectual justification for the system. It is worth considering what this justification has been. Reliance on "planned" decision making by a state agency instead of the market is ultimately defended on two grounds, (i) The planning agency has better information on which to base its decision making and this is likely to lead to better judgments; and (ii) the planning agency can attempt to offset the undoubted tendency of the market to pull resources purely in response to market power which reflects unequally distributed wealth and income rather than social need.

Both arguments are entirely valid in principle. However, the relevant question facing the economists determining the design of a policy framework is not whether planned intervention is desirable in principle (which obviously is), but rather, given the institutional limitations of the economic system, what is the optimal level and design of intervention. Few economists would deny that in actual practice the system of controls has simply not acted to further the objectives envisaged. Faced with the widely accepted evidence on this count, defenders of the system may be tempted to shelter under the argument "if controls lead to incorrect decisions or are poorly implemented, why not improve the machinery of decision making and implementation?" This is indeed the key argument on which the debate on the design of future economic policy should focus.

The major lesson from our experience with the system of administrative intervention in detailed decision-making is precisely that there are severe limitations in practice upon the capacity of an administratively managed system to deliver the goods. In the management of a modern economy, with an increasingly complex industrial sector, it is simply not feasible (with the best will in the world) to design an information and evaluation system that will permit an administrative agency to supervise decision-making on issues of detail, and at the same time serve the interest of speed, efficiency, and flexibility. To decide whether import of a particular article is really needed or not by a particular user is essentially an allocation decision on whether it would be socially better to allocate foreign exchange for this purpose but not another. It is doubtful if any set of rules or procedures could be devised to enable an administrative process to ensure consistent rationality over the full range of decisions of this type that need to be made.

The alternative to this system is not - as it is sometimes caricatured a blind pursuit of *laissez faire* combined with archaic notions of free trade and implacable hostility to the public sector. It is simply a move away from a profusion of ill-coordinated administrative controls towards some concept of "strategic intervention". The basic elements of the policy framework needed for such a shift are well known. We should determine the broad objectives for which departure from the resource allocation determined by the market mechanism is necessary - protection for import substituting industries, export promotion, subsidized supplies of inputs for a few mass consumption products, etc. - and intervene in the market to achieve these ends with instruments which minimize administrative discretion. Such instruments should operate in a uniform way across the board or where some basis for discrimination exists, across a broadly comparable sector. Theoretical economists will argue that uniformity is not necessarily optimal, and this is undoubtedly true. But in practice it may well be the case that the feasible limit of policy is to determine broad incentive patterns and leave it to the market to pull resources subject to these strategic directions.

It is obvious that such a system implies that within the limits of the strategic intervention, allocation of resources will respond entirely to the pull of the market which will, of course, reflect the existing distribution of income and wealth. This is an area in which we must simply recognize the feasible limits of certain types of policy. There is undoubtedly a case for strategic intervention in the interests of distributional objectives in this area, and such strategic intervention can be defined in terms of absolute bans on the production and import of luxury consumption goods and subsidies to items of mass consumption, but the notion

that distributional objectives can be systematically served by administrative manipulation of detailed production decisions is simply implausible. In the interest of realism, we should also remember that a system of this type is also difficult to insulate from the corruption process which is after all simply a reflection of "market power".

And where in all this, it might be asked, do public sector units fit? Contrary to the fears expressed about the move to liberalize, there is nothing inherently anti public sector in such a policy. Public sector units must, however, be brought to display the efficiency needed to survive in this type of environment. Once again, the theoretical economist can define many situations in which departure from market signals - even those generated within the context of strategic intervention will be desirable. But such departures should be guided by quite explicit criteria which should also be applied so far as possible across the board. Nothing in this policy framework should be a threat to the public sector, its role in the economy, or indeed the expansion of this role in the future. Much more important from that point of view is the general problem of "efficiency" in public sector units and their ability to generate the surpluses needed for further growth. The development of management systems that will permit efficient functioning of public sector enterprises (viewed on some objective criterion) is an enormous challenge. It is also an area in which economists have little to contribute; the design of efficient management systems is after all a highly specialized subject, and the sooner we recognize this and bring in the specialists the better.

The approach discussed above, if implemented, would represent a major change in the policy framework facing industry. Economist: who are convinced of its importance have a role to play in developing a consensus in its favour. There is some indication that government policy has been moving hesitantly in this direction, but the measure: adopted so far represent only a streamlining of procedures on industrial licensing together with some loosening on import control. It is not at all clear whether these initial steps represent marginal adjustments or herald a major revamping which will necessarily imply further loosening of industrial licensing and - much more controversial - increasing resort to much more flexible systems to foreign exchange management and allocation.⁶

As is so often the case with economic policy, it is probably a mistake to place too much faith in fine tuning. Only large shifts in policy maintained over a long enough horizon are likely to have any significant impact. This is definitely not to say that the full scheme to changes should be implemented overnight. For good or ill, we have .developed a high cost and inflexible industrial sector and the transition problems in subjecting such a structure to a totally different set of market signals die quite substantial. Clearly, any new policy framework would need to be "phased in", but it would greatly reinforce its effectiveness if the directions of change were made unambiguous.

