AN EVALUATION OF COMMON MINIMUM PROGRAMME

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"Free Enterprise was born with man and shall survive as long as man survives".

-**A.D. Shroff**
1899-1965
Founder-President
Forum of Free Enterprise

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Within just five days of the installation of the United Front (UF) Government, the diverse group of 13 parties has, indeed, accomplished a remarkable task of presenting to the nation "**A Common Approach to Major Policy Matters and a Minimum Programme" (CMP).**

The atmosphere of "**apprehension**" suddenly transformed into **appreciation and applause** from one and all except, obviously, the BJP. The CMP has been generally well-received with **accolades galore** : "nightmare turns pleasant dreams", "Welcome statement of intent", "Sincere and futuristic", "good script, act on it", "a rainbow agenda", etc. With the smooth passing of the vote of confidence, there is some respite now from the political uncertainty that besiged the country for almost a month. For the time-being, a **new era of coalition-led governance** has been ushered in, perhaps indicating a turning point of the Indian polity.

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A Consensus Statement of Intent : A careful scrutiny of **the 25-page CMP document** certainly gives a feeling that the team of authors, belonging to different ideological backgrounds, have succeeded in evolving **a consensus statement of Intent.** Simultaneously, the UF Govt. intends to "*mark the beginning of an alternative model of governance based on federalism, decentralisation, accountability, equality and social justice, economic and political reforms, respect for human freedoms and openness and transparency*". All these, and much more!

Incidentally, **the CMP Is not a White Paper.** Such a document would have truly reflected **on the state of the economy** and provided concrete evidence about how all these noble intentions could actually be implemented within a given timeframe. Let us wait and watch for the forthcoming budget to unravel the clues. But in the meantime, we need to evaluate some critical issues. (Please see **Appendix** for major highlights of the CMP).

* What message does the CMP unfold on the furtherance of reforms?
* Are there any major contradictions in the pursuit of multiple objectives?
* Will some of the promises be diluted, and even forgotten under various compulsions, financial or otherwise?

Continuation of Reforms : Surely, the CMP is in favour of the continuation of reforms, and is proposing several initiatives in the area of unfinished agenda. Illustratively :

* First and foremost, the CMP is committed to the objective of attaining **high growth of the economy** (as subsequently discussed).

* Second, even in **core areas** like the **restructuring of public sector units (PSUs),** the CMP proposes, among other things, (i) the establishment of **Disinvestment Commission** to advise the government and (ii) rehabilitation of sick or potentially sick PSUs through "a menu of options", including "handing over the management to professional groups or workers' co-operation."

* Third, while ruling out privatisation of LIC and GIC, there is an assurance of further reforms of the **financial sector,** covering insurance where there is "a room for both public and private sector to co-exist and compete."

* Fourth, the reform of the **fiscal policy,** including fiscal consolidation, (i.e. phasing out fiscal deficit to GDP ratio (FDR) to 4%) and taxation reform will continue.

* Fifth, there is a recognition to the voice of discontent from a large section of the **Indian corporate sector** and a promise to have "a constructive dialogue with the corporate sector" and "a policy of transparency and fair play". Simultaneously, it is expected that "*the corporate sector will reciprocate by following the rules and conventions of a healthy market economy. The corporate sector should also keep in mind the paramount interest of the consumer and will be held accountable through an expanded network of consumer courts.*"

* *Sixth, while appreciating the role of* **foreign direct investment** (the economy can absorb atleast $ 10 bn. in a year in the future as against $ 4.3 bn. in the last five years), it is proposed that FDI will be encouraged only in the core sector and infrastructure and not in low-priority areas

(read, consumer goods industries). More importantly, the domestic industry will be assured **"a level playing field"**, when required "to face competition".

* Seventh, in the vital area of **agriculture** (Contributing 31% of our national income and 67% of the population dependent on it), it has a programme for (i) raising investment, (ii) removing controls and regulations, (iii) providing fair and remunerative prices, (iv) augmenting rural infrastructure and credit system, (v) preparing a national policy on water management and water sharing, (vi) providing modern technology, etc.

* Lastly, the earlier reform process is proposed to be corrected for want of "human face"; it is now designed with greater emphasis on the **social and human sectors.**

In this context, it is commendable that the Finance Minister Mr. P. Chidambaram has subsequently announced in a business-like manner a set of guidelines, among other things, on **expenditure management** involving the annual savings of Rs.3,000 crores. At the same time, it is proposed to augment non-tax revenues of the government and in particular, the contribution of the PSUs by way of dividend payments. Accordingly, all profit-making PSUs, which are essentially commercial enterprises, are called upon to declare a minimum dividend on equity of 20% or a minimum dividend payout of 20% of post-tax profits, whichever is higher. In case of PSUs engaged in oil, petroleum, chemicals and other infrastructure sector, the stipulation is that the minimum dividend payout should be 30% of post-tax profits. It may be interesting to note that at present, of the total equity investments of the Central Government in PSUs of Rs.55,683 crores in 1993-94, the return worked out to only Rs.1,014 crores or a meagre 1.82%. Not surprisingly, however, the guidelines on austerity measures have encountered strong reactions and stiff resistance from the Left Wing partners of the coalition government and the trade unions. At the same time, there are confusing signals from the management of the PSUs.

