The Passing of a Scholar Statesman

C RANGARAJAN

The passing away of Manmohan Singh has left a big void in India's political and economic scene. The reformer who changed the direction of India's economy and put it on a track of faster growth is no more. The nation will always be grateful to him.

The year 1991 is an important landmark in the post-independent economic history of our country. The country faced an acute economic crisis triggered by a severe balance of payments problem. The answer to the crisis was to put in place a set of reforms aimed at stability and structural changes. Structural reforms were needed to prevent the recurrence of such crises and to make the economy grow faster. The reform path was charted out by Singh under the overall protective cover provided by the then Prime Minister P V Narasimha Rao.

The break with the past in terms of policy came in three important directions. The first was to dismantle the complex regime of licences, permits and controls that dictated almost every facet of production and distribution. Barriers to entry and growth were dismantled. The second change in direction was to reverse the strong bias towards state ownership and the proliferation of public sector enterprises in almost every sphere of economic activity. Areas once reserved exclusively for the state were thrown open to private enterprises. The third change in direction was to abandon the inward-looking trade policy. By embracing international trade, India signalled that it was abandoning its export pessimism and was accepting the challenge and opportunity of integrating with the world economy. This was contrary to what we used to do when faced with a balance of payments crisis.

There is a common thread running through the various measures introduced since July 1991. The objective is simple, which is to improve the efficiency of the system. The regulatory mechanism involving multitudes of controls had fragmented capacity and reduced competition even in the private sector. The thrust of the new economic policy was towards creating a more competitive environment in the economy as a means to improve the productivity and efficiency of the system. This was to be achieved by removing the barriers to entry as well as the restrictions on the growth of firms.

While the new industrial policy which dismantled licences and controls sought to bring about a greater competitive environment domestically, the trade policy sought to improve international competitiveness, subject to the protection offered by tariffs which were themselves coming down. The private sector was given a larger space to operate in, as some areas, earlier reserved exclusively for the public sector, were also allowed to the private sector. In these areas, the public sector will have to compete with the private sector, even though the public sector may continue to play the dominant role.

What was sought to be achieved was an improvement in the functioning of the various entities, whether in the private or the public sector, by injecting an element of competition. There is, however, nothing in the new economic policy that takes away the role of the state or the public sector in the system. The New Economic Policy of India has not necessarily diminished the role of the state; it has only redefined it, expanding it in some areas and reducing it in others. As has been said, somewhat paradoxically, more market does not mean "less government" but only "different government."

The break from the past that Singh effected was revolutionary. He was certainly a Nehurvian in his broad approach to the polity. This was clearly seen when he was the Prime Minister. But in economics, he laid out a road that was different, even though Rao talked of continuity as he wanted all the members of his party to be with him. We should not underestimate the fundamental changes Singh brought about. As Singh said in his first budget speech,

> I do not minimize the difficulties that lie ahead on the long and arduous journey on which we have embarked. But as Victor Hugo once said, "No power on earth can stop an idea whose time has come." I suggest to this august House that the emergence of India as a major economic power in the world happens to be one such idea. Let the whole world hear it loud and clear. India is now wide awake. We shall prevail. We shall overcome.

The implementation of reforms was not smooth sailing. For example, the almost first important act of the new government in 1991 was to devalue the rupee. After the decision was taken, it was left to the Reserve Bank of India (RBI) to implement it as part of its daily announcement of the exchange rate. As the extent of devaluation was deep, it was to be done in two stages. After the first announcement by me, apparently, there was some dissent in the party which made the Prime Minister rethink. However, Singh did not want to deviate from the original plan. He finally called me and at that time, I said: "I have jumped." Thus, the story came to an end. As we moved on with the reforms, some thought we were going too slow. They were not aware of the political realities. However, there was a group that differed from the new approach and wanted to follow the old approach once the balance of payment problem was solved. The crisis did not mean much to them. It carried no lesson. It was a mistaken impression that reforms were dictated by an external agency.