Can we be sure that a policy framework redesigned along these lines will deliver the goods? The only honest answer to this question is that we will never know for certain until we try! The performance of an economic system cannot really be predicted on purely a priori argument. There is a great deal that is essentially taken on faith or based on judgment. But, on the whole, there is much to be said for experimentation.

The problem of economic stagnation is not entirely a problem facing the industrial sector. It is a sobering thought that the rate of growth of agricultural production (both foodgrains and non foodgrains) in the second of the two periods discussed above has also decelerated. And this despite the fact that this period includes the dramatic gains achieved in wheat yields in the late sixties. There is substantial agreement among economists that unless this deceleration can be reversed, the prospects for any sustained acceleration in the rate of

⁶ The need for this is less evident at the moment given the sluggishness in the pace of industrial and investment activity, but at industrial recovery gathers pace, it will become much more obvious. It is an important test of the seriousness with which the experiment is intended that at that lime we do not regress back to the old system.

growth of other sectors of the economy are remote. The disruption of the food economy alone - and the resulting drain on scarce foreign exchange - would account for that, to say nothing of the very substantial direct links with agro based industries. The fact is, however, that a number of factors conspire to present a somewhat gloomy picture of agricultural prospects in the near Future.

It is interesting to note that while the debate on industrial policy issues lends to be highly charged. The debate on agricultural issues is much less divisive. This is particularly the case if we look at long term issues of growth of production rather than policy options in dealing with short-term problem such as procurement. The consensus on the basic ingredients for a long-term strategy of increasing agricultural production can be summarized as follows: (i) institutional reforms designed to strengthen the position of the cultivator, whether tenant or sharecropper, (ii) the development and continuous improvement of high-yielded varieties capable of achieving significant increases in yields of the type achieved in wheat. (iii) the creation of a delivery system capable of providing to the farmer an effective extension service together with a balanced supply of critical inputs, including certified seeds, fertilizer, pesticides, and credit, and (iv) the extension of irrigation which is the main hope of increasing gross sown area, together with techniques of improved water management which are crucial for achieving the full yield potential of the high yielding varieties (this is especially true for rice).

If economists differ, it is essentially because of the emphasis placed on one or the other of these elements, and more particularly their views on whether some of these elements are essential preconditions for success in agricultural transformation. For example, there is considerable evidence that without institutional reform designed to give the cultivator a secure stake in the land - either through land distribution or at least security of tenure - it is impossible to ensure equitable distribution of benefit and, indeed, it is even unlikely that any substantial transformation in agricultural production can be successfully implemented. The design and implementation of an agricultural programme containing some workable mix of these different ingredients is obviously not a matter of economic fine tuning operating on one or other "strategic" instrument of economic policy ultimately. It is a question of planning and coordinating a mass effort requiring the cooperation of large numbers of agencies at different levels of government: an awesome task in public management in the broadest sense. Economists necessarily have a limited role to play in much of this process - it is somewhat the role of those interested but essentially helpless.

Nor is it simply a matter of leaving everything to the relevant experts. There are, in fact, large areas of genuine ignorance on both technical and institutional matters. What is the optimum level of ground water development in the different regions of the country? What are the technical limitations on water management practices in the absence of field consolidation? What is the minimum degree of institutional reform that is absolutely necessary before agricultural transformation becomes feasible? What are the specific design requirements for a successful delivery system? These are ultimately issues on which there are at present more questions than answers. Economists are obviously not the principal actors in this area, but they do have an important role to play in the process by which we determine the real priority that is devoted to agriculture. This issue arises at two levels. There is the question of total resource allocation to agriculture, and there is the question of designing and implementing the specific programmes that will carry out the broad strategy. Of these the latter are clearly of primary importance. Total resource allocations are important, but they have little meaning except in the context of an agricultural plan in which the specific programme content has been well designed and the various elements* are successfully implemented. Past experience suggests that this is precisely the problem. If implementation is the bane of our planning process, it is surely specially so in the agricultural sector. In this respect, performance has been disappointing with respect to both large projects (as witness the dismal record on actual utilization of irrigation potential from large irrigation schemes) and the smaller variety of the type envisaged in the recent crash programmes to increase production. Economists would do well to repeat - ad nauseam, if necessary - the importance of design preparation and continuous monitoring of programmes.

