COMMENT

THE RUPEE BACKLASH

THE RISE OF RUPEE HAS STAR-ted to affect employment. There has been a decline in exports of labour-intensive sectors. Leather exports have declined by 7 percent, textiles by 19 percent and handicrafts by 49 percent this year. These sectors are getting lower income in rupee terms because of the rise in the value of rupee against the dollar. Commerce Minister Kamal Nath admitted in the Lok Sabha in early December that about 20 lac workers may be rendered unemployed.

The Government has made a package for providing relief to exporters. The details of the package are not important. It suffices to state that the Government is providing export subsidies in various forms. For example, lower rate of interest charged on export credit is but a form of export subsidy. It is seen that rich countries like the US provide huge subsidies to their farmers in order to protect their jobs from cheap imports.

Exports can be divided in two categories. Exports such as of petroleum products are import-intensive. Oil companies import crude oil and export processed mobil oil. These industries are mostly capital intensive. They employ few workers. Yet, they grab a large part of the subsidies extended in the name of protecting workers. Thus export relief should be given, in the main, to export-extensive and labour-intensive industries like leather, textiles and handicrafts.

And relief may not really save these labour-intensive industries because they would continue to face competition from capital-intensive domestic industries. The example of handlooms is there. That industry has almost totally died. The rupee was declining yet handlooms were continually collapsing in the last ten years.

In the same way sectors like leather, textiles and handicrafts are facing competition from capital-intensive production. It is necessary to impose high rates of excise duty on capital-intensive industries to save these jobs. But the Government is doing nothing other than shedding tears at the time of elections.

Also, the problems are compounded by competition from cheap production in other countries.

Unfortunately Finance Minister is not convinced. In the Mid-Year Review he said that the solution to rise in rupee is to increase productivity and competitiveness. He wants Indian industries to produce goods cheaper and nullify the impact of rising rupee. He wants Indian industries to reduce their cost of production by ten percent if the rupee rises by like amount. Now bringing down the cost of production is always welcome. The question is : How will that impact the workers?

And Prime Minister refuses to recognize the negative impact of globalization on Indian workers. He is focused only on the few middle class jobs that are being generated in the BPO and like industries and the ever increasing wages of the government employees and officers.

India needs an altogether different approach to save the jobs and to increase the wages of workers. India must embrace protectionism and provide protection to labour-intensive sectors both from capital-intensive domestic production and

low-wage imports. But the Finance- and Prime Ministers are so much sold out to the middle class and to global market forces that such a relief is nowhere in sight.
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