To cite some examples of reform measures, in the area of finance, the government carried out changes that reflected the basic shift in economic philosophy. We reoriented the relationship between the RBI and the government. When I suggested to bring an end to the system of issue of ad hoc treasury bills which had the effect of automatically monetising fiscal deficit, he readily agreed to do so because he was in agreement with the basic logic and did not mind that it could lead to a rise in the government's borrowing rate. One of the basic elements in the reform process was to introduce greater competition. We applied that principle to the banking system by allowing new banks to be set up by the private sector and also by reducing the share of government from 100% to 51% in public sector banks.

The foreign exchange market underwent once again a big change. By 1993, we moved to a market-determined exchange rate system. We managed the system in such a way that there were no shocks. Manmohan Singh's strengths are not only in ideas but also in implementation.

Fiscal reforms were an integral part of the early reforms because they had an impact on restoring stability in the economy. The major part of the fiscal correction was to contain the fiscal deficit. In fact, it was the growing fiscal deficit in the 1980s that led to the crisis of 1990. Trade policy reforms that tried to bring down import duties made the task difficult. A balancing act had to be performed. Tax reforms of lowering the rates and widening the base also had to be programmed with care. The concept of reducing fiscal deficit took a more formal shape later under the Fiscal Responsibility and Budget Management Act.

The scope of reforms widened to cover every segment of economic activity. The reforms witnessed in the early 1990s had a big impact when Manmohan Singh became Prime Minister. Between 2005–06 and 2007–08, India's real growth was in excess of 9%, a remarkable achievement. After 2011–12, the growth declined but that was partly cyclical. We could have also managed the decline better. Besides faster growth, the poverty ratio also showed a steady decline.

The scope of the reforms went beyond economics. When Singh became the Prime Minister, he had the opportunity to oversee a much wider area beyond finance. The conclusion of the India–US Civil Nuclear Agreement showed his grit and determination to get what he wanted through. The Right to Information Act had many beneficial effects, including the possibility of reducing corruption. The introduction of Aadhaar had many advantages, including facilitating direct benefit transfers. There had been many such pioneering efforts which made his two terms as Prime Minister exemplary.

Manmohan Singh in the earlier part of his career in government was a believer in planning and the importance of the role of the state. Even at that time, he was a strong advocate of export promotion because exports were a test of efficiency. He did however change his views on many aspects of development strategy. That is why we call the reforms a "paradigm shift." In the final analysis, what is important is the benefit to the country. His emphasis on efficiency did not take away his concern for the vulnerable groups. The Mahatma Gandhi National Rural Employment Guarantee Scheme is one good example of how he tried to take care of the deprived. The National Food Security Act is another example. Given the production and procurement capabilities, he asked the committee that he had up under my chairmanship to formulate a scheme of entitlements for the vulnerable. We modified the scheme suggested by the National Advisory Council but kept in greater part the spirit of the recommendations. There is a mistaken impression that reforms ignored equity considerations. That is not true. Manmohan Singh always regarded growth and equity as the two legs with which a nation must walk. Without adequate growth, equity will be a distant dream. On the other hand, growth cannot be sustained without equity. Maybe we could have done better on equity. But what we have accomplished should not be ignored.

The outpouring of grief after the death of Manmohan Singh shows how he had endeared himself to the people. That is because he combined vision and courage with humility. He was courteous to the extreme towards everyone.

When Manmohan Singh left as finance minister, he was hailed by everyone. When he ended his first term as Prime Minister, he was again hailed and "Singh is King" became a popular phrase. When he ended his second term as Prime Minister, there were some murmurs. The disruptions in the economy and polity in the last two years affected his image. But that was a short-term view. As he had said, "History will be kinder to me." It has already begun to happen.

C Rangarajan (*c.rangarajan@mse.ac.in*) is a former chairman, the Prime Minister's Economic Advisory Council and former governor, Reserve Bank of India.