The Indian Primary and Secondary Education Mega Project

Supporting Argument On Regulations and regarding procedure to remove regulations that restrict National Growth (previous precedent)

Excerpt from the Book " India Unbound " - Gurcharan Das bother to make its finest achievement an election issue. It is true that the average voter did not understand the details of the reforms, but he was not unaware of his improved economic circumstances. One explanation for the Congress defeat is that people perceived Rao merely as a gatekeeper to history—he was there at the right time when history broke. They did not credit him for their improved lot. To understand these ironies, it is necessary to see how the reforms unfolded, step by step, in the golden summer of 1991.

BEGIN

A human bomb killed Rajiv Gandhi in May 1991. He was in the midst of an election campaign, and his death sent around a wave of sympathy that carried the Congress to victory. The party chose Narasimha Rao as Prime Minister. It chose him because he was seventy, quiet, dull, and he threatened no one. He had been in the top political circles in a long career, and had managed the major ministries of the government with distinction—although he had never held an economic portfolio. He was also an intellectual and knew nine Asian and European languages. He was getting ready to retire from Parliament when the party installed him as its 'stopgap leader' to head a minority government which no one thought would last very long. However, he surprised everyone as he unleashed the biggest revolution in India since 1947.

The financial crisis was long brewing. Its main cause was the profligate and short-term commercial borrowing resorted to by Rajiv Gandhi's government since 1985. When the Gulf crisis came and oil prices went through the roof, India found that it had no money to buy oil. The country's forex reserves had dwindled to a dangerous level and there began a flight of capital by non-resident Indians. When Rao came on the scene a dialogue had been going on with the IMF for a bailout package. But Rao's predecessors, Chandrashekhar and V.P. Singh, had not been brave enough to face the crisis. Rao understood that India was bankrupt and his first and most important decision was to get a good finance minister. He did not trust a politician to do the job; he wanted a professional. He thought of the distinguished I.G. Patel, who had recently

returned to India after heading the London School of Economics. But he was identified with Morarji Desai in many Congress minds. Rao also wanted a younger man, and he concluded that the reticent and soft-spoken economist Manmohan Singh might be a better choice. He had had an equally distinguished career in which he had been governor of the Reserve Bank. He had recently headed the South-South Commission in Geneva and during this time had made a serious effort to understand the East Asian miracle. That is where he realized that India had to abandon many of its old and foolish policies.

The President swore in the new cabinet on 21 June 1991. The next day Rao announced to the nation that there was a crisis and his government intended to 'sweep the cobwebs of the past and usher in change'. Manmohan Singh's first act as finance minister was to ask S. Venkitaramanan, the Reserve Bank governor, and C. Rangarajan, his competent deputy, to fly up to Delhi. The following day the three informed the Prime Minister that the country was bankrupt. Reserves were down to two weeks of imports. They knew that the only hope was a loan from the International Monetary Fund. Indeed, negotiations with the IMF were in an advanced stage with the previous government. Somewhere along the way, the cautious Narasimha Rao realized that the crisis was an opportunity for making bigger changes.

He called a closed-door meeting of important opposition leaders where Manmohan Singh acquainted them with the seriousness of the situation. Only a loan from the IMF could bail us out, he said. However, we had to first put our house in order. He spoke about the need for basic reforms. Short of telling them that he was going to devalue, he sought their support for the tough actions that the government intended to take. After that, the finance minister spoke to M. Camdessus, the managing director of the IMF, promising him major reforms in trade and industrial policy.

The government devalued the Indian rupee by 20 per cent in two steps over the first three days in July. Manmohan Singh thought it prudent to devalue in two stages to minimize adverse reaction. After the second devaluation, he met P. Chidambaram, the new commerce minister, and Montek Singh Ahluwalia, commerce secretary, and told them that he wanted to abolish the export subsidy (known as the Cash Compensatory Support—CCS). He argued that the devaluation had made CCS redundant by giving the exporter the same incentive through a cheaper rupee. Its abolition would help him reduce the fiscal deficit significantly—by 0.4 per cent.

