

SAP-PING INDIA IN THE NAME OF 'GLOBALISATION'

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A series of policy measures, starting with the devaluation of the rupee, new industrial policies and new trade policies, launched by the government since July 1991 were presented as changes designed to cope with a critical external payment crisis. But it soon became clear that these policy measures were initial moves aimed at what is known as structural adjustment of the Indian economy. The memorandum on the basis of which the International Monetary Fund (IMF) sanctioned \$2.2 billion of standby credit to India, made this explicit.

The standby credit was extended to provide balance of payment support for the approved structural adjustment to be implemented during a period of 18 months under IMF surveillance. India also received a loan of \$900 million from the World Bank, of which \$600 million is a Structural Adjustment Loan (SAL), for which the conditions have not been disclosed. Meanwhile, the government was also negotiating \$7 billion of credit for a period of three years, under the IMF Extended Fund Facility (EFF), with stiffer conditionalities attached to it, for the completion of the structural adjustment programme over three to five years.

So far, the following measures have been taken by the government to implement the structural adjustment programme.

- a. Devaluation of rupee by 21%
- b. New industrial policies allowing more foreign investments
- c. Opening up more areas for private investment and referring 'sick' public sector units to the Bureau of Industrial Finance and Restructuring
- d. Sale of part of government equity in profitable public sector enterprises to the private sectors
- e. Sick public sector enterprises to be closed down
- f. 'Exit policy' for the private sector;
- g. Reform of the financial sector by allowing foreign banks to carry on business
- h. Decanalisation of all imports
- i. Indiscriminate export promotion, and
- j. Market-friendly approach and less government intervention.

Impact on living conditions

The social consequences of economic adjustment have been well documented. The adjustment programmes require that the government increase "efficiency" by cutting spending, so that the money saved can be reallocated to debt repayment. Because the welfare sector has a badly organised political lobby and is not "cost effective", it is usually the first to suffer cuts. The areas where cuts are maximum includes health, employment, food, education, nutrition, child welfare, and housing.

Quite often, the debtor countries are accused of maintaining high subsidies and bloated civil services, thereby increasing budget deficits. But this is not true. The USA alone maintains a greater budget deficit than any single third world country. In fact, the Industrialised countries maintain high subsidies and welfare spending as compared to the low income countries, who

are then forced to cut their expenditures on subsidies and welfare activities. The following table reveals this.

Amount spent on	Low Income Countries	Industrialised Countries
Subsidies	6% GDP	18% GDP
Public Sector Wages	2.4% GDP	4% GDP
Social Spending	8% of gov't budget	56% of gov't budget
Capital Spending	16% of gov't budget	6% of gov't. budget
Total government spending	26% GDP	29% GDP
Budget deficits	4.8%	5.1%

In many African countries, educational establishments are closed down and teachers are laid off due to lack of funds; in the health sector, there is a general breakdown in curative and preventive care as a result of the lack of medical equipment and supplies, poor working conditions and the low pay of medical personnel. The lack of operating funds is in part 'compensated' by exacting registration and other fees such as the 'drug cost recovery scheme'; and the parent teacher association (PTA) levies exacted by local communities to cover expenses previously covered by the Ministry of Education, and so on. This process, implies the partial privatisation of essential government social services and the de facto exclusion of large sectors of the population (particularly in rural areas) which are unable to pay the various fees attached to health and educational services.

It should be emphasised that the structural adjustment programme not only results in increased levels of urban and rural poverty; it also implies a reduced capacity of people (including middle-class households) to pay for health and educational services associated with cost recovery schemes. In sub-Saharan Africa, for instance, the inability to pay for prescription drugs tends to reduce the levels of attendance and utilisation in government health centres to the extent that the health infrastructure and personnel are no longer utilised in a cost-effective fashion. While cost recovery schemes may ensure the limited operational viability of a few select health centres, the tendency is towards (a) increased social polarisation in the health care delivery system and (b) a reduction in health coverage and an increase in the already large percentage of the population which has no access to health. Or in other words, macro-economic policy results in a major disengagement of human and material resources in the social sectors.

