

CONVOCATION ADDRESS BY THE FINANCE MINISTER
AT THE INDIAN INSTITUTE OF MANAGEMENT, AHMEDABAD
ON SATURDAY THE 2ND APRIL, 1994.

I am happy to be with you all today.

I feel greatly honoured that your Institute has thought it fit to invite me to deliver the Annual Convocation address. IIM, Ahmedabad is one of the leading institutes in our country that are engaged in imparting managerial skills and education to young people. These are the people who are going to be builders of tomorrow's India. It therefore gives me great pleasure to share with you some of my thoughts on the challenges facing our country in our quest for faster and equitable development, the logic of the process of economic reforms that we have undertaken since July 1991 and the tasks that confront our country.

As you know the present century has seen more scientific discovery, technical innovation and technological developments than the entire previous history of man. Science and technology and human knowledge have emerged as a major determinant of the power and wealth of nations. The new information technologies have brought about revolutionary changes in the functioning of money and capital markets all over the world. Both capital and technology are now much more mobile than ever before. The dramatic reduction in tariffs and other barriers to international trade has created new opportunities for growth for countries with efficient economic structures.

As a cumulative result, the nature of markets and institutions, industrial organisation and

structure, and social relations of production are being transformed dramatically. There are immense opportunities for the late comers in the race for economic development to catch up provided they can evolve institutions and policy instruments which will enable principal economic actors to respond with speed and flexibility to fast changing social and economic conditions.

Rapid change imposes a greater burden on us to learn, absorb and adapt our thoughts and actions. Wisdom today lies in learning both from our past mistakes and from the successes of others, especially our neighbours in East and South-East Asia. There is, of course, no guarantee that everything we are doing today will turn out to be an unqualified success. However, I am convinced that, given a strong commitment to the promotion of a value system conducive to the pursuit of excellence as well as concern for social equity, and refashioning and redesigning of our institutions and policy instruments so as to reward creativity, innovation and enterprise, India has all the ingredients of emerging as a major player on the global economic scene. This is the vision which provides the main inspiration for our economic reforms.

In the fifties and sixties it was widely believed that the State had a dominant role to play in each and every activity. This belief was based more on the need to catch up with the advanced countries of the West. The State was viewed as a promoter, owner and regulator of industry and enterprise. Its role was sanctified by the doctrine of "market failure". "Market failure" was perceived as the inability of markets to allocate optimally resources over time. In actual

practice, the outcome of policies which sought to rectify market failure turned out to be ~~very~~ vastly different from the intended one. Industrial production was diversified but at high-cost and this could not withstand external competition. Industrial policies accorded excessively high protection to industry and thereby discouraged exports. The excessive and indiscriminate protection for industry constituted a massive discrimination against agriculture, widening income disparities between rural and urban areas. The system of detailed, discretionary investment licensing and many other controls on industry preserved the monopoly of those who had licenses, stifled industrial dynamism, and fostered an uncompetitive, bureaucratic, license/permit - seeking culture. Public enterprises which were intended to be instrument of resource mobilisation and income re-distribution, instead drained away resource. In our quest for capturing the commanding heights of the economy, large resources were pumped into far from profitable public enterprises while neglecting such vital sectors as elementary education and primary health care. The system we evolved created in our people an acute feeling of inferiority that we Indians were inherently incapable of having an internationally competitive economy. It also gave rise to a psychology of excessive dependence on the State apparatus for dealing with issues of social and economic developments. In the process, it greatly weakened the incentive and inducement for self-help and self reliance among the people. A wrong belief came to be widely held that Government had some magic wand to remove poverty and the people were passive agents in the process of social change. The losers were the Indian consumer, exports, employment, equity, efficiency and probity in public administration.

The Indian regime of controls created a vast constituency cutting across diverse groups. It created a business class that enjoyed super profits behind high tariff-walls with virtually no competition. The regime of controls and permits vested enormous discretionary powers in those who controlled the levers of decision making in the Government. This yielded huge rents which were shared by organised capital, labour and control bureaucracy.

Such a system not only bred inefficiency in the economy but also led to mal-allocation of human skills and talents. Jobs which required dispensing and administering controls became most sought after. As a result, institutions of higher learning, research and even Government departments concerned with management of human resources and social sectors could rarely attract the very best. These were precisely the areas where deployment of best talents could have yielded very high social rates of return. In a capital scarce economy, there was need to encourage labour-intensive growth. Economic policies, on the other hand, stimulated capital intensity in Indian industry. The need of the hour is to reverse this trend and promote a pattern of industrialisation which is both more efficient in terms of international competitiveness, enhances self reliance through increased exports and is also more employment oriented.

