Eight Lectures on India's Economic Reforms by T. N. Srinivasan. Oxford University Press, New Delhi, 2000. Rs. 150. pp 101 + xii

This slim volume is based on lectures delivered by Prof. T. N. Srinivasan in July 1998 at the Institute of Social and Economic Change, Bangalore when he was visiting as the first holder of the endowment professorship instituted in the memory of Dr. V. K. R. V. Rao. These eight lectures (along with a postscript) provide an overview and an assessment of the process of economic reform begun in the early 1990s by the Narasimha Rao government. The lectures are divided along sectoral lines, each dealing with a particular aspect of the economy. The areas covered are the Industrial Sector, Agriculture, Poverty Alleviation; Fiscal Issues, Education and Health; Infrastructure; the Financial Sector; and International Trade and Investment. Prof. Srinivasan has also very self-consciously situated his analysis in a historical context, arguing that "[w]ithout understanding the pre-independence origins of our development strategy until the 1991 reforms and the early political consensus in its favour, it is difficult to understand not only what motivated Prime Minister Narasimha Rao and Finance Minister Dr. Manmohan Singh to initiate *systemic* reforms ... but also why they were delayed until that time, and why there still is some serious resistance" (p.x. emphasis in original).

I could not agree more with Prof. Srinivasan on the need to situate any analysis of the reform process within the context of the development strategy India chose at the time of independence. It would be impossible to touch upon the many issues that Srinivasan raises in the context of a short review. Hence, I will perforce be selective.

Srinivasan's analysis of the Indian economic performance prior to the reform period tends to be, at the very least, one-sided. For example in his discussion on industrial performance he argues that "[T]he massive investment (relative to resources available for its financing) proposed in the Second Plan precipitated a macroeconomic and balance of payments crisis." (p.3). There is no mention of the fact that in the 1960s the Indian economy suffered two major exogenous shocks, which were to critically impact the development strategy followed thus far – the two wars which India fought with China and Pakistan and the successive monsoon failures of 1965 and 1967. Whereas the wars resulted in sharp increases in defence spending, the monsoon failures and the resulting droughts led to sharp declines in food production. As Chakravarty (1987) puts it, "[T]he first shock (i.e. the increase in defence spending) led to severe cut-backs in public investment, putting the acceleration principle' into reverse and leading to the emergence of significant excess capacity in the heavy and capital goods sector." (p.22; parenthesis and emphasis mine). The second shock resulted in a serious imbalance between food supply and demand with deleterious consequences for wage-good inflation. Not shall we say quite the picture of a macroeconomic crisis brought on by excessive public investment.

The point of the above is not that Chakravarty is necessarily correct Srinivasan may well believe that the exogenous shocks were a trifling matter in explaining the macroeconomic crisis of the 1960s. But in which case that point should be explicitly made especially when an alternative explanation of the crisis is available. Not to refer to the shocks at all is incomplete and partisan analysis. In general, it is more than a trifle odd that right through Srinivasan's analysis of India's planning experience there is no reference to Chakravarty's well known and widely acclaimed 1987 work. On a terrain such as that traversed by Srinivasan and given the kind of position he takes. Chakravarty's work would have been the perfect interlocutor.

Srinivasan emphasises the fact that India's industrialisation strategy that of planned economic development and consequently the role of the state in production and distribution ... was the result of a consensus between Indian capitalists, labour and the state. The reasons for this consensus is not discussed and equally importantly, the rupture of the consensus, as evidenced by the reform process, is not explored either. Unless, of course, we are supposed to infer from his lengthy disquisition on the control regime that Indian capitalists want a roll back of the state essentially because of the inefficient control regime.

In our analysis, the reasons so far deeper and are more fundamental. The early consensus was the result of the relative weakness of the Indian capitalist in terms of access to investible resources, both internal (to the firm that is) and external. It was because of this weakness that Indian capitalists saw public investment as being complementary to their profitability. Economic growth of the last fifty years, however lop-sided and inadequate it may have been, has meant that the Indian capitalist of today is very different animal, in terms of the nature of markets he/she functions in and access to investible resources, from his predecessor of a fifty years ago. And this in large measure explains today's rupture or dissonance between capitalists and the state. Indeed, in a capitalist economy, economic growth and the growth of markets would necessarily and continually redefine the role of the state.

Turning to specific sectoral issues, in agriculture Srinivasan would have a two-pronged strategy...integrate Indian agriculture with world markets and remove input subsidies. He agrees that large scale exports of foodgrains could adversely affect terms of trade and lead to an increase in the domestic price level, with adverse for at least the poor. But he glosses over both issues by saying that "due attention" (p.19) should be paid to the first (the terms of trade implications) and a safety net created for the second. A little more detail might have been illuminating. How does one cope with the terms of trade fallout? What kind of safety net does he envisage ? Who would administer and pay for it ? Whereas I would agree that user charges for water and electricity should be increased (and this would also perhaps help improve quality of service which is clearly a problem) removing the fertiliser subsidy is a lot more problematic. Srinivasan suggests that an input subsidy is appropriate "[o]nly if the intention is to increase the use of that input beyond what would be the case without the subsidy." (p.22). But this is precisely the case with fertilisers. On the average, fertiliser use in India is way below international benchmarks for comparable crops. What is more, the rate of growth of fertiliser use has declined sharply over the 1990s as a result of an increase in fertiliser prices and this has adversely affected agricultural growth and productivity.

Turning to matters of taxation, Srinivasan suggests that our mechanism of sharing tax revenue between the central and state governments has strong disincentive effects. He suggests that "[T]he centre's efforts in collecting taxes, such as the income tax, the revenues from which are to be shared with the states, are likely to be less vigorous as compared to taxes such as customs which accrue entirely to the entire." (p.36). It is not at all clear whether the reasons for low tax collection can be nailed on the door of the centre-state tax sharing mechanism. Even if it were so, the central government has gotten around that problem by using surcharges on the base direct tax rate to mobilise resources. And surcharges as Srinivasan would be aware do *not* have to be shared with the states.

Srinivasan notes that the direct tax-to-GDP ratio is very low and direct taxes as a proportion of total taxes have been declining. What is more, the proportion of both total tax revenue and direct tax to GDP has been declining over the 1990s. The rate cuts in direct taxes administered over the 1990s have not resulted in appreciable expansion in the tax base. Srinivasan notes that the task of reforming a complex tax system is a challenging one. Whereas that is undoubtedly true, the problem of low tax revenue generation is more an issue of political economy rather than simply an administrative matter. And herein lies the nub of the issue : if as a society we are unwilling to pay taxes then what mechanisms of resource mobilisation are left with the government ? Whereas moving to a genuinely federal structure may have other positive spillovers, will it change the political economy of taxation ? It is because of such reasons that issues such as disinvestment of PSUs needs to be imaginatively considered. It is then far more important to ensure that PSUs have functional autonomy and are efficient and profitable rather than chant the tired mantra of privatisation.

In similar fashion, Srinivasan's analysis of other sectoral reform efforts is either superficial or one-sided. In sum, Srinivasan lectures on India's reform process are both a missed opportunity and a disappointment. None of the above is to argue that reforms. indeed *systemic* reforms are not necessary. Only it is high time that we imaginatively answered questions about what needs to be reformed and why rather than remain wedded dogma.

Mrityunjoy Mohanty
IIM Calcutta