The IMF and the World Bank point, however, to the 'social sectors' and 'social cost' of SAP as something 'separate. According to the dominant economic dogma, these 'undesired side effects' are not part of the economic model. They are separate.

The 'social costs' must be balanced against the 'economic benefits' of macro-economic stabilisation. Our position is that the so-called 'undesired side-effects' particularly in the areas of health, child nutrition and education, stem from the inner logic of the economic stabilisation measures.

Cuts in development expenditure

In the memorandum of understanding submitted to the IMF, the government committed itself to reducing the fiscal deficit from 9% in 1990 to between 3 and 4% during the three year period starting with 1991-92. But whether this reduction will be achieved at the expense of development or non-development spending becomes the moot question. The recent trends indicate that the expenditure on non-development spending such as the police and paramilitary forces is increasing. Budget reductions will be achieved at the expense of development spending with adverse effects not only on economic growth but also on poverty alleviation. If the Government is serious about austerity, it should reduce the non-development spending.

The basic problem of the Indian people continue to be those of hunger, under-nutrition, avoidable disease, the absence of adequate clothing and shelter, illiteracy, servility and, in general, the incapability of people to lead full lives. At a time when the most urgent need of the Indian economy is public action to protect and extend the entitlements of the poor and the underprivileged, the government has inaugurated an economic policy that is a major assault on their living standards.

For the people of India, the portents from the 1980s are ominous. It is a grim reflection of the priorities of the government, and its neglect of the people that programmes of health, education and employment are being weakened just at a time when a security net, if anything, needs to be strengthened

The signals of a spiralling inflation are growing stronger day by day. The annual rate of inflation in wholesale prices has risen sharply in the last few years, from 5.8% in 1986-87 to over 10% by 1992. Furthermore, as the prices of food items rose faster than those of non-food products, households that spend a large share of their budget on food, mainly poor households, have been hit the hardest.

Growing unemployment

On the employment front, the picture is again bleak. The number of applicants on the live registers at the employment exchanges (an indicator, of course, of only a small fraction of the problem of unemployment) has been rising. There were 33.2 million applicants for jobs in 1990. In the first four months of 1991 alone, the number of applicants grew to 34.9 million. In rural areas, there are tens of millions of persons, men and women, who are under-employed. On average, it is estimated that a worker in agriculture only obtains 150 days of employment in a year and remains unemployed for about seven months.

The pattern of growth in the 1980s, if anything, exacerbated the problem of unemployment. While the growth of industrial output was reasonably high in the 1980s, relative to previous experience, this has not been translated into a faster rate of growth of employment. The index of manufacturing production grew at 8.9% per annum during the period 1984-85 to 1989-90. Between 1985 and 1989, total employment in the private sector, however, rose only marginally, from 7.43 millions to 7.46 millions, and employment in the private manufacturing sector actually declined. The number of people employed in the private sector of manufacturing was 4.48 millions in 1985 and was only 4.37 millions in 1988. The new

industrial policies say nothing of how the gap between the rate of growth of the labour force, 2.1%, and the annual rate of growth of employment, 1.5%, is to be bridged.

Budget allocations for rural employment programmes have fallen even at current prices: from Rs. 21,000 millions in 1989-90 to Rs. 20,000 millions in 1990-91. This is a fall of more than 13% in real terms. Other programmes of rural development have been neglected. Allocations for the Integrated Rural Development Programme (IRDP), the major anti-poverty programme in the country, were brought down from Rs. 3,720 millions in 1989-90 to Rs. 3,560 millions in 1990-91 in current prices. Again, the decline in real terms is even greater, and of the order of 13%.

Rising prices and declining wages

In 1991, the wholesale price index increased by 13%. The price rise during 1992 was the steepest in the past decade. The average annual rise during the 1980s was six to seven%. The consumer price index for industrial workers also increased substantially: during July - November 1991 it increased by 15%.