The Indian economy is at a critical juncture today. During the last thirty three months, we have brought about a decisive change in the economic policy framework. Our industry has been freed from the shackles of extensive bureaucratic control and regulations. The new economic policy framework seeks to strengthen the role of competition and of market forces in the process of resource allocation. To make

the Indian Industry cost-effective and efficient. quantitative import restrictions as well tariffs have been progressively reduced. Conditions for the entry of foreign investors have been significantly improved. Barriers to foreign investment and technology flows have been largely eliminated. Overall, the government is earnest in its resolve to create an economic environment conducive to the growth of enterprise. Wide ranging reforms of the financial system covering capital markets and the banking system are now in progress. A far reaching programme of tax reforms is also under implementation. Its principal objective is to modernise our tax system so as to promote savings, investment and efficient resource allocation. A programme for the restructuring of sick public enterprises and sale of a part of equity of profitable enterprises to the public has begun to take off. Perhaps most important is the fact that a decisive change is now evident in the mind set of the Indian people in terms of basic approaches to the development of our economy. There is a broad national consensus that instead of ~~stifling~~ individual initiative and creativity, the State should primarily seek to empower our people to help themselves so as to realise their full potential and lead a life of dignity and self respect.

~ stifling

With the dismantling of exchange controls, quantitative trade restrictions and the rapid strides in the information technology, our economic frontiers have become porous. Today Indian industry has fairly wide choice to import inputs and technology. Besides, inflow of private capital has become fairly easy. In such an environment, making right decisions and choices become crucial for the growth and survival of business. Firms have to redefine their strategies to cope with the emerging environment. Competition and diversification

expose firms to new risks and opportunities. How much to produce, how to produce and what to produce are best left to the judgement of entrepreneurs. These decisions will be increasingly shouldered by management professionals.

The Central objective of economic reforms as conceived was to initiate a process of fast sustainable labour intensive growth which would directly benefit the mass of un-organised labour in agriculture and small industry. This required that, both private and public sectors be forced to compete domestically and internationally. That all subsidies going to either sector be carefully regulated so that the economy would generate more savings for productive investment, and for supporting the truly needy. It required the removal of the bias towards the large capital intensive organised sector and its workers. It required the opening of the economy to new ideas, technology, expertise, skills and capital, so that Indian industry could have access to the best. It required a redefinition of the creative role of enterprise in modernising our economy - a new vision which looked beyond the interests of its shareholders and recognised its wider social responsibilities to all the stakeholders - including consumer, workers and the unborn generation. It required a new commitment to environmental protection and research and development as integral parts of business planning.

In the emerging environment, the modern service sector has to play a crucial role. This sector can no longer be viewed as residual or something unproductive. In fact, the efficiency of certain non traded services like transport, energy and the financial system have a profound bearing on the

competitiveness of the economy as a whole. The management of India's power system is a national disgrace characterised as it is with endemic inefficiency and mounting financial losses. Energy conservation is not receiving the attention it deserves. It is these sectors which require a major turn around in efficiency. Another area of concern is high-capital output ratio in most of the sectors related to infrastructure. Making them viable and efficient is one of the greatest challenges confronting us. No less urgent is the task to revamp our management systems in so far as they relate to such vital sectors as education and health care. We need delivery systems for basic social services which promote the cause of equity and provide quality services at an affordable cost. All these areas offer exciting challenges and opportunities for research and for devising viable management strategies and operational programmes.

The deepening and widening of capital and money market is also occurring. Banks and financial institutions are diversifying their activities through merchant banking, factoring, investment banking etc. and gearing themselves to participate in the highly competitive world of international finance. A wide range of new techniques of financial engineering are being developed to cope with the considerable increase in risk and uncertainty which characterise market operations. International finance as you know is highly information and knowledge intensive activity. This is one area where our professionals are expected to make their presence felt at the global level.

Management institutes have to play a vital role in fostering management education and training and respond to the challenges arising out of competitive

environment. Management education and training today, have assumed the role of a "change agent" and are the harbinger of a "skills revolution" in the Indian economy. We need professional managers who are intellectually alert, well trained to rub shoulders with the best managers in the world and are at the same time deeply committed to our nation's cherished social and economic goals. There is a constant need to upgrade human skills to meet the new and fast changing emerging international economic situation

