CURES Report

INDIAN ECONOMIC REFORMS : LESSONS FROM JAPAN

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THE BACKGROUND :

Since 1947, when it gained independence, India embarked on various policies to tackle the problem of underdevelopment. The Planning Commission was appointed in 1950. In April 1951, the First Five Year Plan was launched. Since then a number of Plans, both Annual and Five Year, have been launched.

However, the forty years of heavy State intervention had resulted in an economy characterized by low productivity and a high level of monopoly. The domestic industries were well protected from foreign competition. The mammoth public sector was highly inefficient and the overall growth rate was low. While these were some of the basic problems, what led to the initiation of reforms was the immediate crisis situation facing the economy.

In mid−1991, the foreign exchange reserves position had shrunk quite low, with the reserves available then barely sufficient to cover two weeks of imports. Industrial growth was negative and inflation was rising alarmingly. The balance of payments situation was unmanageable and for the first time there was a real danger of India defaulting on its external debt obligations. The proximate cause of this situation was the fiscal profligacy and the mismanagement of the economy in the earlier decade.

In the 1980s, government subsidies had grown five times. Fully two thirds of these subsidies were used up for food, fertilizers and exports. There was an eight−fold rise in the interest payments of the central government in the 1980s. Defence expenditure had quadrupled in this decade. This growth of expenditure on subsidies, interest payments and defence was what strained the government finances. In fact these three items alone amounted to more than the entire net tax revenue of the Centre. The bloated bureacracy and wage populism − namely wage increases given without any correleation to productivity − were an added burden. The total wage bill at both the Centre and the State levels is a very high 40% of their revenue receipts.

Since the mid−1950s India had followed the pattern of centralized Soviet−type command economy. The development policy was an inward looking, import substitution type. Thus high tariff walls were erected protecting the domestic industries. This resulted in a high cost economy and poor quality products which obviously could not find an export market. Restrictions on Foreign Direct Investment and the absence of competition from abroad effectively preempted significant technological progress.

The regulatory system was marked by pervasive intervention by the bureacracy in sectors like industry, foreign trade etc.

Rather than facilitating industrial progress, this regulatory system led to inordinate delays and stymed the entrepreneural spirit. It has been called the license permit raj—namely the omnipotent, all—pervasive bureacratic intervention in deciding the allocation of industrial licenses, not to mention the maze of controls that were used to intervene at every step of the industrial activity. Little wonder then that the system turned out to be overcentralized, anti—growth and corruption—prone. The crisis of 1991 shook the planners to face reality and shift in favor of a pro — growth, market—oriented policy that opened the economy to Foreign Direct Investment and freed the industry from the earlier licensing system.

What makes this entire story a tragedy is not that the stultifying development strategy had produced so little in all of forty years. Rather one is amazed at its ability to miss the innumerable opportunities for growth and its capacity to hold down an economy with such great potential.

The New Economic Policy refers to a set of economic reforms initiated in a wide range of sectors in July 1991, with periodical additions. It aimed at the macro—economic stabilization and corrections and structural adjustments at various levels. Industrial policy reforms were initiated with the New Industrial Policy of July 1991, with susequent related additional policy measures.

The New Industrial Policy did away with the earlier sytem of industrial licensing. The rigid price and distribution controls were done away with. Procedures for new investment were greatly simplified and liberalized. Foreign investment in the economy was made easy. The giant public sector's monopoly over a number of industries was ended. Tariffs were greatly reduced. The Monopoly and Restrictive Practices Act and the Foreign Exchange Regulation Act were liberalized.

The New Economic Policy was success ful in controlling the crisis of 1991. Foreign currency assets were of the order of $18 billion by mid—1994. Inflation was successfully brought down. The immediate problems overcome, the long—term reforms aimed at the structural corrections of the economy are continuing. What does Japan's experience mean to Indian planners at this crucial juncture ?

