Policy Processes*

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We make in the following an attempt to deviate from the normal practice of presenting a statistical survey to bring out changes in the Indian economy over time. While statistical presentations have their own merit, the essence of the change can be captured better if one also takes note of the nature of the decision-making processes, and changes in legislative provisions, economic policies and administrative procedures that have long lasting impact. Public policy changes have to be evolved on basis of the view point and understanding of the nature of the problems facing the country. Identification of problems in the government system in India remains weak and does not gear itself to the task of continuing evaluations and analyses of the developmental processes. A variety of lobbies exercise large influence on the government system and are often successful in getting such policies adopted which help promote their interests at the cost of the general public. The cases pointed out here are illustrative and need wider and more detailed deliberations.

The Economic Survey, presented on the eve of the Union Budget, is meant to provide an assessment of the state of the economy and serve as a backgrounder to understand and relate fiscal measures to different aspects of the economy. Over time, though the Survey has grown in its bulk, it has tended to become more an annual ritual than an analytical document. The credibility of the information and data, besides interpretations, has started coming under questioning on many counts.

Some of the important agencies responsible for generating primary data have been given a silent burial during the last few years. The abolition of DGTD, automatic registration of foreign collaborations and virtual dismantling of the industrial regulatory mechanism has ended the obligation of larger industrial establishments to submit periodic reports on new capacities created, production and the extent of capacity utilisation. The government is in a quandary to find out the stage of implementation of even 'mega' projects. The voluntary filing of Industrial Entrepreneurs' Memoranda has turned out to be a futile exercise giving no indication of the ground reality. Thanks to the influential corporate lobbies, the government has withdrawn obligatory disclosures on various counts by corporations. The format for submitting statutory information to the Registrar of Companies, the company Annual Reports and returns to other regulatory agencies are under revision. In the garb of revamping the Companies Act, efforts are on to reduce the disclosure content of company annual reports. These developments lead a serious student to frustration; and make the task of regulatory agencies a real difficult one. Worst of all, it appears, many of the statistics in absence of the reporting mechanisms are products of or at the best attempts at having guess-based estimates.

Lack of Policy Analysis

Much of the data received by the government system is, however, rarely analysed and put to optimal use. These are dumped in some dark corner of government godowns to await destruction. Added to this is the trend towards suspension of important publications. For instance, the RBI, which was known for publishing useful studies, has stopped publishing studies on Foreign Controlled Rupee Companies. The SEBI's cursory treatment of Foreign Institutional Investors' (FII) investments in the Indian stock market and the Industry Ministry's most unimaginative presentation of foreign investment approval and actual capital inflows data illustrate failure on the part of official agencies to appreciate the need for regular monitoring and analysis of critical and sensitive data. One even doubts if the withdrawal of the specialised agencies from analysis of the information with them is an innocent decision as it can be conveniently used to suppress embarrassing facts.

India has thousands of trained researchers and hundreds of competent professional economists, within and outside the government, of whom any country can be proud. The administrative system, however, does not utilise their talents and capabilities as `economists'. Most of the ones who join government get reduced to glorified clerks and file-pushers. Government system tames them well to become conformists soon. Absence of critical examination and research within the government system leaves large scope for external influences and interventions. Two examples may suffice to bring the point home.

One: the government's decision on nationalisation of 14 private commercial banks in 1969. It is well known that within the governmental system there was little that had been done to analyse the functioning of private commercial banks to suggest nationalisation. The decision to nationalise the banks was made outside the government system. It was not a result of internal evolution. The decision brought satisfaction and excitement to many of us who had argued the case for the nationalisation of private commercial banks. The sense of satisfaction, however, was only too short-lived. The then political leadership accepted the proposal for the nationalisation without paying any regard to the reasons and logic that lay at the base of the plea for the nationalisation demand. Had there been a detailed analysis of the operations of the banking industry prior to the nationalisation decision, the banking system would have been restructured in a drastic manner. Mere change in ownership could not lead to any restructuring or alterations in their lending policies. The banking system could have become an important instrument of development had it been restructured as suggested in the study of four economists that was published in 1969. The primary reasons for the demand for the nationalisation were wholly missed.

The second case relates to adoption of the Structural Adjustment Programme in 1991. The foreign exchange crisis of the early 'nineties was assigned as the root cause for India accepting the 'Washington Consensus'. The policy package, though proposed to save India from defaulting in her obligations to meet foreign exchange liabilities, had in it extensive changes in the economic policies that India had pursued ever since her Independence and adoption of planning in 1951. The package suggested:

- (i) extensive privatisation of public enterprises ;
- (ii) withdrawal of restrictions and regulations on entry of foreign capital;
- (iii) lowering of tariff and non-tariff barriers on foreign trade;
- (iv) dismantling of anti-monopoly (MRTP Act) legislation;
- (v) removal of industrial licensing, *viz*. Industries (Development and Regulation) Act;
- (vi) abolition of foreign exchange regulation (FERA);
- (vii) drastic reduction in subsidies;
- (viii) removal of public policy preferences in the form of reservation (public sector, small scale sector and backward areas); and
- (ix) down-sizing the government system to cut government expenditure in order to reduce overall fiscal deficit.