Policy measures related to export of agriculture commodities will restrict domestic supplies and fuel inflationary tendencies. The rise in the public distribution system issue prices of rice, wheat, coal prices and of Delhi Transport Corporation fares were in line with such policy measures. Moreover, in the IMF letter of intent, the government proposed to freeze cost-inflation allowance payment to its employees from 1992-93, and this wage freeze will have a percolating effect on the employees in the private sector. The worst sufferers are the workers in the unorganised sector, who will not be compensated for a price rise due to their weak bargaining power.

Impact on the environment

It is recognised that India's poverty is closely linked with increasing degradation of natural resources. Out of the 329 million hectares of land, nearly 179 million hectares are considered degraded in varying degrees. About 90 million hectares are actually degraded mainly due to loss of tree cover and top soil, leading to severe droughts and floods. The conditions of our forests can be gauged from the fact that of the 75 million hectares classified as forest land, less than half is actually under adequate tree cover, and as much as 20 million hectares of forest land is estimated to be affected by erosion. No more than 12% of the country's land is now under forest cover as compared to the 33% prescribed by the National Forest Policy of 1952. Furthermore, the annual rate of deforestation in recent years has rendered the sensitive catchment areas in Himalayas and river valley systems vulnerable to soil erosion. In our country, the environment is not a luxury. It is the survival base of the poor and marginal communities. Forests, grasslands, rivers are habitats of tribals, nomads, fisherfolks. Besides, a large number of rural folks are dependent on the environment for their daily needs of fuel and fodder. Under the structural adjustment programme, the new industrial policy statement, with its emphasis on "efficiency" and increasing international (ie. western) competitiveness aims at increasing pressure on the exploitation of natural resources. The majority of the industrial output comes from biomass-based industries such as textiles, paper, plywood, rubber, sugar and food processing. Now, industrial licensing has been abolished for all above-mentioned industries including fishing, cement, and iron & steel, irrespective of levels of investments. This implies that indiscriminate use of resources without any checks will be carried out. The

past record of our industry has been of total neglect towards the environment. For instance, the Karnataka Pulpwood Limited, a joint public-private sector company owned by Karnataka government and Harihar Polyfibres of the Birlas, has been given 75,000 acres of revenue forests and common lands in six districts of Karnataka for captive plantation of eucalyptus and other fast growing species. This decision has deprived over 500,000 people of the means of meeting their basic needs for fodder, fuel, small timber, manure and fruits.

Similarly, the number of industries discharging effluent into rivers has increased dramatically. In western countries, the increased discharge of effluent has been accompanied by measures to decrease the damage done by these pollutants through the treatment of industrial effluent and other wastes and the installation of pollution control devices. However in India, water pollution control and waste treatment work has been neglected to a criminal extent. The majority of the industries do not have treatment plants and those industries which have installed them under pressure from the government are not interested in running them, as they cut down profits. Since its inception, Harihar Polyfibres has been polluting the Tungabhadra river water with impunity. The water pollution has affected thousands of fisherfolks, shepherds, farmers and labourers. Although they have a Rs. 2.3 crore treatment plant it is never run as it costs Rs. 37,000 every day. Thus the new liberalised industrial policy, with emphasis on greater flexibility and removal of restraints and licences, will accelerate the process of degradation of our natural resources. In addition, new areas will be explored and invaded by the industries. The deletion of the Darlaghat wildlife sanctuary from the list of 29 sanctuaries in Himachal Pradesh for setting up a cement plant is an example. Despite severe criticism by various environmental groups, the state government stripped Darlaghat of its status of a wildlife sanctuary and invited the Ambuja group of industries to set up a cement plant. The quarrying of limestone for manufacturing cement in the area will lead to the extinction of the endangered species of chir pheasant, leopard and black bear, thereby creating an environmental disaster in this ecologically fragile state.

