

## Suman Bery: The quest for economic security

The design of efficient social protection policies is a major intellectual challenge facing India

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On the reasonable assumption that the current UPA government will complete its full term, the Twelfth Five-Year Plan (2012-2017) will be prepared on its watch. The discussion of the mid-term assessment of the 11th Plan by the National Development Council in late-July, chaired by the prime minister, is the first step down this well-trodden path. This, in due course, will be followed by the approach paper to the next Plan, and then the Plan itself.

There are many respected commentators, notably Professor T N Srinivasan of Yale University, who feel that the whole business of planning is an embarrassing relic of an earlier era. He argues that planning as we know it should be abolished, and the Planning Commission itself wound up. This seems unlikely to happen; instead, according to press reports, the Commission is currently engaged in an internal effort to rethink its role and purpose.

One important achievement of the Commission in the six years since the UPA first came to power has been its branding of the government's economic strategy as "inclusive growth" and the deepening of that idea in the 11th Plan document, prepared in 2007. This is a slogan that has both been politically astute and has also resonated in popular discourse. However, all slogans need refreshing, and it is not too early to start thinking on possible themes for the next Plan.

In my view, the Commission would perform a valuable service by shaping a broad national debate on the issue of economic security. At one level, this would not be anything new. Led by activists in the National Advisory Council, a rights-based approach to economic security has, in many ways, been the hallmark of this government. The prototype for this approach was the Mahatma Gandhi National Rural Employment Guarantee Programme, followed more recently by the Right to Education Act and the Food Security Bill currently under consideration.

These landmark pieces of legislation have been accompanied by other important national social protection schemes in the areas of rural health insurance and rural old age pensions, and the hugely ambitious Aadhar programme of the Unique Identification Authority of India. These initiatives are over and above the various existing sectoral schemes for such groups as self-employed workers in the handloom and bidi sectors. Not to be outdone, some of the more affluent states, notably Tamil Nadu and Andhra Pradesh, have also developed their own health insurance schemes.

What is developing, accordingly, is an expensive patchwork of activist-led initiatives, largely focused on the rural areas (where poverty is concentrated, agriculture is stumbling and people vote) without a coherent articulation of the reasonable, affordable and sustainable division of labour between the state and the individual in dealing with risk.

Given its political nature, it is perhaps unreasonable to expect the Planning Commission to provide an objective assessment of the strengths and weaknesses of the edifice that is being constructed, yet it also seems a pity that the formidable talents of the deputy chairman and the chief economic adviser, both world-respected authorities on issues of poverty and social protection, cannot be deployed for a sophisticated discussion of what is needed, and where we should be headed.

What issues should such a discussion include? It is worth distinguishing between issues of economic security at the level of the nation, and issues of economic security at lower levels, down to the household and even the individual, and to be clear on the links between these levels. In common with virtually all nations, the Indian state has accepted the responsibility to ensure adequate aggregate supply of food and energy to the country. Security has tended to be interpreted as self-sufficiency wherever this is a realistic prospect; where trade is unavoidable, as with hydrocarbons, there is a pronounced preference for such trade to be controlled by the public sector.

While there is no denying the complexity of the issues, both these premises

need to be re-examined. This is important particularly given the undesirable (and inefficient) precedent being set by Chinese state-dominated companies in buying up land and raw material assets around the world, at relatively rich valuations, at the peak of the commodity cycle.

It is not my case that ordinary mergers and acquisitions between Indian firms and their suppliers abroad should be discouraged; far from it. My point rather is that India's long-term interests are almost certainly better served through increased reliance on market mechanisms and company-to-company transactions rather than through state-led actions, with the government playing at best a facilitating role through its diplomatic activities. In particular, the idea that India should emulate China and create a sovereign wealth fund to acquire overseas energy assets strikes me as particularly dubious and risky, even as the Chinese presence undoubtedly complicates life for our private sector.

Turning next to the household level, there is now an enormous body of work by academic scholars and within international organisations about life-cycle, livelihood and income risks to which households in developing countries are exposed, and the optimal design of government interventions and financial instruments to help households cope with these risks while containing the fiscal burden.

Wherever possible, it is preferable to provide households with financial instruments to pool and manage their risks rather than budgetary transfers, and to prefer general income support to allow the household to decide on its own expenditure priorities. A common, and to some extent valid, criticism of the preference for cash transfer schemes is that they risk being misused by the head of the household; hence the increasing tendency, particularly in Latin America, for channelling funds to the mother.

The fiscal constraint does matter, not just to avoid inflation, but because unless targeting is accurate (which in India it seldom is), such transfers can be regressive, as a significant portion of tax revenues still come from indirect taxes.

The final point has to do with globalisation, growth and labour mobility. As the recent crisis has shown, globalisation adds a layer of volatility, even as it helps raise the base of income. It also adds pressure to reallocate labour from low to higher productivity activities, which is the main route for increased income. Efforts to provide cyclical unemployment insurance should not impede this reallocation.

*The author is director-general NCAER and member Economic Advisory Council to the Prime Minister. The views expressed are personal*