LESSONS FROM JAPAN :

First on the technology import policy. In the post World War II years, Cold War considerations prompted the United States to let Japan have unlimited access to Western technology. Indeed with hindsight one is struck by the huge technology transfer that Japan could effect at such nominal cost and at such great benefit to the economy. The linkages between imported technology and expansion of foreign trade and its contribution to economic growth in the Japanese case are well known today. Today's developing countries like India can only marvel at how fortunate Japan was. While the total quantum of technology available in the world has increased substantially in the period since World War II, there is no political motivation on the part of the West to part with its technology on easy terms. The cost of technology aquisition has also increased.

The relevant issue that stands out in the Japanese experience is the dominant role played by the government in technology negotiations, with its veto power affording it a high bargaining position. The Japanese government which always sat at the negotiating table could push down the price of technology to levels unattainable today. If the Japanese technology importer had been negotiating with the Western importter directly, then such favorable terms could not have been possible.

The Japanese government simultaneously seems not to have favored any one domestic firm from having monopoly access to any particular foreign technology. Thus a number of Japanese firms imported the same technology, usually from different sources. This prevented monopoly control over any one production process from coming into being and fostered competition. In the 1950s the Japanese government rigidly decided what the priority areas which merited the import of technology, were. This was motivated by a stringent foreign exchange reserves position, similar to the one India faced recently. But the salient point to note is that after spelling out the priority industries, despite a tight foreign reserves situation, the government did not let monopoly controls to develop in any particular technology that was imported.

If there is a lesson in this for India it is that State intervention in technology imports is not only desirable but essential. What one has in mind is an active intervention that is pro-growth and not the passive intervention that was witnessed prior to 1991 which was generally discouraging to growth. To reiterate, the Indian government has a large role to play in getting favorable terms and conditions for the technology imports, in determining the priority sectors and in preventing monopoly interests from developing in the economy.

On the industrial policy front[1], the first issue to claim our attention is that there seems to have been some amount of coordination in the investments in the various industries. The returns to investment in any one industry would be affected by the state of development of other industries that supply its input. For example, returns to investment in the steel industry would be affected by the availability of infrastructural facilities like power and transportation. If certain sectors of Indian economy have been suffering from underinvestment till 1991, now there is a real danger of overinvestment. The total investment in the economy cannot be allowed to increase faster than the infrastructure can cope with. Japan seems to have coordinated the investment patterns in various industries simultaneously, thus avoiding serious bottle necks.

Industrial policy of Japan supported industry through investment subsidies in the form of tax breaks. This largely avoided the corruption-prone tendencies that could easily have developed had direct disbursal of funds been resorted to. Where the government tried to support an industry through subsidizing output rather than investment, it was not successful. An instance of this is the shipbuilding industry. Further administrative costs were also low in the case of tax breaks. The lesson to note is that it is best to support infant industry through investment subsidies as this minimizes distortions that go with policy intervention.

Industrial policies in the Japanese case never favored any one single firm. Competition and the market principles were allowed to prevail ensuring the same kind of support to various firms. This prevented the formation of monopolies. The stark contrast with the Indian situation is striking.

Industrial policy which is declared through the budget presentation has a number of times declared incentives to certain industries, already near monopolies, owned by houses close to the ruling party.

In the Japanese context, the industrial policies were explicitly designed to reward success and punish failures. The more a firm exported, the more tax breaks it was entitled to. Firms that lagged behind were punished by having to change their management.

The Japanese government while promoting an active pro—growth policy, simultaneously pursued an anti—growth policy in highly labor—intensive industries. That was the only way out for it to ensure the employment of the workforce. Competition in select labor—intensive industries was deliberately blocked with this in mind. That such measures were adopted by Japan would be of interest to Indian audiences, faced as they are with the twin problems of maintaining a large work force employed and simultaneously having to follow pro — growth policies which in effect would lead to the retrenchment of surplus labor. The Japanese case points out to the difficulty of handling this issue as labor and capital did not move freely. However what is noteworthy is the way the balancing of pro—growth and anti—growth measures were actively managed.