Similarly, our coastal environments will also be degraded by the new thrust on the hotel and tourism industry. In Goa alone, 35 luxury resorts have been given clearance to be built, including developments by big multinational hotel chains like Hyatt Regency, Holiday Inn, Kempinski and Ramada. All are making efforts for prime spots on Goa's 75 km. beachline. With tourism given industry status in Goa (before the new industrial policy was announced) the government is authorised to take over land from the local people, the majority of whom are fisherfolks. The high-rise hotels are springing up as close to the water front as they wish. The effects on the coastal ecology are disastrous. With the luxury hotels needing at least 30,000 litres of water each day to fill their swimming pools, the wells of the locals in the coastal villages are running dry. The sinking of numerous tubewells on the coast threatens the ingress of saline water to fresh water wells. The destruction of large sand dunes have made the coastal villages vulnerable to cyclonic storms. Coconuts and local shrubs have been destroyed and replaced by "exotic" plants, alien to the coastal environment.

The transfer of basic and strategic industries to the multinational corporations (MNCs) is also dangerous to human health and the environment. With the opening up of markets in eastern European countries, the MNCs will only be interested in setting up those industries in India which involve hazardous processes and substances like chemicals. People have not forgotten the Bhopal gas tragedy, which stunned the world by killing about 2,500 people and injuring up to 200,000 others in December 1984. The poisonous gas was methyl isocyanide (MIC).

Now, the new industrial policy promises automatic approval for the production of all isocyanides. How many more Bhopals will happen?

Structural adjustment has a negative impact on the country's natural resources in many ways. Firstly, there is a pressure to increase exports of natural resources and agricultural commodities on a large scale. Since external debt has to be repaid in foreign exchange, this requires that a country's exports should exceed its imports. IMF-supported policy reforms put emphasis on the creation of export incentives to facilitate a trade surplus through devaluation. Increased demand for export shifts the country's resources into the tradable sector rather than production for local consumption. India's exports rely heavily on primary commodities such as agricultural products, timber, marine products, ores and mineral and manufacturing goods based on natural resources. These amount to about 61% of our total exports. As the social and environmental costs are not included in the price of exports, such policies will push the country to indiscriminately export natural resources.

The Prime Minister, Mr. Narasimha Rao, in his address to the nation on Independence day in August 1991, called upon farmers to earn foreign exchange through export of agricultural commodities. In order to earn foreign exchange for debt payment, export crops will replace food crops, there will be increased dependence on foreign markets, and the environment will be damaged through the increased use of pesticides and insecticides and the cutting down of forests. All the earnings will go to debt payments instead of investment in development works like afforestation, watershed development, land levelling and small irrigation works.

Our Principal Exports 1989-90

Nature	Value (in Rs. Crores)
Agricultural Products	4879
Ores and Minerals (coal, iron ore, mica, etc.)	2103
Manufactured goods with heavy biomass contents (includes cotton textile, jute, coir, leather, carpet and handicrafts)	9922
a. Total	16904
b. Overall total of all exports	27601
a. expressed as % of b.	61%

Privatisation - the new religion!

Nowadays, the entire media is full of news and articles preaching the virtues of privatisation. These writings do not advocate that the functioning of the public sector should be improved through effective participation of workers in management and decision-making. The only solution offered is the privatisation of inefficient public sector. But what about the private sector sickness? According to a study by the Reserve Bank of India, only 2% of private sector units were sick due to labour management problems, while the rest of the cases of sickness were due to mismanagement, diversion of funds to other profitable ventures, embezzlement of funds of the company by the partners or management, internal rivalry in the management to control the units, the frittering away of the resources of the company for dubious purposes, and the taking of excessive credits from the banks. There are over 200,000 sick private sector units in the country. *"The units become sick but the person responsible for making the units*

sick continues to become more and more affluent", observed the chairman of the Bureau of Industrial Finance and Reconstruction. Even units belonging to monopoly houses are sick and closed. Tata Industries have closed down the Empress mill in Nagpur whose profits were then utilised for the establishment of Tata's Iron and Steel Company at Jamshedpur. Ultimately, the Government of Maharashtra had to take over the factory to protect the jobs of the workers. Other industrial house have closed down other plants, which have then had to be taken over by the government: nearly half the units in the public sector today were formerly sick units in the private sector. Now, the proponents of privatisation are arguing that these units should be handed over to the private sector! Yet many of the sick units of the private sector were only made viable by the public sector investing additional funds.