Though basic changes in India's economic policy frame were made, these were not preceded by studies within the Government or the academic centres. Little was done to identify the basic reasons for the foreign exchange crisis of 1990-91, the mounting losses of the public sector enterprises, the real effective rate of protection to Indian industry and trade, the ridiculous manner of framing the MRTP Act, the implementation of Industries (Development & Regulation) Act, the internal contradictions of the FERA legislation and the loopholes introduced during administration of the legislations. The need for action was brought out by many an Indian scholar. The suggestions by academics and independent studies are more often ignored than given a serious consideration. There was, however, little resistance to the policy alternatives proposed by the international lobbies. In sharp contrast to the hollowness of the government system, the multilateral bodies are known to undertake regular research exercises on a variety of important aspects of the Indian economy. The list of studies on India, sponsored and conducted directly by the Bank Staff, makes an impressive reading. The data and information for these studies is from the Indian official sources. The same sources are, however, not available to Indian private scholars. In fact, World Bank reports are kept strictly confidential and never put to intensive scrutiny. And yet, these receive the best of attention of the top civil servants and others in the public policy making system. When the Bank's proposals arrived, there was nothing with the Indian policy-makers to argue. It was a bankrupt system of national management that lapped up everything that was prescribed by the Bank. The process was, however, facilitated by many of the key personalities in the economic ministries.

Those who had some exposure to Government of India's working, and particularly the economic ministries, would know the extensive references to the Bank reports and recommendations in policy related internal documents of the Government of India. Many of the policy documents of the government have extensive re-production; sometimes, para after para from Bank reports. One could not have any objection to studies being conducted by any outside agency. It should indeed be welcome. But unfortunately, these studies are discretely distributed to top civil servants and are never discussed openly. The Bank and other multilateral bodies claim privilege and these get labelled as `internal documents'. The active informal networking among the few top civil servants and multilateral bodies is by now well institutionalised. It is not a matter of mere coincidence that the senior-most economic functionaries in the Government of India had had close exposure to the philosophy of the Bank and the IMF.

The weakness of the Indian system of policy-making makes the outside influences and interventions as critical inputs. There is, however, no use placing the blame on the World Bank or any other agency for its studies on India. An outside agency would do what it considers appropriate to further its own national interest. If the Indian system fails in discharging its own responsibilities it should not surprise none if the government decisions are taken without a national and objective perspective. It is widely recognised that the Structural Adjustment Programme adopted in India was what the World Bank and the IMF had recommended to many other Third World countries. There are some in important and key positions in India who claim and source authorship of the policy package to Indian minds! This would probably remain a mystery.

There was a time when the government and political parties involved academics in policy-oriented discussions and studies. The Research Programme Committee of the Planning Commission played an important role in promoting policy studies. Over the past few decades policy research in India has suffered seriously. Government departments are happy to provide funds for ritualistic evaluation studies; and 9 out of 10 of these do not even get discussed by a score of individuals. The ICSSR for some time now, has reduced as many research proposals as it did in the past. University departments never had resources to finance research by teachers. Today, however, what is easily available is the ‘consultancy’ work sponsored by international agencies, private corporations and some government agencies and modern departments having large funds at their command. The payments are invariably attractive. In the ‘consultancy’ role, the investigator is obliged to do what the donor wants him to do. The subject of inquiry in most cases is neither a choice of the scholar nor the one that has high policy relevance.

Political Parties in a Quandary

Central and State Governments deploy the India mass media to project their achievements and changes brought out by them. It could be on completion of a year or even ‘100 days’! Political parties are within their right when they question the authenticity of data and interpretation, presented by the party in power. The opposition should, however, provide objective evidence to highlight the weaknesses of the working of the government. Objective debate among political parties, however, is not witnessed in India. Most Indian political parties have no research outfits of their own to assemble and analyse relevant facts and provide any feedback to their leadership or party workers. In absence of any analytical support most political parties tend to lean on the official handouts. In the absence of much attention being paid to independent research by the country’s national political parties, party activists have little material to discuss and debate.

One is reminded of the frequent publications by the All India Congress Committee on major policy issues and the *AICC Economic Review*, a fortnightly Journal. The Journal, though a Congress Party organ, promoted debate on major economic and social issues. The AICC also had a Research Department of its own and for long many distinguished scholars continued to be actively involved. The AICC Library was one of the best locations in Delhi for researchers. It is no more true. Left parties were always known for being closer to young student leaders and a large pool of committed teachers. Unfortunately, the close interaction has weakened considerably. In the absence of party research outfits, each elected representative is left to fend for himself. It may appear to be an overstatement but one has a strong suspicion that there is growing contempt between politicians on the one hand and academics on the other. The former tend to consider the latter as inhabitants of `ivory towers' and the latter are only too happy to label them as opportunists having no concern for colourless world of hard realities. This is unfortunate. National interest demands their close inter-action. Instead of the widening gap between the academics and the elected representatives the need is for sustained and participative collaboration.

India has witnessed change of political parties in power. Normally, one should expect that with the change in the political party in power the policy agenda of the new government would also change. It remains, however, a unique feature of the Indian politics that during the past two decades each of the succeeding party adopted virtually the same policy programmes, made the same set of economic assumptions, and deployed even the similar lingua except for some difference on emphasis and pace. Each national level political party would, however, insist that it had sharp differences with their opponents on matters of long-term objectives, processes of change and assumptions! In policy prescriptions there is, however, no difference. This curious fact has been amply documented by many a compilation of the contents of political manifestos issued by parties on the eve of India's general elections. The case of left governments is also in the same trend when they express their new found faith that TNCs need to be invited and encouraged as this helps expand investments, and thereby growth in the capital scarce regions!