Chidambaram's first reaction was that it would be political suicide for a new commerce minister in the first days at a new job. CCS, he argued, was his most important instrument for encouraging exports. How would he face exporters? 'Let me think about it,' he said. Manmohan Singh replied that he would have to think quickly because the PM wanted to announce it the following morning. Chidambaram sulked, but he had to agree in the end. He asked if he could also announce a comprehensive trade reform at the same time. The finance minister asked, 'By tonight?' Chidambaram nodded. They agreed to meet in the evening to review the trade proposals.

Although it was his first assignment in an economic ministry, the new commerce minister had proved to be a fast learner. During his first week on the job he had put in long days and nights and understood the major issues. He had read reports voraciously and realized that the country desperately needed trade reform. A Harvard MBA, Chidambaram understood business, and he was instinctively for opening up. As a lawyer for industry, he had seen the damage caused by the old policies. Before taking over as minister, he had half jokingly told D.R. Mehta, the chief controller of imports and exports (CCIE) that he could understand the first half of his job, but not the second. If the country wanted exports, why did it need a controller? He also told the CCIE that if it were up to him, he would burn every copy of the infamous Red Book—the commerce ministry's bible, which minutely spelled out the controls applicable to thousands of products. Dreaded by businessmen, it was a 'rent-seeker's guide' for the 1000-strong

staff of controllers in the CCIE's department. The earnest controller was not amused.

On returning to his office in Udyog Bhavan, Chidambaram called in Montek Singh and D.R. Mehta. He asked them if they were up to dismantling the trade side of the Licence Raj. Although it had taken over forty years to build, they had only eight hours to demolish it. He could tell from their faces that Montek was, but Mehta was not. He told Montek, 'Let's work in my chamber. I am a lawyer and used to dictating briefs, so it will be quicker.' They knew that their main job was to kill import licensing. If they could replace licences by a marketable incentive, there would be no need for them. Because of foreign exchange scarcity, exporters used to be given licences to import materials that went into making products for export. Montek Singh knew of such an incentive; it had been kicking around the ministry for several years. Called Exim scrips, it would allow exporters to earn foreign exchange for part of the value of their export. They could sell these in the market or directly import goods. Non-exporters or domestic industries that needed to import raw materials, instead of applying for an import licence, could buy the Exim scrips in the market.

Chidambaram loved this instrument because it would eliminate the bureaucrat from the process. He grabbed it and within hours the two men eliminated miles of red tape, months of delays, and the hassles, anguish, and corruption that the Indian state had built up over decades. They worked like maniacs and by seven o'clock they had a dramatically liberalized trade policy. Manmohan Singh was pleased when he saw the proposals. They would provide a signal to the world that India was opening up and moving to a sensible, market-determined exchange rate. The three then went to the Prime Minister's house at 9 Motilal Nehru Marg.

Narasimha Rao came out of his bath, looking fresh in a lungi. Chidambaram sat next to the PM and briefly explained the proposals. The PM turned to Manmohan Singh. 'Do you agree with this?' he asked. Manmohan Singh nodded. 'In that case, sign it.' Manmohan Singh did so, and the PM penned his own signature at the bottom of the page. Thus began the most comprehensive structural reforms in India's history. The specifics of some of the proposals went over his head, but Narasimha Rao was satisfied with their general direction to deregulate. He also trusted his three visitors. To those who understand the tortuously slow pace of decision making in the government, this was a revolutionary event. Four men with commitment and courage had achieved what seemed impossible twelve hours ago.

To Chidambaram's credit, the following year he agreed to abolish Exim scrips for an even better arrangement—dual exchange rate—that cut red tape further and eliminated the bureaucrat from the process. It was courageous to sacrifice an instrument with which he had become identified and to which he had given birth. The country kept growing intellectually and the following year the finance ministry introduced the unified exchange rate, an even better mechanism, which took India to currency convertibility on the trade account. Having gone this far, A.N. Varma and others suggested to Manmohan Singh to go all the way and make the rupee convertible, but he was too cautious and unwilling to go the full distance. The rupee is still not free on the capital account. Many argue that his conservatism has been a blessing for India as it has spared it from catching the 'Asian flu'. Chidambaram's major failure in 1991 was his inability to close the massive departments of CCIE and the Directorate General of Foreign Trade, who continue to do mischief and are a major stumbling block for our exports.