Be that as it may, the CMP, by and large, reflects in terms of both its basic contents and the thrust, **the famous 10-point medium term objectives of Dr. Manmohan Singh's** interim budget 1996-97. In contrast, however, several vital areas of unfinished agenda of reforms seem to have either been deliberately overlooked or ignored. For example, there is no specific mention at all about (i) the exit policy (except that rights of labour and trade unions will be fully protected), (ii) reconstruction of the National Renewal Fund, (iii) amendment of the Companies Act, (iv) opening up of certain areas to the private sector like coal, minerals and oil sector, etc. **In short, there may not be any deviation in the path of reforms, but there can be deceleration in their pace of progress.** The CMP may signify **Common Maximum Pussy-footing** -- an inevitable price of pulls and counter-pulls of divergent ideologically driven coalition partners.

Reconciling the Contradictions : "Growth with the social justice" is going to be the motto of the UF government. No reason to quarrel on this perspective. However, social justice in practice tantamounts to growing "populism" and "symbolic gestures". How would it be possible to reconcile major growth and investment parameters along with the objectives of social justice?

Annual Growth Targets (%)		Investment/Expenditure Targets (% of GDP)
Macro		
(a) GDP	7	Infrastructure 6 (in next few years)
(b) Industry	12	Education 6 (By 2000 AD)
Social Sector Goals (By 2005 A.D.)		Fiscal Deficit 4
(a) Shelter to every family		FDI $ 10 bn. a year
(b) One primary health centre for every 5,000 people		
(c) Abolition of poverty		
(d) Total literacy		

* First, since the Indian economy is seen to be on the take-off stage, high GDP and industrial growth targets are not only necessary, but perhaps also achievable. Yet, the **major missing segment of the matrix relates to the resource position** of the economy. We have already secured an investment ratio of about 25% at present. Given our average incremental capital:output ratio of the last three years, a 7% GDP growth would necessitate domestic savings of atleast 28-30%. There is **no clue whatsoever in the CMP about the required drive towards this high savings ratio.**

* Second, the objectives of fiscal discipline in a phased manner is laudable. But, even the symbolic contribution to various objectives of social welfare programmes would call for an additional expenditure of atleast Rs.12,000-15,000

crores immediately. Already, the Interim Budget has envisaged fiscal deficit of Rs.62,400 crores or 5% of GDP 1996-97. This itself was perceived to be an underestimation. **If, therefore, the goals of social justice have to be met, FDR would move up to atleast 6.5% of GDP.**

* Third, the major villain of the piece is our limited capacity to augment savings due to large revenue deficit. Indeed, strict adherence to the proposals of CMP would result in further aggravation of revenue deficit. High revenue deficit is already causing the phenomenon of "crowding-out". **One wonders how a mere "constructive dialogue" would enable the alleviation of the prevailing problems of shortage of capital, and its high cost for the Indian corporate sector.**

* **A caveat here :** there is a pronouncement for eliminating "all inessential and unproductive expenditure". Easier said than done! more importantly, there is an ambivalence with respect to principles of fiscal management, which **will "not be followed at the cost of development or investment".** If it is so, the private sector may not have to be concerned about the prospect of tight-jacket of FDR immediately.

* Fourth, the UF government intends to achieve high growth rate in a "non inflationary way". But how? **A trade-off between growth and inflation** is always very delicately poised. In 1995-96, although the GDP growth of over 6% and a double-digit industrial growth have been achieved with a relatively low inflation, there is so much of inflation that has been "repressed". **If various administered prices have to be raised or rigidities of the economy are to be removed, either the growth must suffer or inflation accentuated.**

* Fifth, while the CMP talks eloquently about the need for reforms and restructuring of PSUs, there is a considerable degree of hesitancy in dealing with the sick and potentially sick PSUs. So also are the proposals relating to the use of revenue generated from disinvestments. Obviously, the coalition government will have to perform virtually an impossible task of the management of contradictions. This is particularly because what one coalition partner proposes the other disposes.