Planning in Coma

The post-World War II period witnessed liberation of many of the erstwhile colonies. Leaderships in each one of the newly independent nations had a high sense of patriotism and commitment to comprehensive development of their societies. Given the low-level of economic activity combined with wide inter and intra-regional disparities in incomes, consumption, education, health and social consciousness, it was not easy for even the staunchest of the believers in the virtues of "market economies" to question the need for the newly established national governments to initiate systematic and comprehensive planning. In India the need for planned development was voiced by Subhash Chandra Bose in 1939 when he constituted the National Planning Committee under the Chairmanship of Jawahar Lal Nehru. There was unanimity in the private industry circles on the question of planning. The Tata-Birla Plan 1944 was the first document that expressed full faith in planning and demanded government of free India to shoulder the responsibility in a big manner.

Similarly, Trade Unions presented a very comprehensive plea for adoption of Peoples `Plan, Shrimannarain and many Gandhians gave their support to national planning.

Adoption of planning implied direct participation of the state and establishment of a wide regulatory network. Launching of national development plans was welcomed and supported by all. Planning as a concept and practice carried considerable premium during the post-World War II years. This was not true for India alone: most Third World countries resorted to it. Adoption of planning invariably implied establishment of basic and key industries in the public sector and regulation of new investments in a manner that would help avoid duplication of efforts and excessive diversion of resources to low priority areas. The rationale for adoption of planning is well known.

Over the last few years, the 'development philosophy' has got wholly altered. While there has been no direct condemnation of the plan exercises in India, the fast erosion of the system of planning is only too obvious. No political party has come out against the concept and the need for planning in India but each one of them seems to be only too ready to accept policies that are in total contradiction to the demands of any meaningful national planning in the country. It has become fashionable in certain quarters to ascribe the origin of all Indian economic problems to the country's adoption of planning in search of growth and socio-economic development. It is an irony that the hardest blow to the institution and practice of planning in India came from the very party that had declared time and again that Indian socio-economic problems can only be solved through planned development. The Indian National Congress, continues to claim their adherence to the traditions and heritage of the national struggle for independence and Nehruvian model of planned development. The Planning Commission continues to stay as an important landmark on the Parliament Street; though it has lost its old glory, pride and relevance for providing a national perspective and a clear direction of change. Planning Commission as a body has had always a galaxy of distinguished personalities associated with it. Now we have reached a point when but for the office bearers there are no members of the Planning Commission. Under the Congress Government during its full term there was not even a couple of meetings of the full Planning Commission. The Deputy Chairman formally had the responsibility for another large ministry. The frequency of the full Planning Commission meetings has, however, dwindled sharply. Five Year Plan documents are prepared but not discussed or debated at any national forum, not to speak of Parliament. Even though more than a year of the current Plan period has passed, no one knows what the shape of the Ninth Plan would be!

The developments of the last two decades raise a wide range of questions. These questions need to be faced squarely. The experience of Indian Planning is a rich one and could be utilised to improve the policy-making processes. One important area wanting debate is about the nature of the public sector in India. Similarly, it is necessary to re-examine the philosophy of the small-scale sector and policy measures adopted to promote the sector. It may also be useful to critically examine some of the assumptions underlying legislative enactments. Questioning appears necessary on the basic frame of the anti-monopoly legislation (MRTPA) and the Foreign Exchange Regulation Act of 1973 (FERA).

Public Sector

Many of us even today, continue to defend Indian public sector as if it was a sacred cow. There are others who find public sector as convenient whipping horse to condemn the government. In this background the proposal for privatisation of public enterprises was received both with indignation as also with a sense of relief. The primary reason as put forth at various policy-making levels was that the huge losses of the sector imposed heavy burden on the national exchequer. Privatisation would also help the government obtain large financial resources besides ending the recurring liabilities. The argument needs critical examination.

It is true that a good number of public enterprises have been making losses. Most of the public sector enterprises in India enjoy a monopoly or a near monopoly status. Besides the total monopoly in public utilities and infrastructure (power, transport, communications) the sector enjoys a dominant position in the production of fuel, basic and non-ferrous metals, fertilisers and defence production. The objective of making Indian public sector achieve the commanding heights, as visualised by Nehru, has already been achieved. The question, however, remains: whose interests are the `commanding heights' serving. Secondly, it is necessary to ask under what conditions would monopoly establishments incur losses? In normal course, a monopoly should not only be not making losses but must earn a monopoly rent. This proposition, however, would hold true when the monopoly enjoyed the freedom to determine prices as per the dictates of commercial principles. If the objective is only to make profits then the only change required is to let their managements have autonomy to fix prices as per the rules of the free market structures. While there is all round condemnation of the public sector for incurring losses one must pause to consider if profit was the only logic for establishment of the sector in India.

The case for privatisation of public enterprises on the plea for raising resources is probably the weakest. Sale of `family silver' is never equated with income. To support revenue expenditure with sale proceeds of public property can never be a logical or sound economic policy alternative. While the case for privatisation of Indian public enterprises has been built on the huge `losses', the government has now proposed to divest its ownership and control of many a high profit-making enterprise. There are critical areas. It is obvious that the loss-making public sector enterprises when transferred to the care of private entrepreneurs, would certainly end policies to generate losses. Escalation of prices by the new private managements would be the first measure to be taken to bring the enterprises out of the loss-making list. Combined with this could be labour retrenchment and a variety of other actions.

