

From New Delhi by Ramtanu Maitra

Industrial growth slows to a crawl

The economic slowdown has encouraged demands on the government for faster reforms.

Indian industry, the engine behind the country's overall economic growth, seems to have run out of gas. Increasingly, desperate statements from responsible quarters indicate that the makeshift government in New Delhi is at a loss how to react to the problem at this juncture.

The Associate Chambers of Commerce and Industry (Assocham), one of the three major chambers of commerce in the country, has struck out at the government for its lack of "political will" to resolve pressing economic issues. "There is no political will. The economy is driven to the wall," complained Assocham Secretary General V. Raghuraman on July 7, in statements to the press.

What Raghuraman is reacting to is the steady slowing down of industrial growth, which has seriously affected the economy as a whole. Recently released figures indicate that industrial growth in 1996-97 crashed to 6.7%, following a decent 11.6% in 1995-96. What disturbs the industrialists the most, is that the growth had begun to weaken by the last part of the fiscal year, and since then the figures have gotten worse.

The government, however, had been less than candid about the slowdown. In December 1996, a government spokesman said that the growth rate for 1996-97 would be 9.5%. This was revised in February to 10%, in light of the "robust agricultural performance."

Finance Minister P. Chidambaram, whose optimism often ignores realities, however, denies the slowdown,

and claims that the economy, except for "business confidence," is "very strong." The realities that Chidambaram and his ilk tend to ignore, is that industry, as well as so-called business confidence, is suffering badly because of the dismal failure of the government to make a dent in the massive shortfall in industrial infrastructural requirements. Electricity and mining, which together have a weight of 23% in the index of industrial production, showed dismal rates of growth of 2.82% and 1.02%, respectively, in the first six months of last year. The latter half of the year was no better, and possibly worse.

In addition to the continuing weakening of basic industrial infrastructure, business confidence took a dive also because of the high interest rate regime. First class borrowers are still paying 13% on commercial deposit, when the inflation rate is below 6%. According to the finance minister, the banks are flush with funds, but are afraid to lend because, in the present circumstances, "people tend to read political meaning into all business decisions." Whatever that may mean, it is evident from Chidambaram's own statement that people have little faith in the government in power. The question is: What is to be done about the deepening recession?

There are a number of remedies for the recession available in the books of professional economists. One economist suggests a sharp cut in long-term interest rates, bringing down the interest rate regime to 6-7%. According to this economist, a cut of 1-2% in the

interest rate will not do, because the drop in the inflation rate has raised the level of real interest rates to unsustainable heights.

According to another economist, the reforms have been a virtual failure because they have not been pushed through to the extent necessary, which is responsible for the deep recession the economy is in now. This economist accuses the present United Front government, under the leadership of previous Prime Minister H.D. Deve Gowda and current Prime Minister I.K. Gujral, of stalling the reforms by avoiding hard and necessary decisions.

In February, the annual Economic Survey of the Government of India identified three challenges: to control the fiscal deficit, provide adequate and reasonable economic infrastructure, and ensure broad-based growth. According to the latter economist, all three are part of the same problem, and it is the decline in investment, rather than the slowing down of industrial output, that is the sure sign of recession. Citing the high interest rate regime that has virtually crippled the capital market during the last two years, he claims that simply lowering the interest rate will not reverse the process.

It is evident that the Ministry of Industry is aware of the gravity of the situation, notwithstanding the brave words issued from the Finance Ministry. Industry Secretary T.R. Prasad has expressed concern over the slowdown in industrial and export growth, and has promised short- and medium-term measures to deal with it. Admitting that there are technological constraints in the power sector and offshore crude oil exploration, he also blamed the worldwide industrial slowdown for affecting India's exports. "We are optimistic that industrial growth will be at least 11% in 1997-98 and exports will also be on the upswing," Prasad promised.