Perhaps, one can decipher **several other areas of conflicit.** Not surprisingly, the CMP talks in a very general way on several crucial issues like (i) tax reforms will continue, (ii) inessential and unproductive expenditure will be eliminated, (iii) subsidies will be better targeted to the really needy and poor and PDS will be revamped especially for the benefit of the weaker sections (iv) public borrowings will be severely restricted and borrowed money will not be used for consumption expenditure (v) domestic debt will be reduced, and so on. **But for accomplishing such complex tasks proper institutional mechanism has yet to be evolved.**

Also, there is no doubt that several corrective measures have to be undertaken by the present government as there has been a neglect of three crucial sectors in the last five years. These crucial sectors are (i) agriculture, (ii) infrastructure development and (iii) social sector reforms. While emphasising the specific programmes in these areas, there has not been sufficient appreciation of the major problems of resource shortage. The Indian economy is, at present, acutely constrained by what one may describe **"the financial iron triangle".** The baseline of this triangle is governed by our present domestic savings ratio hovering around 24%

of GDP. We have, surely, a long way to go to catch up with the East Asian miracle countries wherein the savings ratio ranges from 30-35% of GDP. Of the other two sides of this triangle, one is fiscal deficit, which the CMP would like to be reduced from the present about 6% to 4% of GDP through the process of fiscal consolidation. The moot question is whether this could be achieved. The other side of the triangle is circumscribed by the RBI norms of the so-called prudent limit on current account deficit placed at 1.5% of GDP. To achieve the multiple socio-economic objectives of the CMP, India not only requires a stable political system committed to the goals but also to somehow break-away from this financial triangle of inadequate domestic savings, unsustainable fiscal and, in particular, revenue deficit, and the over-riding limit of current account deficit.

Drive Towards "Federalisation! : The CMP has gone to a considerable length to propagate the cause of "federalisation", reflecting the strong emergence of regional parties. Apart from proposing to set up a high-level committee to review and update the recommendations of the Sarkaria Commission on Centre-State relations, there is a **specific emphasis on ensuring greater autonomy to the States.** It speaks eloquently about "a strong Centre, strong States and viable Local Bodies". All this seems very desirable in the post-liberalisation scenario, wherein the decentralisation of economic power has become the order of the day. Yet, one is **not able to clearly grasp the likely serious repercussions on the fiscal health of the Central Government.**

There are, indeed, **confusing signals about the devolution of resources** from the Centre to the States. According to an expert observation, net Central transfers to States have declined from 6% of the GDP in 1990-91 to 4.5% in 1995-96. All this is attributed to the resources squeeze experienced by the Centre, and its continuing efforts in the management of fiscal deficit. With **a number of States vigorously pursuing schemes of populism** a la Andhra Pradesh, sacrificing revenues through introduction of prohibition (Rs.1,400 crores) and the scheme of Rs.2/- a kilo rice (Rs.1,300 crores), **the pressures are expected to mount on the Centre to release more resources** (including sharing of the corporation tax) to the States.

While it is no one's case that the fiscal health of the States has not to be improved, the drive towards federalisation may result in frittering away of resources, thereby aggravating the problem of fiscal imbalance in the economic system.

Some Major Inferences : What major inferences can be drawn from the CMP?

* First, it is **neither a blue-print** of the socio-economic agenda of the UF government nor a clear-cut mechanism about how these "intentions" would be translated into an action programme within a given time-frame.

* Second, **some of the constituents of the UF may even reconsider their position subsequently.** For example, the CPI (M) has already indicated that it is not in favour of opening the insurance sector. Reconciliation of coalition politics and coalition economics is going to be an arduous task. The observation of the ex-Prime Minister

Mr Narasimha Rao that there will be "unity at Centre and struggle in the states" is indicative of the grand tight-rope walking.

* Third, the strong emphasis on the federalisation would **accentuate diverse ways of functioning of the States** and local self-government. More autonomy to the States may be good in theory; but would it guarantee a responsible governance, fiscal or otherwise?

* Fourth, in the forthcoming budget and also in the Ninth Plan **some significant dilution of original intentions might be inevitable.** Illustratively, the objectives of high growth (7%) with low FDR (4%) and simultaneously increasing social sector spending are not internally consistent.

* Fifth, **the corporate management** will have to carefully watch out the implications of growth with social justice. **The Finance Minister may be tempted to** (a) raise personal income tax on the richer section, (b) increase excises on high-priced consumer durables to curb the growing consumerism, (c) bring within the tax net the so-called zero-tax companies, and (d) modify rates of depreciation, etc. Besides, the failure to manage fiscal deficit would perpectuate the 'crowding-out' phenomenon.

* Sixth, it would be interesting to see **how the UF government would tackle the likely prospect of trade union militancy.** Could there be much hope for industrial restructuring in the wake of the rejuvenation of Union activity?