Escalation in prices by public enterprises would be resisted by those who buy their products and services from these enterprises. It is a well-known fact that Indian consumers, individuals and corporates are accustomed to receiving many of the infrastructural services (power, water, local transport and the like) at ridiculously low and subsidised rates. Those who have always been votaries of low prices need to recognise that services and commodities that are cheap get grossly misused and wasted. Whatever may be the justification for low pricing of public utilities, one needs to also keep in mind that at present the coverage of the public utilities is confined only to a small section of the upper, educated and middle classes. Isn't it necessary, therefore, to ask: `who benefits' when public services are available at a small price or when power to agriculture is priced at zero rate? Obviously, the benefit is shared more by large agriculturists and no advantage flows to the landless and the marginal farmers.

Supply of drinking water is an essential public service. Safe drinking piped water supply is available in most urban areas. Within the urban centres these services, however, are mainly available to regularised municipal colonies inhabited by the comparatively better to do. Given this reality, is it not appropriate that the recipients of the water supply should be obliged to pay full cost of the service? It is not uncommon for the better to do families to buy the so-called bottled mineral water at a price of Rs. 10 – 12 per litre. This is tending to become a norm in the metropolitan centres and particularly among the middle and upper strata of the population. Mineral water bottling plants have mushroomed in and around cities and major townships. If Municipal Corporations were to raise water charges to cover full cost and generate a marginal surplus to expand water supply networks, there would be stiff resistance, one can safely predict. The educated, influential and the vocal strata would quickly gang up to condemn such decisions.

It is not a matter of pricing of public utilities alone. There is in fact full justification in providing all basic and essential municipal services to the poorest strata of the population, at zero pricing. The issue of real importance is with regard to pricing of `raw materials' and industrial inputs produced and supplied by the public system for conversion and manufacturing by the private sector. Public sector prices are administered by their respective government departments. It is not easy to undertake upward revision of administered prices since this could fuel inflation. Prices of raw materials provided by public enterprises are deliberately kept low. There exists, however, no mechanism to regulate end prices charged by the private sector. The losses of public enterprises, in this manner, have a direct link to the profits of the private industry!

A reasonable case for privatisation of public enterprises would neither rest on loss argument nor on the resources that the present government would have to raise to keep fiscal deficit within limit. One sees little justification in holding back the process of denationalisation for such enterprises which service a small elite and have little to offer to the overwhelming Indian masses. For instance, the airlines and the five star hotels have no claim for public subsidy. These should be run under pricing policies that result in profits. Why should the exchequer support luxury by the few, may those be high government officials or public men? Is it not true that Indian Airlines has come to stay as a club for the Indian business, political, administrative and the social elite? Nearly two-thirds of the internal air traffic, it is understood, is supported by less than two lakh clients. Air travel has become a normal mode of transport for most senior bureaucrats, parliamentarians and other elected representatives besides the business classes. Air services will never be for the general public in India; a common man in this country is priced out as even the subsidised rates are only too high for him.

Labour force in Indian public enterprises is well organised. Since the ownership of public enterprises rests with the government, it has become natural for employees of public enterprises to demand equal status, remuneration and other facilities with their counterparts in government. Public sector enterprises, as a consequence, tend to become government organisations ridden with all the ills that plague government system. A government *babu* and a policeman are not known for their courteous behaviour with the public. An average Indian has learnt to live with this. In case of public enterprises, however, a client is not prepared to tolerate any misbehaviour or indifference of an accountant or a sales person manning a commercial enterprise or a service counter. A customer demands attention and a cordial service. A widespread impression is that employees of public enterprises do not view their role as employees with a commercial perspective. Security of employment is taken as a license for rude behaviour and poor performance. To change this attitude is a difficult task. It involves millions. And yet a start will have to be made. Will our trade union friends give this a thought?

Indian public sector suffers utter negligence on part of the government in the matter of appointing top managerial personnel. More than half of the top executive positions, Chairpersons, Managing and Technical Directors often remain `vacant' for long durations. Civil servants are invariably nominated to look after multiple public enterprises as additional charge. All bureaucrats do not have professional and management competence; nor do they have time or inclination to get involved in production, marketing or management of commercial establishments. The system of proxy management has continued for many years. Such neglect helps breed inefficiency and lack of responsibility. The degree of reported corruption in public enterprises has reached high levels. Unscrupulous managers with close proximity to high-ups are known to divert financial resources for personal advantage or to provide patronage. Trading margins on supplies to public enterprises and government departments are only too well known.

Public sector needs to be restructured and reformed so that the sector plays an important role in processes of economic development and helps to raise productivity of national assets. There cannot be a `thumb rule' that the loss-making enterprises should be privatised.

Small Scale Sector

Next to public sector policy, one needs to critically review policies towards the Small Scale Sector (SSS). There exists a significant element of confusion on the nature, justification and the primary reasons for public support to the SSS. Historically, SSS was related to the small man and small enterprise, operated predominantly with one's own and family resources of finance and labour. To protect the constituents of such a sector, from the onslaught of large national and international monopolies, appeared to be a socially desirable objective. Such a sentiment found wide support during the struggle against the colonial rule that conspired against the Indian industry, handicraft and rural industries. *Secondly*, SSS was viewed as a manufacturing sector wholly dependent on local raw materials and local markets. The sector, therefore, had strong forward and backward linkages and was an organic part of the local communities. For obvious reasons, the sector drew public support. *Thirdly*, it was generally understood that the sector promotes self-employment and did not use much of machinery and power. It was an assumption that SSS has high employment potential vis-à-vis large and medium enterprises. Support to the sector was viewed as a step towards finding a solution to the unemployment problem of the country. This being particularly so for areas that were not well connected with national and urban markets.