Serious resource planning for agriculture can only be based on explicit costing of component programmes of this type together with the requirements to apply of non-agricultural inputs, especially fertilizer and power. It can safely be said, however, that the resource requirements of these programmes will be fairly high. If for no other reason, this follows from the central role of irrigation in extending the application of the new technology to the kharif belt.

No discussion of economic policies and prospects in India can be complete without some reference to the resources problem. Thus far we have played down the importance of this problem in order to highlight others that are equally important and somewhat more neglected. There can be little doubt, however, that domestic resource availability will impose a serious constraint on the pace of future development. Any plan for accelerating the rate of growth of the economy will undoubtedly require a substantial revival of public investment and of private corporate investment in the industrial sector. Unless the trend declines in the ratio of public savings to GDP can be halted and reversed, we should not be surprised that when we do our sums, the figures will simply not add up.

The impasse on the resources situation is another of those areas of massive but frustrating consensus among economists. Indeed, the issues involved have been so thoroughly ventilated in the economic debate that most economists display a sense of intellectual exhaustion on this subject. The consensus on the resources issue can be summarized as follows.

(i) The scope for further extending the indirect tax net is severely limited. Indeed, the present tax structure places very heavy emphasis on indirect taxes, which currently account for about 80 per cent of the total tax revenue, and although there is substantial scope for rationalizing the existing tax structure, it is unlikely that much more can be done on this front than to ensure that returns from these taxes grow at the same rate as the GDP. The scope for raising the tax ratio beyond its present level therefore depends primarily on expanding the field of direct taxation. The instruments to be used are well known, e.g., implementing a tax on agricultural holdings to tap some of the agricultural surplus hitherto left untouched, bringing the black money economy into the open and under the tax net, and expanding the taxation of urban property. These measures have long been on the agenda and action in this area waits to a very large extent upon a political view.

(ii) The only other avenue for mobilizing resources for public investment is the generation of surpluses by public sector enterprises.

Here, again, there is massive consensus that the very logic of a mixed economy. With an increasing role of the public sector, is that public sector enterprises should themselves provide the surpluses needed for future investment. Needless to say, actual performance has fallen far short of expectations in this field. Some of the recent steps to raise prices did have a beneficial effect on the financial performance of some public enterprises, but it is unrealistic to suppose that this will be anything other than temporary as cost inflation continues. The solution lies not simply on the price front although output pricing policy is undoubtedly important and flexibility on this front should be made a permanent feature of policy. Equally important is the all-embracing question of increasing efficiency in production and this is not simply a matter of economic instrumentation.

(iii) Finally, almost all economists who have pronounced on this subject have gone through the ritual performance of pointing out that the growth of current expenditures - especially by the States - must be "brought under control". So far so good, but no one seriously believes that much more can be done on this front than hold the rate of growth of current expenditures (in real terms) to the rate of growth of real GDP and expect that may be too optimistic if the growth rate of real GDP remains below 4 per cent.

It is understandable that economists surveying this well trodden ground are overcome by a sense of futility. The fact is there is really nothing more to say. So far as the mobilization of resources is concerned, the system has come to the end of the road in some respects. The

surplus-generating capacity of the system has come up against the twin constraints of the difficulty of extending the tax net (essentially a question of making a hard political decision) and the inability to generate surpluses through public enterprises. The soft options are exhausted and only the hard ones remain. Economists can play a useful role in identifying these options - and this they have certainly done - but they cannot make these options any easier. In these circumstances, economists can only act as technocrats, i.e.. wait for the political choices to be made and then spell out their implications for the future. It is here that resource balancing exercises become crucial. If we are to introduce any realism in planning, the specific hard choices on resources mobilization must be explicitly linked to feasible levels of investment and these again to likely rates of growth in the future. In particular, the allocation of resources between sectors must not be allowed to be distorted by over optimistic assessments of total availability. This will only lead to liberal target allocations for a number of programmes and projects to begin with, followed reduced budgetary allocations or erosion of financial allocation through price rises as the resource squeeze begins to be felt.

The results is simply that large losses are incurred in terms of delays in project completion - a familiar feature of our recent experience. There is an overwhelming need for investment in some sectors of the economy irrigation, fertilizer, power, to name only the most urgent and their priority needs should be protected from such processes, and there is some danger that these priorities will be blurred in the inevitable squabbling over committed scarce resources.

Inevitably, as we survey this scene, the economists emerge with a somewhat diminished role. It is an entirely realistic assessment. Economic development is not simply a matter of instrumentation of economic policy, and it is only this instrumentation that economists can be expected to produce. In many concrete situations, it is entirely conceivable that the limits of economic policy are far too narrow. In these situations, it is the constraints on policy which must receive primary attention.