Official policy on investment in public sector industry and infrastructure has undergone a complete change. Some public sector enterprises are incurring losses mainly due to their technological obsolescence for which technological upgrade is overdue, but there is no question of new investment in the public sector, for reasons of financial stringency as well as policy and ideology. After the launching of the structural adjustment programme, emphasis has shifted to raising revenue from existing profit-making public sector undertakings and the sale of sick units to the private sector. The example of moves for the privatisation of Datta Cement factories, owned by the state government shows how valuable assets of public sector are being sought to be handed over to private big business house at throwaway prices.

The public sector: just how public?

The experience of the past 40 years shows that the public sector has been propping up the private sector with infrastructure, the bulk of share capital and cheap credit.

In India, the actual operations of the public sector have benefited the private sector, especially its top echelons. Since independence, the public sector has been performing a major socio-economic development role that the private sector was unwilling and unable to perform and also providing necessary financial support to the private sector. To date, there are Rs. 2,950 crores of outstanding term loans given to large private industries by such public financial institutions as the Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI) and the Industrial Finance Corporation of India (IFCI).

The private sector: just how private?

In India, the private sector is a misnomer. It is a sector generally controlled on family lines and operates within this narrow boundary. In terms of share capital and credit inflow, there is very little private about it. The contribution of the controlling families is the smallest, not more than 5 to 20%. On the other hand, public sector financial institutions and banks have an average contribution of 50%. The rest are public holdings. There are 297 private sector companies in which public financial institutions along with state-level industrial development corporations, state financial corporations, central and state governments jointly hold 25% or more of equity capital of these companies. If the government is seriously interested in raising funds through disinvestment, it should go ahead with the private sector shares held by it. The Finance Minister thinks that it would lead to destabilisation of a company. This completely contradicts to what he himself and the IMF say about liberalisation. Liberalisation means no holy cows. Market forces will decide who stays and who does not.

Threat to sovereignty

Under structural adjustment, the IMF and World Bank do not merely supervise individual sectors of the economy as in the past. They now manage each and every country entirely. They approve annual national budgets, foreign exchange budgets, post their representatives to the various banks, Ministries of Finance and Trade of independent countries, approve monetary, trade and fiscal policies and give clearance certificates before countries can negotiate with other foreign lending agencies. Public expenditure reviews are a part of the World Bank's conditionalities. Under them, the World Bank not only asks for cuts in expenditure but also gives detailed instructions for cuts in specified areas. This is a new form of colonisation where the local governments and parliamentary processes are totally bypassed by the Washington-based bureaucracy.

With recent permission to open an office in India, the IMF itself is here, physically and materially, to closely 'monitor' our economy. The recent agreement by the government to supply vital data to IMF has also made their task more simple. The government has agreed to supply data to the IMF on 40 indicators of the health of the economy. They cover every aspect of government revenue, expenditure, planning and development, credit and interest rates. In addition, the government will also supply data on 10 structural indicators of a non-quantifiable nature such as tariff, liberalisation and exit policy. IMF executives are quite happy in dealing with an Indian bureaucracy which believes in such 'openness'.

The commitment to open up the economy through import liberalisation, decanalising all imports, privatising the profitable parts of public sector enterprises, and closing down loss-making public enterprises are totally unwarranted. Similarly, the commitment to announce an 'Exit Policy' for private industry in the budget for 1992-93, and to open up banking business to foreign firms and reduce bank lending to the priority sector are signals of a total surrender of economic sovereignty by the government of India to the IMF/World Bank.