Fourthly, SSS was expected to be a de-centralised system of production that mobilises small savings and gives the artisan and labour a sense of pride and an opportunity for full expression of his genius and personality. *Fifthly*, it was visualised that to help hold back movement of labour towards urban and already crowded industrial centres SSS could help contain rural-urban migration and this has always found support from the Indian planners and policy makers. Implied in the `holding back' of population movement was a realisation that SSS also helps preserve healthy family life and places least demands on the urban infrastructure. *Sixthly*, it was assumed that the SSS would utilise indigenous technologies, machinery and equipments and hence not impose additional burden on the scarce foreign exchange resources of the country. The sector was, in a sense, seen as the national sector of India the products of which would be most suitable to the taste and style of local populations. And *seventhly*, it was understood that SSS could be the best bet for educated and technically competent persons to innovate and put into practice new ideas. One could expand the list of such general assumptions that were associated with the SSS.

The Government of India has continued to emphasise on the need to provide support to the country's SSS. Ever since India gained independence and the Five Year Plans were launched this fact has been repeatedly emphasised. However, the Gandhian model of industrialisation that emphasised the importance of `rural areas' and opposed machine-made products was modified as a result of the expert committee reports (that were, incidentally, funded by the Ford Foundation). In place of rural industries the emphasis shifted to `scale of production'. The sector was not to be locale specific. The scale of production was to be assessed in terms of the size of monetary investment. Ever since the `fifties the sole criterion for SSS units has rested on the monetary value of investment. There have, however, been repeated changes with regard to what should constitute the 'investment' and what should be the upper limit to qualify for membership of the official small-scale sector. The entire discussion on the definition of a SSS unit has been on the size of the fixed investment in plant and machinery. From Rs. 5.00 lakhs as the upper limit in the mid- 'fifties the size limit had been raised to Rs. 3.00 crores. It is now proposed to be bring it down to Rs. 1.00 crore. The repeated hike in the investment limit provides an excellent example how objective reality gets ignored in the face of lobby pressure and haunches by the indifferent bureaucracy. (See Table -1) Clearly, those at the highest investment ranges are a negligible percentage of the constituents of the sector.

Small-scale sector of today includes enterprises engaged in production of many such goods which have a national market and which use imported raw materials. Many a unit in the SSS import and assemble CKDs (completely knocked down kits) or SKDs (semi- knocked down). The fixed capital requirements of such units are small and can conveniently be kept under the prescribed official monetary limits. The criteria for a small-scale unit is not related to any expectations with regard to employment obligations. Given a variety of modern technologies and their frequent upgradation combined with widening possibilities for use of electricity, SSS of today does not anyway have the looks of what was at one time contemplated. There is a sea change in the environment. Yet, the official criterion of the small-scale unit continues to be viewed on the narrow base of capital alone.

Table -1
Showing Distribution of Small-Scale Units
According to Fixed Investment as on March 31, 1988

Investment in Plant & Machinery Range (Rs. Lakhs)*	No. of Units	Fixed Investment (Rs. Crores)	Share in Total (%)	
			No. of Units	Investment
(1)	(2)	(3)	(4)	(5)
0 – 1	4,82,452	3,087.31	82.8	33.2
1 – 2	41,694	1,010.20	7.2	10.9
2 – 5	34,362	1,544.87	5.9	16.6
5- 10	12,832	1,121.23	2.2	12.1
10 & above	11,028	2,532.42	1.9	27.2
Total	**5,82,368**	**9,296.03**	**100.0**	**100.0**

Source: DCSSI, Report on the Second All-India Census of Small Scale Industrial Units (Regd. up to 31st March 1988)
* Original Value.

There is an urgent need to revise the official criteria and bring in the nature of industry as an important factor determining the optimum size of investment. To have the size limit of investment as a cut-off point for all activities and all types industries is illogical. Capital demands of different industries differ widely. SSS definition has to incorporate the self-employed character of the enterprise so that enterprises with proxy management can be kept out. Similarly, a distinction has to made with regard to the nature of the technologies employed and the size and nature of the market that is addressed by the enterprise.

SSS is being assisted through preference in bank loans, provision of technical support, granting of preferential treatment in purchases and reservation of certain products for exclusive production in the SSS. Each one of these measures helps to an extent. However, what is essentially being missed by the policy frame of the SSS is the lack of appreciation of the `market' to which these enterprises are catering. Today's market is being created by the frequency and the content of the advertisements in the mass media. The `market' of tomorrow is determined by the information spread, credibility with regard to quality, convenience of availability and above all the "consumer acceptability". Various factors contribute in the process of gaining consumer acceptance. The most important one being the advertisement, packaging and public relations.

Small enterprises are not able to support financially or pay adequate attention to build and retain their markets. The new trend is in separation of the roles. Production is by small enterprises and `market' creation and networking of sales distribution by larger corporations. In this manner, there can be complementarity between the small and the big. The significance of this trend and its consequences over time are not being understood either by the policy makers or by the Indian industrialists. This is besides the question of relative bargaining power. Will the small man and his enterprise get their justifiable due? The experience of hand-made shoes marketed through national networks of leading companies and many more consumer items does not appear a happy one.