* Lastly, by its very nature, a coalition government with such divergent constituents would make the functioning of the

government rather slow. **There is still some enchanting music of socialism even in the midst of the market oriented reform.**

On the positive side, however, there seems to be a sort of **national consensus** that reforms should go on. In a pluralistic democracy like India it may be better to have a change of government. When the opposition parties come to power, one hopes that their perceptions of reality would become more mature.

In July 1991, when Dr. Manmohan Singh embarked upon the reforms supported obviously by the then Prime Minister, Mr. Narasimha Rao, it invited criticism from a large section of the Indian society and, in particular, the leftist parties that reforms were dictated by the IMF and the World Bank. During the first couple of years of reforms, except for the then Prime Minister and the Finance Minister, there were virtually no takers for reforms even within the cabinet. But due to consistent efforts of the last few years, the fact is that the gains of reforms have now become visible despite certain distortions. Thus, one perceives that **the reforms process is gaining acceptability** from wider and wider sections of the Indian polity. This is a major achievement and a victory for reforms in India.

To conclude, the successful implementation of the Common Minimum Programme requires an urgency of Common Maximum Effort -- not for sharing the spoils of the power, but for striving to make India a strong and prosperous nation.

Appendix

Highlights of the Common Minimum Programme

Important Policy Proposals :

- The **Ninth Plan** (1997-2002) is to be launched on 1st April, 1997; detailed document within 6 months, articulating the priorities and programmes.
- **Greater degree of federalism** : a review and implementation of the Sarkaria Commission recommendations without delay. Greater financial autonomy and freedom in economic matters to the States.
- **A bill to set up the Lok Pal** and other electoral reforms in the forthcoming Budget Session.
- **A new law is to be formulated to deal with industrial sickness.**
- **Foreign Investment Promotion Board (FIPB)** : to review the scope, functions and the procedures for effective and credible promotion of foreign investment in India.
- **The establishment of a statutory authority to deal with the growing nexus between politicians, civil servants, businessmen and criminal elements (based on the Vohra committee report).**
- **The Prasar Bharati Act** : review and implementation.

Economic Agenda :

Agriculture :

- Raising investment in agriculture.

- Abolition of controls and regulations which are in the way of increasing farmers' income.
- Special rural infrastructure development plan for backward regions and doubling of rural credit.
- National policy on water sharing and water management.

Industry :

- Further deregulation and decontrol to encourage private investment -- foreign or domestic.
- **A 'level playing field',** for domestic industry when required, to face competition.
- FDI inflow of $10 billion a year, in the core and infrastructure sectors, while discouraging entry of MNCs into low priority sectors.
- Suitable credit, taxation and other measures for directing new investments in desirable sectors.
- Independent **Tariff Commission** to determine appropriate tariff structure for each product and industry groups in accordance with world levels.
- Restructuring of PSUs : (a) Strengthening of efficient PSUs, (b) rehabilitation of sick PSUs through a "menu of options", (c) withdrawal of PSUs from non-core sectors on a case-by-case basis, (d) setting up of PSU Disinvestment Commission and earmarking the proceeds for health, education and new public investment projects.
- Revamping of BIFR.
- Recognition of Trade Unions through secret ballot.

Financial and Infrastructure Sector :

- Further liberalisation of the financial sector, including insurance, while strengthening the LIC and GIC. Reforms for attracting long-term domestic and foreign funding in the infrastructure sector.

Fiscal Issues :

- Greater fiscal prudence through continued tax reform, curbing unproductive expenditure and targeting of subsidies. No compromise on developmental expenditure.
- Containment of growth of domestic public debt.

Other Economic Issues :

- Effective PDS for poverty alleviation and price stability.
- Eradication of poverty by 2005 through employment generation.
- Protecting the interests of agriculture, industry and genetic resources by forging international and multilateral agreements.
- Greater participation in the regional trade blocks such as SAFAT and ASEAN.

Non Economic Issues :

- Removal of gender discrimination : one-third of the elected membership in Parliament and State Legislatures as well as government jobs to be reserved for women.
- The reservation policy in public employment for SCs, STs and OBCs to continue, and extended to Dalit Christians. A High Level Commission to enquire into the problems of STs.
- The 15-point programme for minorities to be reviewed.

- The right to free and compulsory elementary education to be made a fundamental right and enforced through suitable statutory measures. The mid-day meal scheme to be implemented in all the States.
- The goal of National Literacy Mission to cover 10 crore adults by 1998-99 and full literacy by 2005.
- Promotion of R & D and strengthening science and technology.
- Abolition of discretionary quotas enjoyed by Ministers.
- Environment protection and preservation and wasteland development.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

-Eugene Black

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