

Marching Toward Reform?

MARKET BRINGS A SENSE OF ECONOMIC AND POLITICAL uncertainty to nervous New Delhi as the Congress Party celebrates the completion of 3 years of UPA-II government otherwise a leaky boat right from the beginning. That hike in petrol price would be followed by a bandh or a token strike was a foregone conclusion. And Prime Minister Manmohan Singh and his economic advisers were fully aware of it. Also it was not totally unexpected that Congress after some initial bickerings would agree, not to disagree on partial roll-back to keep people in good humour.

In truth Various business circles have been clamouring for the withdrawal of subsidy on Petroleum, crude or refined, Diesel, Kerosene, and other petro-based oils (POL) for long. Recently, in his exit interview after a three-year term as Chief Economic Adviser to the Ministry of Finance, Government of India, Kaushik Basu also emphasised 'he has been suggesting gradual phasing out of the subsidy on POL'. As the first move towards that direction he has suggested a constant total subsidy. In this case, if the import of crude increases along with its price rise, the extra burden of value beyond the constant sum will be borne by the consumer of petrol, diesel etc. And implicitly if the price of petrol falls in the international market, the consumer will pay less per litre than previously. In an alternative scenario, he suggested a fixed sum, say Rs 5 as subsidy per litre for the consumer at the roadside petrol pump or for any other category of consumer. In this case also if the market price falls its benefits will automatically accrue to the consumer and vice versa. Gradually the subsidy per litre will be reduced to zero. No doubt, Basu thinks, this step will make the consumer responsible and conscious of the market behaviour on the one hand and at the same time clear the government of the burden of extraordinary deficit that it is shouldering. But, he thinks, subsidy on petrol-diesel goes on for political reasons and this creates irresponsible consumer behaviour along with multiplicity of fiscal problems that the economic ministries are perennially faced with and if this is allowed to persist, the economy will drift from its present robustness towards sluggishness. The expected announcement of rise of petrol price, leaving aside the price of diesel and kerosene, actually coincided with Basu's exit.

For one thing subsidy on POL leads to an enormous quantity of fiscal deficit. As import of petrol and other kinds of fuel is increasing each year, the quantum of subsidy and with it fiscal deficit also is mounting *pari passu*. As a country imports more than it exports, the relative value of its currency with respect to the exporting country's currency falls. The value of each and every country's currency is determined by the demand/supply of the currency in the international foreign exchange (FX) market which works round the clock without respite throughout the globe. It is a perfectly competitive market ideally at least in spite of interventions by the Central Banks of each country. But such interventions do not matter in the long run because in most cases interventions are ad hoc and prone to cancelling out due to another

affected country's reciprocal intervention. Generally, in the FX market the US dollar, Japanese Yen, British Pound-Sterling and the Euro are the dominant currencies. Although theoretically all currencies are equal, in practice, private commercial FX deals are concluded in one or two among these four currencies. The external values of these currencies are considered more or less stable. In India, the FX value of the rupee is measured in terms of British Pound-Sterling or US dollar.

'No country can maintain its economic health if its Currency is allowed to fall freely for year on year (YoY). However loudly the demagogues may shout titillating public mind by all means at their disposal, at the practical macroeconomic level, a basket of economic solutions and economic solutions only for economic maladies must be resorted to ultimately that is before it is too late. Strangely enough, the Chinese Yuan is probably the only emerging economy Currency that has been rising against the US dollar since August last year.

A closer observation reveals that the cost of refining petrol and diesel from crude is the same, the difference in market price between the two being due to difference in tax and duties by the government. The rich people know it and that is why they convert petrol based cars into diesel based ones and save money. As regards diesel as an important agricultural input for irrigation, a large part of the gross national cost can be made redundant by burrowing more deeply the existing canals, rivulets and river beds thus allowing them to contain and store more water along with construction of overhead tanks of more than 10000 gallons capacity at intervals in rural areas. Add to this the rural electrification programme on a national scale and one can do away with more than 70% usage of diesel and kerosene in rural areas. And the current development programme fuelled by expensive cars and trucks and highways and air traffic consumes much of the POL for which people lose more than they gain nationally. Finally, avoidable conspicuous consumption by the private sector in the form of perks for Company executives related to consumption of POL beyond a certain permissible limit should be taxed heavily. The government departments and the development agencies like the Planning Commission are there to suggest ways and means to drastically reduce India's dependence on imported crude oil. No they are unlikely to behave!

Well, the US has actually got rid of the drain on foreign exchange reserve by drastically reducing import of overseas fuel. And this is the single most important reason of the US's recent recovery from the brink of the slough of despond. Now, one may think, the rulers of India will consider! But they will still reject the above suggestions some of which must lead to austerity on the part of the rulers and others will force them move to actual development work from paper work as also because they are unwilling to betray their true American colours by putting a brave anti-American and anti-imperialistic face, the easiest way to look pro-people and pseudo-revolutionary. And they will lose a lot if any of these suggestions is implemented here. Each of them in the ruling class enjoys the services of at least a car at public cost and enjoys it prodigally. This they do not want to lose. □□□