Large corporations enter into marketing arrangements with scores of decentralised units of the SSS. The design, the packaging, the brand name and all critically important decisions are made by the large corporation. In this arrangement, the marketing corporations have little burden of establishing production units or hiring and managing labour or even bringing in new capital. The real power stays with the `marketing corporation'. The suppliers remain at the mercy of the marketing system. The supplier and the buyer relationship is of perfect monopsony.

It is not recognised very often that in this mechanism the larger corporations (many of them being TNCs) reap all the advantages that the state provides to the SSS. Indirectly, the public system supports big business through the SSS route. Probably, this is a stage through which many such relationships are being established. If this type of relationship suits the SSS in the short run, the larger marketing corporations have a long-term advantage. It was observed that this mechanism also came handy to violate the spirit of reservations for the small sector. There is every possibility that once a corporation comes to command market domination it would find it more profitable to establish its own production with latest machines and technologies. This system would enable emergence of product monopolies at a later stage. Monopolies have their logical implications for consumers. One does not need to harbour more on this aspect.

FERA

The Foreign Exchange Regulation Act (FERA) was enacted in 1973. It has been one of the most criticised economic enactments of India. The policy-makers responsible for FERA had two assumptions with regard to the operations of foreign companies in India. *One*, that foreign corporations make high profits and remit these by way of dividend payments to their parent corporations abroad. The dividend payments, it was believed, impose heavy foreign exchange drain on the economy. And two, corporate managements can sustain their control only if they held majority shares. In case of a subsidiary, there could be little threat to the management. Following from the two assumptions, FERA made it obligatory that: (i) branches of companies registered abroad convert themselves into Indian companies, and (ii) in case of Indian subsidiaries of foreign companies (having more than 51 per cent shares held by a foreign company) it was expected that the maximum foreign-held equity would be brought down to 40 per cent.

The FERA legislation was criticised at various business fora. However, it also holds true that FERA was easily accepted by majority of the TNCs operating in India. But for a few formal protests no foreign corporation (IBM and Coca Cola left India more for reasons other than FERA) ceased its business operations; in fact, most large subsidiaries of foreign companies expanded their operations in a phenomenal manner after the FERA enactment. Table – 2 shows the trends in the value of the turnover of the major TNCs operating in India during the past two decades. (Also see Graphs I to IV) The FERA, instead of being a hurdle to business expansion, operationally came handy for foreign

Table - 2
Showing the Increase in Turnover of Select TNCs: 1977-78 to 1996-97

Name of the Company	Net Sales at Current Prices (Rs. Cr.)				Ratio of Sales
	1977-78	1981-82	1990-91	1996-97	1996-97 to 1977-78 (5) / (2)
(1)	(2)	(3)	(4)	(5)	(8)
Nestle India Ltd	20.79	55.65	312.19	1204.74	57.94
Colgate Palmolive (I) Ltd	38.98$	68.46	405.29	960.60	24.64
Philips India Ltd	82.04	149.65	564.68	1487.19	20.29
ITC Ltd	383.74	578.75	2286.49	5862.77	15.28
Siemens Ltd	77.74	104.98	383.28	1167.60	15.02
Hindustan Lever Ltd@	511.00	783.23	2651.38	7120.05	13.93
Glaxo India Ltd*	56.52	106.19	364.44	702.44	12.42

Source: Based on Bombay Stock Exchange Official Directory.
$ Data refers to 1978-79
@ Figures prior to 1996-97 include sales of Lipton and Brooke Bond.
** Glaxo sold its food products division to Heinz India Pvt Ltd during 1994-95.*

corporations to obtain state patronage and access to institutional support that was denied to them as foreign subsidiaries. And, this also gave them Indian nationality and fresh consumer acceptability.

The process of equity dilution was utilised by foreign companies to earn high reward in a short time. The dilution strategy permitted TNCs to expand the equity base in absolute terms. While expanding the equity base, TNCs got a god-sent opportunity to enlist support of new shareholders a majority of who happened to belong to the most influential strata of Indian society. Millions of Indians got a piece of the cake that TNCs offered in the form of equity shares. Each shareholder develops vested interest and loyalty to the corporation in which he holds a stake. Wide geographical spread of the shareholders ensures a large support base. All this was achieved without cost to the foreign-controlled corporations.

For more than a decade there was no real opposition, except for some formal protests to FERA. All of a sudden in the late ‘eighties FERA became a dreaded legislation. Ironically, FERA started biting Indian industrialists more than foreign companies for suspected transactions abroad! No wonder, the loudest protest is being made by Indian industry against the proposed Prevention of Money Laundering Bill. By 1992, the 40 per cent upper limit for foreign shareholding was withdrawn and the country is back to the pre-FERA state of affairs. The relaxation of FERA has many consequences. But, by itself, it has not resulted in getting new substantial foreign investment. The foreign investors who have come to India have other reasons to expand their operations. The primary source of expansion is due to the fact that foreign companies can now enter the so far forbidden and reserved areas of economic activity. Many of the new entrants are not in areas of high and sophisticated technologies. Simultaneously, many new brand names have entered thereby increasing the visibility of foreign sector in the Indian market. Most international brand names of consumer goods are now manufactured and marketed through the already existing marketing networks in the country. The expansion of the sales of international consumer brands has a cost by way of royalty payments even if the manufacturing is wholly Indian. The franchise arrangement is bound to expand in the coming years.

With the removal of restrictions on entry of foreign capital in trade and services, a number of new entrants are now visible in financial and management consultancy, hotels, restaurants, and modern service sector. One can expect a substantial entry of foreign-controlled corporations setting up software development centres in India. The attraction of India will not be in the removal of FERA; it is in the cheap availability of software engineers and other professional manpower.

