Legal reform to focus sharply on the interests of the public, and not those of the public servant in the functioning of the governmental and public delivery systems, clear mechanisms for establishing accountability for performance by public agencies, freedom of information and full disclosure of all financial decisions made by the Government and its multifarious agencies and fiscal empowerment are some of the initiatives we need at the present juncture. The last was the most difficult task in view of the deadweight of the past, but it could no longer be avoided. This was stated by Dr. Bimal Jalan, Governor, Reserve Bank of India today. He was delivering the 16th C D Deshmukh Memorial lecture organised by India International Center in Delhi.

'We need a new 'political-bureaucratic' compact based on well-defined division of responsibility and accountability', Dr. Jalan stated and pointed out that this was the harder part of the second generation reforms. Explaining this, he stated that today the non-governmental sector had a dynamism and momentum of its own and in services sector, Indian institutions, corporations and individuals have shown exceptional performance at the global level. At the same time, it was also clear that unless we put our fiscal house in order and improved our public delivery systems, no amount of macro-policy reforms by themselves would be sustainable or yield permanent results, he added. Citing an example, he pointed out that if lakhs of primary schools run by Government agencies, thousands of primary health centres set up by district authorities, and hundreds of Central and State Universities continue to under-perform or decline, two or three hi-tech cities and one or two new business schools and technical institutes cannot make up for the gigantic loss of human resources. 'It is simply a question of relative proportions, and inextricable linkages between public good and private progress', he stated.

India today has the knowledge and the skills to produce and process a wide variety of industrial and consumer products and services. Another important factor in India's favour is international capital mobility and integration of global financial markets. Domestic savings continue to be important for development. However, scarcity of domestic capital is no longer a binding constraint. Increased mobility of capital has ensured that global resources would flow to countries which can show high growth and high returns. It is possible now for India to take advantage of a virtuous circle of higher growth, higher external capital inflows and higher domestic incomes and savings, which in turn can lead to further growth, Dr. Jalan stated.

He, however, pointed out that the 'death of distance' and the growing integration of global product, services and financial markets in recent years have also presented new challenges for management of the national economy - not only in India but all over the world. Another consequence of recent global trends, according to Dr. Jalan was the greater vulnerability of national economies to developments outside their own borders. 'In addition to the direct effects (which are currently most visible in the volatile stock markets), the indirect effects due to 'contagion' can be quite serious,' he argued.

Dr. Jalan stated that at the beginning of the new century, the challenge before us was in two directions - how to seize the new opportunities, while at the same time, protecting ourselves against unanticipated risks. He felt that insularity or isolation was not the answer, as such an approach would promote neither growth nor stability. In Dr. Jalan's judgement, given the phenomenal change that has taken place in the world economy and India's present comparative advantage, the present direction of policies to make India more open and more competitive was right and deserved to be accelerated. 'Without a major transformation of our economic policies and effort to align them with contemporary realities of global trade, investment and technology, it is not feasible for India to occupy the high ground and realise its full potential for growth and development,' he argued.

According to Dr. Jalan, decisive move towards more and deeper economic reforms was the first strategic priority for the future. He, however, cautioned that it would be a grave mistake to misconstrue the need for economic reforms with a call for less role for Government or public policy in widening opportunities and creating a positive environment for equitable development. 'In developing countries, such as India, with massive illiteracy and underdevelopment of infrastructure, Government must continue to have an important and crucial role in creating the necessary conditions for growth through investments in areas, such as, education, health, water supply, irrigation, infrastructure, etc. These tasks cannot be taken over by the market. Successful economic reforms must result in strengthening the ability of Governments to do what they need to do by helping to generate higher growth, higher revenue and higher productivity,' he stated and pointed out at the recent experience of several transitional and emerging market economies that showed that economic reforms were necessary but by no means a sufficient condition for growth and development.

Focussing on the growing public-private dichotomy in our economic life, Dr. Jalan stated economic renewal and positive growth impulses were now occurring largely outside the public sector. In the larger Governmental sector, there was a marked deterioration not only in terms of output, profits and public savings but also in provision of vital public services in the fields of education, health, water and transport. These two elements - fiscal deterioration and inability to provide essential services - were intimately connected. He pointed out that most of our public resources were now dissipated in payment of salaries or interest on past debt with little or no resources available for expansion of public or publicly supported services in vital sectors.

Dr. Jalan lamented that after more than 50 years of experience of independent administration, our problems in the management of public resources at different levels have only become more and more intractable. Illustrating this, he pointed out that there was a widespread respect for the 'rule of law' despite the legendary delays in the judicial process. For historical reasons, however, our legal system provides full protection to the private interests of the so-called 'public servant', often at the expense of the public that he or she is supposed to serve. In addition to complete job security, any group of public servants in any public sector organisation can go on strike - hospitals, universities, schools, banks, buses, post offices, railways, municipalities - in search of higher wages, promotions and bonuses for themselves irrespective of the costs and inconvenience to the public in whose name they have been appointed in the first place. The 'authority' of Governments at, both Centre and States, to enforce their decisions has eroded over time. Governments at different levels may announce plans and programmes to provide social services (such as, expand literacy), but these initiatives do not get implemented on the ground because of fiscal stringency.

Dr. Jalan argued that the worst affected from fiscal stringency and the atrophy of the public delivery systems were likely to be the poor, the unemployed, and the illiterate who are dependent on public services, public investment and public programmes and certainly not the affluent classes, or persons elected or appointed by the people to serve them. Dr. Jalan advised that it was useful to keep this perspective in mind as a fair amount of defence of the 'status quo' was done in the name of the weaker sections of the society.

In this context, Dr. Jalan mentioned that in addition to economic reforms, it was now also important to embark on an urgent programme to revitalise the governance and public delivery systems at all levels of Government - centre, state and districts. Without strengthening the ability of the Government to do what it alone can do, and narrowing the focus of its activities to what matters most for the future development of the country - education, health, clean environment, and a functioning infrastructure - India cannot adequately seize the opportunities that lie ahead. Updated

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Press Release : 2000-2001/1019