Any major policy measure fails if there is no support from the population. And to ensure the population supports the policies, the growth benefits have to be as equal and widespread as possible. Japan did not face the kind of opposition to the government policies as South Korea with its much less equitable distribution of benefits of growth, did.

While infant industries need to be protected, the policies towards infant industries need constant review. This is because there is an innate tendency to protect such industries for far too long thus wasting precious resources, something India is only too aware of. With a constant review system that critically examines the performance of the protected infant industry such wastage can be minimized.

Policy failures are bound to happen despite the best of intentions. What matters is not how much of a mistake one made but how quickly one realized the mistake and how quickly one recovers and corrects course. Thus the new policies should never become rigid like the earlier ones. There has to be an element of flexibility. The best of "lessons" from the Japanese or for that matter any other country's experience may not work in India. So what matters is the willingness to learn from others, experiment, review, correct course and proceed. Needless to add this presumes a dynamic role on the part of the government.

Of crucial relevance to India is the size the bureacracy maintained in the period since the early 1950s in Japan. Government intervention in the economy leads to more intervention, for example, to see to it that the original intervention is followed. This translates into a ballooning bureacracy, something India learned the hard way. In the case of Japan, it was not just the bureacrats who formulated policy. External groups such as advisory councils, industry organizations, business groups were involved.

This diverse base of policy formulation preempted the growth of bureacracy in Japan. When James Vestal says "……… without a diverse base for formulating policy, growth in the bureacracy could have undermined the rationality of industrial policy in Japan."(p.157), it does not just sound prophetic. It is a prophecy come true in the case of India.

1. For much of what follows I have greatly depended on James E. Vestal's PLANNING FOR CHANGE : INDUSTRIAL POLICY AND JAPANESE ECONOMIC DEVELOPMENT, 1945−1990 (Oxford : Clarenden Press, 1993).

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Topic

イギリスの民営職業紹介事業

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私は1993年から94年にかけてイギリスの職業紹介システムについて調査をする機会に恵まれた。私の主な関心は、これらの国での労働市場の規制緩和、とりわけ職業紹介事業の民営化が失業の減少にどのような効果をもたらしているか、あるいは不安定雇用の増加などの新たな問題を引き起こしてはいないかについて調べることであった。

I　利用増大する民営職業紹介事業

イギリスは、早くから民営職業紹介や労働者派遣事業がさかんで、西欧諸国の中では、これらにたいする規制が最も弱い国である。政府の免許を取得しさえすれば、民営職業紹介や労働者派遣業（人材派遣会社）を自由に同時に営むことができる。これらの事業に関わる民営業者の数は1994年３月時点で１万4482件。ホワイトカラーの仕事を求める求職者や求人企業は公共職業紹介所（Jobcentre）よりも民営職業紹介会社の方を好むようだ。世間には「公共職安はブルーカラーのもの」という通念が根強く残っている。また、「ホワイトカラーの求職者の能力をテストするシステムは民営業者の方が優れているので、求人企業は手数料を支払っても民営業者を通して労働者を採用した方がよい」という声も聞かれた。

さらに、民営業者が兼営している労働者派遣業が、求人側によって労働者の試用期間として利用されている面がある。求人企業は最初は労働者を正規雇用形態で採用しないで、派遣社員として受入れ、彼（彼女）の能力が期待どおりのものであれば、一定期間後に正規雇用に切り換えるのである。もし、期待にそわなければ派遣契約が終了した時点で、または契約途中であっても中途解除して、人材派遣会社から他の派遣社員を派遣してもらえばよい。正規雇用の場合には、解雇するには種々の手続きが必要になるが、人材派遣業を利用することでそうした手間を省略することができるというわけだ。これは企業サイドにたてばまことに好都合であるが、労働者サイドから見れば、雇用不安と隣り合わせにあると言えよう。