The removal of entry barriers has also opened-up vast opportunities for foreign corporations, most of whom already operate in India, to engage themselves in take-overs and mergers of Indian enterprises. The scope for such expansion did not exist with Chapter III of the MRTPA being on the statute. Take-overs by existing foreign controlled corporations is possible without any fresh capital being brought in; it is the Indian capital only that is facilitating rapid expansion of India's foreign liabilities. It is also observed that in this process product monopolies are getting established, especially in the area of consumer goods and soft technology manufacturing. The cases in point are ice cream, soft drinks, soups, sauces, wheat flour, common salt, biscuits and the like. Since foreign corporations have world-wide experience at administering advertisement technologies it is no surprise that within the last few years more than two-thirds of the national advertisement space is commanded by TNCs. (See Table-3 for a list of Top TNC advertisers) This is true of print as well as of the electronic mass media. Indian commercial scene when judged in terms of advertisements appears as much under foreign influence as is true of the industrially advanced markets.

It is by now well demonstrated that `dividend' remittances at no time had been significant to justify the dividend regulation as the main thrust of FERA. During 1976, the significance of dividends was less than 5.0 per cent of the total

Table - 3
Showing Top TNCs Advertisers

Company name	Advertisement and Other Promotional Expenditure (Rs. Cr.): 1997
Hindustan Lever Ltd.	443.11
I T C Ltd.	172.60
Colgate-Palmolive (India) Ltd.	103.75
Nestle India Ltd.	79.89
Pond's (India) Ltd.	47.04
Castrol India Ltd.	42.87
Philips India Ltd.	41.49
Reckitt & Colman Of India Ltd.	40.83
SmithKline Beecham Consumer Healthcare Ltd.	31.91
Cadbury India Ltd.	29.62
Britannia Industries Ltd.	29.04
Procter & Gamble India Ltd.	25.64

Source: IDSS Corporate Database.
The list is confined to Stock Exchange listed TNCs only.

amount of foreign currency utilised by Indian subsidiaries of foreign companies. By 1990-91, the dividend payments were placed at 7.7 per cent. Given such low share of dividend remittances, equity dilution strategy could hardly provide any substantial relief to the country on the foreign exchange front. A number of academic studies brought this out soon after the enactment.

The second assumption that to gain and retain control over company management it was necessary to have majority share of the equity shares was an equally mistaken one. Indian corporate sector has a few unique characteristics. In most large corporations public bodies like the ICICI, IDBI, LIC and UTI hold substantial equity holdings. It has been a policy with public financial institutions and trusts to either remain neutral or place their full support in favour of the existing management. In the Indian corporate sector, especially in the case of large corporations, the managements hardly hold majority equity. The Tatas are known to have enjoyed management control in TISCO and TELCO with nearly five per cent of the equity. And *secondly*, the geographic spread of the shareholders is very wide. It is only a fraction of the shareholders who participate directly at the annual meetings of corporations. In the last ‘fifty years of India’s corporate history there have been only a couple of instances when the management control was altered with exercise of voting rights by shareholders of a company. Due to equity dilution there is not even a single reported case of a foreign company where the management got changed through voting.

Table - 4
Showing Pattern of Foreign Exchange Utilisation by Foreign Controlled Rupee Companies: 1990-91

Head of Foreign Exchange Outgo	**Amount** (Rs. Cr.)
(1)	(2)
Dividend Payments	135.26
Imports	1,453.35
Other Expenditure in Foreign Exchange	177.97
Total Expenditure in Foreign Exchange	1,755.58
Share of Dividends in Total Foreign Exchange Expenditure (%)	*7.66*
Share of Imports in Total Foreign Exchange Expenditure (%)	*82.27*
Raw Material & Components Imports	1,177.10
Capital Goods Imports	130.24
Share of Raw Material & Component Imports in Total Imports (%)	*80.99*
Share of Capital Goods Imports in Total Imports (%)	*8.96*

Source: RBI, "Finances of Foreign Controlled Rupee Companies, 1988-89 to 1990-91", *RBI Bulletin*, November 1994.

The pattern of foreign currency utilisation by the Foreign Controlled Rupee Companies (FCRCs) including the erstwhile FERA companies shows that more than four-fifths of the foreign currency utilised by FCRCs was for import of raw materials and another 9.0 per cent for import of capital goods. (See Table – 4) May be, capital goods and raw material imports are extremely necessary for production processes in which foreign corporations were engaged. This aspect needs proper discussion and factual verification.

However, a fact observed by us is that raw materials and capital goods imported by FERA companies are predominantly from their foreign parent or close business associates. (See Table - 5) It is a global reality that foreign trade is

Table – 5
Showing an Illustrative List of Related Party Imports of TNCs

Source of Imports	**Value (Rs.**	**% of Total**
MAHINDRA NISAN ALLWYN LTD.		
1. Collaborator : Nissan Motors Ltd, Japan	1120.48	100.00
KINETIC HONDA MOTORS LTD		
1. Collaborator : Honda Motor Co. Ltd, Japan and their	895.73	85.08
2. From others	157.05	14.92
3. Total	1052.78	100.00
HERO HONDA MOTORS LTD		
1. Parent: Honda Motor Co. Ltd, Japan(26% equity holder) &	831.82	84.77
2. From others	149.40	15.23
3. Total	981.22	100.00
MODI XEROX LTD		
1. Parent: Rank Xerox, USA (40% equity holder) and subsidiaries	785.30	80.27
2. From others	193.01	19.73
3. Total	978.31	100.00