Rao now wanted to dismantle the industry side of the Licence Raj. He had watched Rajiv Gandhi's modest attempts at reform in the 1980s. Even these small efforts had yielded significant benefits. He had travelled abroad and he knew what was happening in the world. The collapse of communism had pulled the rug from under the planning and controlling state. So, he had deliberately decided to retain the industry portfolio. He brought in A.N. Varma to become his principal secretary to drive this process. He remembered that Varma had championed

delicensing in a large number of industries during V.P. Singh's government when he had been industries secretary. He asked Varma to dig up the old proposals. Varma was delighted that the reform package that he had prepared with Rakesh Mohan might finally see the light.

When he saw the Varma-Mohan proposals, Rao felt that they did not go far enough. He sought Manmohan's help. Manmohan Singh agreed that we should delicense more industries, scrap the MRTP asset barrier over business houses, and give foreign investors majority share in their Indian subsidiaries. A small group of officials from the PMO and industry (Varma, Suresh Mathur, Jairam Ramesh, and Rakesh Mohan) spent the next few days finalizing the policy. There was some opposition from finance ministry officials, but Manmohan Singh stepped in and overrode their objections. The minister of state for industries, Ranga Kumaramangalam, was not a reformer and Manmohan Singh had to lobby hard to get him in the boat. The PM took a radically liberal industrial policy to the cabinet.

Cabinet meetings in India are quiet affairs and there is little open debate. They are also secret; thus, it is difficult to get any of the actors to talk. When Rao, in his role as industries minister, presented the New Industrial Policy, he heard no complaints. Taking it as assent, he asked, as though thinking aloud, 'If we are going to open up, why not go the whole hog? Why don't we delicense cars and whole lot of other things as well?' Manmohan Singh concurred, 'In that case, let's open everything except for a small negative list related to security and the environment.' Varma, and other officials sitting at the back, could not believe their ears. In a matter of minutes, Narasimha Rao and Manmohan Singh seemed to be destroying the Licence Raj.

Suddenly, the Prime Minister turned cautious. He looked at the glum faces of the old Congress guard. They would not argue against the new ideas nor support them. They had led an unexamined life. They had never really thought about the old policies—they had just accepted them as party policies. Rao now turned to the glummest of the faces. He asked them to get together and review the draft with Chidambaram and Manmohan Singh. In that meeting real feelings finally came out and there was plenty of dissent. Arjun Singh said that he found no continuity with past policies. Fotedar thought the policy anti-Nehru and anti-Indira. Shankaranand did not find a mention of cooperatives. Solanki complained that the government was giving up control over where industry had to locate. Although Chidambaram and Manmohan Singh defended the reform courageously, it was clear to everyone that the policy was in trouble.

When Rao heard about what had happened, he asked Chidambaram to work on the language of the policy to make it politically palatable. To show that there was continuity with the past, Chidambaram hit upon the expedient of inserting a paragraph from Nehru, another from Indira Gandhi, and a third about Rajiv Gandhi's reforms. Thus, the policy was saved. However, it came out sounding furtive and apologetic. Instead of boldly announcing a change in direction and explaining why we had to change, the draft suggested as though the new policy was a continuation of Nehru's socialism. The incident shook Rao in his resolve. He realized what he was up against in his own party; he would have to be careful. Although Manmohan Singh wanted him to announce the new industrial policy by mid-July—he did not want it linked to the budget because it might risk both—opposition from the Congress party delayed it. In the end, it was announced on the morning of 24 July. In the evening, Manmohan Singh presented the budget.

In the next morning's papers, the new industrial policy had completely upstaged the budget and all other news. No one in the government could have imagined the positive response. Over the next few days, the media and the public were euphoric. There was some criticism by the left, the vernacular press, and in the backward states of Bihar, MP, and Orissa. Narasimha Rao realized that the people were indeed ahead of the politicians in wanting reform. Only the fertilizer price increase in the budget drew opposition, and that too from the

powerful farm lobby in the Congress.

