

Calcutta Notebook

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THE STATE WAS DOMINANT IN the economy before the reforms of 1991. Businessmen were treated as thieves. Indira Gandhi had nationalized the banks, insurance and coal mining companies saying that these were exploiting the people. The same units will work for the welfare of the people under the control of government officials, she said. This pro-people hype was mere talk, however. The common man was as tyrannized by the state as the businessmen before the reforms. He had to pay bribes and run from pillar to post to get a ration card, electricity or gas connection.

Economic reforms were implemented under the leadership of Dr Manmohan Singh in this situation. Thinking was that businessmen will be released from the chains of the state. The ensuing rapid economic growth will create jobs and also provide cheap goods of good quality to the people. People's welfare will be secured spontaneously. But what is happening is quite the opposite. This much is correct that big businesses have been released from government control to some extent. But the benefits of this have not reached the people. On the contrary, the ministers, officials and big businesses are now together tyrannizing the people; as was being done by the ministers and officials before reforms. Three examples will make the point.

First example is that of the Goods and Services Tax (GST). The Central Government today collects excise duty and service tax at various rates on different commodities and services. This leads to many disputes between the businessmen and the tax collector. Businessmen contend that a particular commodity should be taxed at, say, 8 percent; while the tax collector says that tax should be paid at 16 percent. Such disputes lead to much litigation and diversion of people's energies from productive works. The Government has proposed to tax nearly all commodities and services barring few exceptions at a single rate of tax under the GST regime. Idea is that this will remove roadblocks to economic activity, increase rate of economic growth and job creation and provide relief to the people.

What is likely to happen is quite different. Goods consumed by the poor and rich; and goods produced by labour and capital intensive technologies will be taxed at the same rate. This will lead to increase in rate of taxes on goods consumed by the poor and produced by labour-intensive methods. For example, the *rasvanti* and bottled soft drinks; and handloom and power loom will be taxed at the same rate. This increase in rate of taxes on *rasvanti* and handloom will have a negative impact on the poor which, may be much greater than the beneficial impact of increased economic activity.

Second example is that of welfare state. There was widespread illiteracy and lack of schools at the time of Independence. The Government decided to establish schools in distant villages to make education accessible to one and all. Fees were kept low to provide incentive to the poor

to send their children to school. Government expenditures were increased on health services similarly. These measures were entirely laudable and had a positive impact on the people. Circumstances have changed dramatically since then, however. People have understood the importance of education. Results of private schools are often twice better than government schools even though salaries of teachers are about one-fourth. Government schools are in tatters. Pass rates are about one-half of private schools because teachers have no incentive to teach.

The straightforward solution to this problem was to disband the government school system except in the remotest villages; and distribute the money being spent on government teachers to school-going children through vouchers with which they could pay the fees of school of their choice. Such policy would have provided good quality education to the poor students without imposing additional financial burden on the government. Instead of implementing such a policy, the government has twisted the logic and provided enhanced inducements to the poor to continue to send their children in non-performing government schools. Children attending non-performing government schools are provided with ration, mid-day meals, free books and uniforms. *In this way the government is ensuring that children remain uneducated.*

Third example is of disinvestment on Public Sector Undertakings (PSUs). These were established mostly between the fifties and seventies. Private businesses did not have the capacity and experience to establish these at that time. They did not have the necessary capital, technology and risk taking ability. It was necessary for the government to step in and jumpstart the process of industrialization. Circumstances have changed since then. Private corporations like those of Tatas and Reliance can now put up plants as large as those in the Public Sector. Further, PSUs have been inflicted with the disease of corruption. Officials in the PSUs are appointed and promoted at the pleasure of the ministers. Many PSUs are running in loss. Taxes are being imposed on the people to provide monies to the PSUs to meet this deficit. The Government has recently put together a package to bail out Air India, for example. PSUs established for the welfare of the people have become a burden upon them.

Manmohan Singh is disinvesting minority shareholdings of the PSUs instead of privatizing them. This is in reality leading to deepening of Government role instead of reducing the same. Ownership of majority shareholding with the Government means that control over key policy decisions such as appointment of the MD will continue to rest with the Ministers. The proceeds of disinvestment will provide more money to the Government for making whatever expenditures.

It is clear the people's welfare is as remote today as was before reforms. □