PEICO ELECTRONICS & ELECTRICALS LTD.		
1. Parent: Phillips NV, Netherlands (40% equity holding) & their	705.52	58.99
2. Collaborator: Akustiche U Kingrate GmbH, Austria	1.46	
3. 1. and 2. Together	786.98	59.10
4. Imports from others	544.72	40.90
5. Total	1331.70	100.00
ASEA BROWN BOVERI		
1. Parent: Asea Brown Boveri, Switzerland (33% equity holder)	104.66	13.97
2. Subsidiaries of Parent AB Corp, Philippines	291.84	38.97
3. 1 and 2 together	396.51	52.94
4. Imports from others	352.46	47.06
5. Total	748.97	100.00
BAJAJ TEMPO LTD.		
1. Foreign Collaborator Daimler Benz AG, West Germany (26%	611.818	50.97
2. From others	588.42	49.03
3. Total	1200.23	100.00

Source: S.K. Goyal, et. al., "India's Imports and Exports: Some Highlights (An Analysis of Daily Trade Register Data)", ISID, 1991. The study was based on Daily Trade data on imports through Bombay, Madras, Calcutta and Delhi during Apr-Nov 1990 and was presented to the Ministry of Finance.

Table - 6
Showing Increasing Import Dependence of Top 100 TNCs

Item	1991-92	1995-96	Ratio: 1995-96 over 1991-92
(1)	(2)	(3)	(4)
Imports	1,374.14	4,937.55	3.59
Exports	1,617.23	3,297.41	2.04
Net Earnings	270.52	-1,586.97	- ve
Exports/Turnover Ratio (%)	8.07	8.64	
Imports/Turnover Ratio (%)	6.86	12.94	

Source: Based on IDSS Corporate Database.

increasingly coming to mean `inter-branch' trade. This is an open area for indulgence in transfer pricing practices. With increasing role of foreign investments in the Indian economy, following the programmes of economic liberalisation, the scope of unrestricted deployment of transfer pricing has increased substantially. Unfortunately, in India there is neither a systematic method to detect transfer pricing nor any efforts are being made to discover and curb this harmful practice. The importance of imports has increased so much in the post-liberalisation period that large foreign corporations have turned more import intensive and cause a larger drain on foreign exchange. (See Table - 6)

Alternative Framework

The experiences with public sector, small scale sector and FERA policies and implementation are described only by way of illustrating how the initial objectives got distorted during implementation. In practice, many other legislations suffered from deviations from the initial objectives. There is a need for change in approach. But it should not be a case of throwing the baby with the bath water. Blind adoption of ideas far from solving the problems of the country can indeed accentuate the existing ones and thrust additional ones, over which the country has no control.

The concept and practice of public sector should be reviewed as also there is a need to bring a minimum but effective co-ordination among the largest private sector enterprises. The objective should be to raise productivity of labour through education and training as also through co-ordinated activities among enterprises the operations of which are complimentary. The rigid distinction between public and private sectors need to be adjusted in recognition of ground realities. In the case of small-scale sector, the emerging phenomenon of talented and qualified young men seeking self-employment has to be recognised. Those who wish to go on their own instead of looking for jobs are now relatively and in absolute numbers more. Such young men need to be given encouragement and support. Even earlier, it was not the state patronage as such which was responsible for the growth of small-scale sector but the confidence it created in the entrepreneurs which was responsible for it. In case of foreign companies, one should be clear of the expectations from them and there should be regular monitoring to check whether the objectives are being realised instead seeking to attract 'large volumes'. One can similarly suggest in respect of a number of other policies.

If these objectives are to be achieved, an alternative framework for a performance review of the economy is needed and it must include, among others, an analysis of:

- Who has benefited from the new policies and who has been adversely affected – among large, medium and small enterprises and whether economic power is getting more and more concentrated in monopoly houses – Indian and foreign?
- What has been the nature of direct foreign investment in the Indian economy and where has it been going, and with what consequences?
- How far TNCs are taking over or making Indian enterprises dependent, through licensing/ franchise relationships and what are the implications of the TNCs entering the consumer durables market in a big way with their brand names?
- How far is our regulatory mechanism capable of handling the phenomenon in `related party imports’ and `transfer pricing’?
- How has trade liberalisation affected the import and export baskets and what are their implications in the medium and long-terms?
- What is the nature of FIIs and types of portfolio capital flows and what are the outflows on their account?
- How have the fiscal changes under the new liberalised regime affected the *common man?
- How price changes are affecting different sections of the society classified according to their income levels, consumption patterns and place of living?
- If the budgeted expenditure on any head, especially on social sectors, could not be met what were the reasons for the same?
- In case of changes proposed in any major policy what are the international experiences and what is the objective reality in India in the respective area?
- How far has the phenomenon of corruption got a boost under the new `open’ economy?

In view of the known failure of the governmental systems to provide objective reviews for such questions there is a need to develop alternative fora for analysis of data, discussions and dissemination involving academics, political parties and enlightened public men. The vast differences in poverty estimates between official estimates and outside experts should provide a clear indication of the need for objective analysis outside the government. To facilitate this, the government must throw open more information for public use with the scope for declassifying official documents increasing drastically. International bodies should also recognise their accountability towards the people of the countries to whom they provide policy prescriptions.

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