Three years are not enough to expect substantial results from the programme of economic reforms specially in a country as complex and large as India. Distinct signs of improvement in economic situation are however clearly visible. The most dramatic improvement has been witnessed in the condition of our external sector which bore the brunt of the crisis in 1991. Foreign currency reserves (excluding gold reserves of about \$ 4 billion) which were a little over \$1 billion in June 1991 are now about \$15 billion. These are sufficient to finance more than six months of our imports while at one stage in 1991 they were barely sufficient to meet two weeks of imports. Our external reserves are now large enough to enable us to absorb exogenous shocks such as a drought or an unexpected increase in import prices, without disrupting the pace of development. Exports have increased by 21 per cent in dollar terms in the first 10 months of 1993-94. The balance of trade deficit in 1993-94 is expected to be less than half a billion dollar and there might be a small surplus in the current account in 1993-94. The exchange rate of the rupee has remained steady contrary to what many had feared. Access to foreign capital markets has been restored for Indian companies. There has been a resurgence of foreign investors'

confidence in the Indian economy. This is demonstrated by an inflow of foreign investment of about five billion dollars in 1993-94 as compared to \$ 148 million for 1991-92 and \$ 585 million for 1992-93. I expect that 1994-95 will see a further consolidation of the conditions in the external sector.

I wish to emphasise that economic reforms do not mean abdication of Government's role in promoting the goal of equity, be it inter-personal, regional or inter-generational. However, a fresh look is needed at modalities and instrumentalities to achieve this objective. The best way of increasing the incomes of the poor is to generate employment through higher and more labour- using growth. This is feasible only if we remove impediments and biases against increased labour use in our economy. These we have unwittingly promoted by blunting competitive pressures and making capital more attractive vis-a-vis labour by denying flexibility in employment practices and making use of labour far too expensive in a labour abundant economy. Some of the policy initiatives undertaken during the last three years seek to remove certain institutional rigidities which will have a bearing on the content of growth. One such initiative is the establishment of National Renewal Fund to assist in the redeployment and retraining of surplus labour. However, further measures are needed to reduce rigidities in the labour market conditions and for this it is necessary to evolve a meaningful national consensus. It would be our sincere resolve to pursue adjustment cum structural reforms which, while promoting all round efficiency in the use of scarce resources, will also ensure improvement in the conditions of weaker and poorer sections of our society.

We are intensely aware of government's

responsibility towards the weaker and vulnerable sections of our society. India is proud of its democratic polity and any package of economic reforms which does not pay sufficient heed to the needs of the poor can give rise to unmanageable social, economic and political tensions. In recognition of this fact, we have sought to increase budgetary allocations for the social sectors. Thus the Budget for 1994-95 has increased the allocation for rural development and anti poverty programmes by as much as 40 per cent over the previous year. The outlay on education has been increased by 17.6 per cent and that on health by nearly 20 per cent. These trends will be maintained in future to ensure that the quest for greater social equity in the process of development is not compromised in the process of achieving fiscal stability and implementation of structural reforms in various sectors of the economy.

It is essential that the reform process should not bypass agriculture, a vital sector of our economy. Agriculture is perhaps one of the most competitive sectors in the Indian economy. The country has a natural comparative advantage in this sector given the variety of agro-climatic zones, the fertility of its soil, the vast gap that currently exists between potentially feasible and actual yields and availability of a large rural work force. The realisation of vast untapped potential will require major reforms in delivery systems relating to credit, agricultural extension and supply of inputs. Location specific farming systems strategies will need to be devised for different agro-climatic regions. We need to evolve a new approach to rural industrialisation which is both more efficient and equitable. Surplus incomes in the farm sector ought to be ploughed back as investment in off farm activities

particularly in agro-processing industries. The government is now pursuing an active policy of encouraging growth of agro-processing activities. Modernization of the agricultural sector is essential to overcome the dualism which has long characterized the Indian economy. This will also be the surest means to ensure that the largest segment of our population receives the benefits of the reform process. A dynamic agricultural sector is perhaps the sine quo non for ensuring that the twin objective of growth and equity are achieved in coming years.

Much has been accomplished in the last two and a half years. An unprecedented economic crisis has been surmounted. An array of long overdue reforms have been launched. But much more remains to be done. Growth impulses are still not sufficiently strong to ensure that employment opportunities grow fast enough to absorb all the new entrants to the labour force. And there is a clear danger that if the momentum of economic reforms, is not sustained, the hard won gains of the recent past could slip away all too easily. In continuing with the process of reform we must be clear about the basic goals of growth, equity, self reliance, and modernisation. The fundamental objective is to raise the living standards of India's people, especially the poor, in a sustained manner. Rapid, broad-based growth is the only way this can be achieved. To ensure the quickest alleviation of poverty, growth has to be labour-intensive, since labour is the principal, often the only, resource that the poor have.

I venture to think that the new policies have improved very substantially the climate for enterprise, investment and innovation. The present juncture poses

a major challenge to all of us. I very much hope that many of you will explore new vistas and look beyond jobs which only require testing of marketing skills. Your creative abilities will greatly influence the pace of India's growth and the economic stature of India in the comity of nations.

With these few words, I once again thank your Director of having given me the opportunity to share some of my ideas with you today. I wish all of you a happy and prosperous future.