To capitalize on the euphoria, Manmohan Singh decided to move rapidly. He called a meeting of the important secretaries associated with economic policy, including the cabinet secretary, Naresh Chandra, and Varma, the PM's secretary. He spoke to them about the economic crisis and the need for change; he again talked about being worthy of IMF's trust; then he spelled out what more had to be done; and it had to be done with speed. While the Prime Minister respected differences, he said, he would not tolerate anyone putting obstacles in the way. This was the time to speak up. No one would be penalized and they would be relocated in good jobs. It was an unusual meeting. Most secretaries reacted positively. They had rarely been given such clear direction.

'People have the wrong impression,' says Montek Singh. 'The top bureaucracy is highly disciplined, and it is not obstructive when there is clarity at the top.' The meeting led to the departure of S.P. Shukla, the finance secretary. Rao then set up a steering committee of secretaries, headed by Varma, which began to meet every Thursday morning. The committee became the crucial instrument for carrying the reforms forward at an unprecedented pace over the next two years. Varma ran the committee tightly. No one was allowed to travel on Thursdays. The committee met for two hours during which the concerned secretary presented one or sometimes two reforms. They discussed the issues openly. Varma summarized and minuted the discussions and the reform proposal was taken to the cabinet for approval, and then on to Parliament. I recall my feelings of excitement in those days as the government announced a new reform almost every week.

By October, Manmohan got Chidambaram to let him have Montek Singh in the finance ministry as secretary, economic affairs. Why did Chidambaram let one of the ablest reformers go? Chidambaram, it appears, by then had the hang of things in commerce. He was on top of the policy issues and no longer needed a 'reformer economist' but an able administrator to look into the nitty-gritty of implementation. Montek was not an implementer. Manmohan Singh wanted more fresh blood. He wanted Ashok Desai, the liberal economist.

Desai claims that he got a call from the Union Public Service Commission on 24 July to send in his CV. He was called for an interview at 9:30 and waited till 1:30 p.m. while the other candidates were interviewed. When he went in, he was asked only one question—did he have any experience in the government? Economics was not discussed, and the interview was over. Ashok Desai was rejected. He felt he had been used by a system that did not allow a finance minister to hire an economist. When Montek came into the finance ministry, he quickly negotiated a package for Ashok Desai with the Department of Personnel, got the approval of the cabinet sub-committee, and brought him in as chief consultant. Meanwhile, Deepak Nayyar was uncomfortable with some of Manmohan Singh's reform policies, and he resigned as chief economic adviser. Thus, Ashok Desai came on board in December 1991 when budget preparations were in full swing. He was ambitious and rearing to reform.

Over the next two years, the reformers had major achievements to their credit. The Central government's fiscal deficit came down from 8.4 per cent of GDP in 1990-91 to 5.7 per cent in 1992-93. Exchange reserves shot up to $20 billion from $1 billion in July 1991. Inflation came down to 6 per cent from 13 per cent by mid-1993. The reformers virtually abolished industrial licensing. They freed large industrial houses from the control of the MRTP Act, which had hindered expansion and investment. They drastically cut the realm of public sector monopoly and opened banking, airlines, electric power, petroleum, and cellular telephones, among other businesses, to the private sector. They opened the country to foreign investment, allowing 'automatic entry' in thirty-four industries and majority foreign ownership; they set up the Foreign Investment Promotion Board, which established a record of speedy clearances under A.N. Varma's leadership. Foreign investment began to double each year and it rose from $150 million to $3 billion by 1997 (and would have been much

higher but for our failure to deregulate power and telecom sectors properly).

They dismantled the complex import control regime. Raw materials, components, capital goods could now enter virtually free of restrictions. Customs duties gradually came down from a peak of 200 per cent in 1991 to 40 per cent by the mid-'90s—the average duty declining to 25 per cent. The rupee went from a typical fixed overvalued exchange rate to a unified market-determined floating rate and current account convertibility in the same period. (Exim scrips, it turned out, also involved red tape and were easy to forge; in any case, they became redundant when we moved to a floating exchange rate.) Tax rates came down from 56 per cent in 1991 to 40 per cent by 1993 (and further to 30 per cent in Chidambaram's 1997 budget). They simplified the vast network of multiple excise duties, shifting to an ad valorem duty. In the financial sector, they reduced the high reserve requirements of banks (designed to give the government cheap funds) and let interest rates on government securities be determined by the market. They placed a cap on government borrowings with the Reserve Bank (allowing the RBI to sanction treasury bills at market rates when the predetermined ceiling was breached). They opened capital markets to international portfolio investors, whose investments rose to $11 billion by the end of the decade. At the same time, they allowed Indian companies to borrow abroad through global depository receipts. They introduced screen-based trading on the stock markets and dematerialized the shares.

