

# Dr Manmohan Singh: India's Ray of Hope

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RECALLING HIS FIRST MEMORY of India's new primeminister, Manmohan Singh, 50 years ago, fellow-economist Jagdish Bhagwati says: "We were both students at Cambridge University, and I was struck by this young man from a poor farmer's family who would start his day every morning at 4 with a cold shower - in the English winter! That's when I knew that he was going to go places."

And he did go places, holding every senior economic position in the Indian government. As finance minister, he launched India's historic reform program in 1991. Singh combines his intelligence and achievement with extraordinary honesty and decency. But will all these talents be enough to do what has often seemed impossible - pursue sensible economic policies while also keeping hundreds of millions of voters happy? He has a crack at it, starting with his budgets.

India now has a world-class economic team, with the prime minister, Finance Minister (now Home Minister) Palanippan Chidambaram and planning czar Montek Singh Ahluwalia. But as a former senior government official, Shankar Acharya, wrote recently, it "makes for an intriguing contrast with the poor quality of economic ideas swirling about."

The ruling coalition has put together an economic plan that is, quite simply, a disaster. Its most outlandish promise is a guaranteed job for every able-bodied male for 100 days a year - something that could end up costing 3 percent of GDP. India's labour laws and wage laws, which make job creation very difficult, are yet to be reformed. Even the plan's commendable idea of increasing spending on health care and education is oblivious to the reality of India's huge budget deficit.

What explains these bad ideas is India's recent (2004) election\*. The Bharatiya Janata Party lost, so the conventional wisdom goes, because its policies left behind hundred of millions of poor Indians living in the villages, and a democratic government must address their concerns. It's a powerful argument - except that it's not true.

First, there's the small matter that India's economic reforms have not left behind the rural poor. Over the last 15 years, poverty has declined from 39.1 percent to 24.1 percent in cities and from 39.4 percent to 26.4 percent in rural areas. More broadly, the Indian election\* was narrowly won by a large, diverse coalition of parties that espoused many different ideologies. It is impossible to read into this messy election a single national message.

If there is no persistent message in India's many elections over the last decade, it is "Throw the bums out." Most Indians don't like their government and keep voting in a new bunch of politicians in the hope that they will fix it.

Manmohan Singh understands this. In his first speech to the country, he spoke of the need to reform the state itself. He also understands that the government can and should spend more in areas like education, health care and infrastructure. Above all, he knows that the only way to cure poverty is to grow the economy.

There is an emerging democratic model of economic reform. It encourages government spending as investment (in human capital and infrastructure) but rejects subsidies (of goods or jobs). In Brazil, President Lula freed up some money by pruning defense spending, which has allowed him to direct some resources towards the poor. In South Africa, programs like

rural electrification have been both popular and spurred economic growth. “There are ways to spend money intelligently on the poor that have very good results for the economy,” says Stanley Fischer of Citigroup and formerly of the IMF.

India has a head start with a private sector that is bursting with energy and inventiveness. Its new government could embrace this model and soon show the world that you don’t have to be a dictatorship to move from poverty to plenty. But to do so, it must push forward disciplined, reformist policies. Will it?

For now, I’m going to bet on that young man who got up at 4 a.m. to take a cold shower.

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