It was quite an achievement! But after the first two years the government stopped reforming and there was much left undone. The government had not begun to privatize the public sector, which was bleeding the economy. It had not introduced labour reforms—it is still impossible to lay off a single worker even if there is no production. It is still impossible to close a private company even when it is bankrupt. It had not opened agriculture or insurance. It had not dared tackle the vast subsidies that were slowly eating away the financial health of the country and were primarily responsible for the unacceptably high fiscal deficit. It had practically abolished the Licence Raj, but it had not done anything about 'Inspector Raj'—or the army of inspectors who make life hell for an Indian entrepreneur. Most of the inspectors were in the state governments, it is true; but the most vicious ones, by common consent, were in the Central departments of excise and customs. It had not solved the problems of India's creaking infrastructure. It had not begun the reform of education and health, the two areas of the greatest opportunity. Nine years after the golden summer of 1991, the reforms remained half-complete.

The last few years have been a frustrating time for reform-minded Indians. We mistakenly thought that we had become a 'tiger'. But we have moved at such a painfully slow pace after 1994 that I have resigned myself to the fact that India is an 'elephant' that takes two steps forward and one step backwards. This is the pace of Indian democracy. Ironically, the economy in the '90s has, in fact, grown more like a tiger at an average 6.5 per cent a year, despite a recession in industry. The biggest failing is that no one has tried to sell the reforms to the people. As such, the perception has grown that reforms help the rich and hurt the poor. Nor is there a clear, holistic vision of the future. Admittedly, there are obstacles—many of them the result of democracy. Trade unions prevent public sector restructuring; the powerful farm lobby prevents the removal of subsidies; the left wants to stop everything. However, other democracies have succeeded in tackling these reforms. Why has India failed? What are the lessons from the summer of 1991, when everything seemed to be going right? Where did the energy for the reforms come from? Why did the reforms suddenly stop after the first two years?

To find the answers, I decided to meet the main players in the drama—Narasimha Rao, Manmohan Singh, P. Chidambaram, Montek Singh, A.N. Varma, Ashok Desai, Rakesh Mohan, and Deepak Nayyar. This was not difficult because I knew them, except the former Prime Minister. All of them were remarkably open, but they suffered from an unusually poor memory. I find

it odd that none had kept a diary, considering the historic nature of their acts. But this is a common failing of Indians, and all our historic sourçes down the ages have been foreigners. A.N. Varma had to persist for months to get me an appointment with Rao. First, he wanted my questions in writing. Next, he wanted a preliminary meeting to size me up. Then, he replied to my questions in writing. Finally, he wanted Varma to be present at our face-to-face meetings. When we met, he was circumspect and defensive. He appeared to be a man on the run. I did not find the reformer who had changed the course of history for one-sixth of the world's people.

As we sat down, the former Prime Minister confessed that he was a Congressman and not a revolutionary. 'Congress has always stood for something. I merely continued its legacy and never wished to reverse the past.' His chief concern, he said, was poverty, but he had realized that growth was needed to eliminate it. His reforms were designed to raise the growth rate. However, growth alone was not enough. We had to attack poverty directly through employment schemes, and his government had spent more on these schemes than on any other. He was against privatization of the public sector because of his deep faith in Nehru's mixed economy. 'You don't strangulate a child to whom you have given birth,' he said. However, he sought to improve the public sector's performance by introducing competition from the private sector. He disagreed that he had stopped the reforms after two years—'India has had the right pace of reform, and a faster pace might have led to chaos.' As he talked, I felt that he was more interested in defending his policies; more significantly, he seemed to be defending the status quo.

Nevertheless, after speaking to all the players, I feel reasonably convinced that Narasimha Rao was the key factor behind the 1991–93 reforms. Although Manmohan Singh, the helmsman, got the credit, it was Rao who took the tough and aggressive decisions and provided the energy and political support. He was shrewd and knew how to deal with dissent. The manner in which he set up the review of industrial policy