

# **INTEGRATED STRATEGY FOR GLOBAL FINANCIAL FLOWS AND SOCIAL SAFETY NET IN INDIA**

**A.Q. Khan &  
Naved Asif**

## **I**NTRODUCTION

The present research paper is the focus on issues that the global financial flows in the free economy create. It is absolutely necessary to resolve those problems by establishing social safety net through integrated approach for global investments to be productive in India. The study assumes significance in the light of experience of Asia Pacific Rim countries, especially Indonesia. It is worth recapitulating that global investment trends reveal profound impact of WTO on the country's economic policy. India is a member of WTO committed to effect changes in the direction of global economy. The WTO spelt out conditions to create investment friendly environment. The WTO treaty incorporated provisions for the protection of rights of investors in trade, finance, research and development. The restrictive controls and protective trade policies have no place in the free market economy. However, the WTO does not provide for social safety. There is no social safety net to develop health services, to deal with unemployment, housing problems, illiteracy, ignorance, unemployment, social equity and social justice. It is the missing link of the strategy for encouraging global investments in India. It underscores the need for preparing an integrated plan for boosting the global investments in the country with a firm social safety net.

## **Objectives of Integrated Strategy**

Following are the objectives of integrated strategy of global investments for social safety net:

- Ꞇ Market economy applies principle of exclusion in production and distribution of goods and services for those who have got the purchasing power. A healthy society requires distribution of national dividends to the exclusion of none; hence a need for the social safety net.
  - Ꞇ Market economy allocates resources for production of goods and services on the merit of profits and profitability; hence a need for social safety net to develop services which are indispensable for improvement of qualitative contents of life, viz., education, training, employment, health services, to develop services which are indispensable for improvement of qualitative contents of life, viz., education, training, employment, health services, drinking water, cheap dwellings for homeless, sanitation, urban development and infrastructure.
  - Ꞇ Market economy does not care for imparting skill in new vocations; hence a need for safety net.
  - Ꞇ Market economy does not care for senior citizens of superannuated age; hence a need for social safety net.
  - Ꞇ The free market economy does not provide for balanced regional development; hence the object of balanced regional development by stressing the need for social safety net.
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- ✍ The global investments are not committed to economic stability; hence needed for social safety net.

## Strategic Policy for Social Safety Net

The succinct version of objectives of integrated strategy for creating strong social safety net highlights the problems that may arise in the absence of the Government policy. Following problems will overtake the economy if global investments are not integrated into social safety net:

- ✍ The strategic policy should specify the process of identifying need for education, health care services, training and jobs at the grass root level, sanitation, urban development, housing, employment and labour welfare programmes.
- ✍ The policy should specify the methods of quantifying the requirements of social components.
- ✍ The policy should lay down ground rules of administration of social safety net work. Integrated approach to safety net is in fact the fusion of social and economic objectives for the establishment of a prosperous society and vibrant economic system. In the succeeding paragraphs an account of the components of social safety net is rendered.

## Education

It is not surprising that the country still has to deal with illiteracy on a vast scale. All India average rate of literacy has not exceeded 55 per cent mark, though some states take the pride of having eradicated illiteracy to a vast scale. All India average rate of literacy has not exceeded 55 per cent mark, though some states take the pride of having eradicated illiteracy completely, e.g., Kerala, Andhra Pradesh and Karnataka. U.P., Bihar and Rajasthan are not so fortunate as to own wholly literate population. The problem is huge in the northern states. Table 1 shows Central plan outlay on Education including Elementary education and Adult Education. 70 per cent of the outlay is earmarked for elementary education and 30 per cent for the Adult education in 1998-99. The elementary education is given precedence over the adult education. The table 1 shows increasing trend in the Central Plan outlay on Education. There has been 5 times increase in the outlay over 1990-91. It is equally important to make adult education an integral part of the package to remove illiteracy. It is necessary to enhance the outlay on Adult education.

**Table 1: Central Plan Outlay on Education**

(Rs. Crore)

Particulars	1990-91	1995-96	1997-98	1998-99 (BE)
Education	837	2504	3350	4245
Of which Elementary edu.	224	1443	2265	2779
Adult education	131	170	81	94

**Source: Indian Economic Survey, Ministry of Finance, Government of India, 1999-2000, New Delhi, p. 143.**

The Central government has accorded importance in its scheme for distribution of revenue out of Consolidated Fund of India on preferential basis to remove the malaise of illiteracy. In the first instance, budgetary expenditure on education is not more than 0.02 per cent of GDP on education. The expenditure must be increased to at least 6 per cent of GDP. It comes to Re.0.06 per head. It

is well-established fact that the marginal increase in expenditure on education would not be sufficient to make dent on the stupendous problem of illiteracy. It is necessary that voluntary organisations should come forward with their resources to organise camps for spreading literacy in the villages and small towns. Education makes the organisations should come forward with their resources to organise camps for spreading literacy in the villages and small towns. Education makes the human resource productive. Education is an important focus of global investments in India. It is one of the reasons that Karnataka, Andhra Pradesh and Kerala are attracting global investors.

### Health Care And Family Welfare Services

Health care services are concentrated in cities. In other words, 75 per cent of the population has to do with little health services. According to a report, 1 hospital per 15 lakh of people, 1 doctor per 1000 people, 1 bed per 6 lakh of people and 1 para-medical staff per 500 people are available in the country. When cities are taken out of computation of the figure, it becomes insignificant amount of health care for the rural areas. Medicines have become costly so much so that the average family finds costs of medicines too much to afford. The Government has got a case to take measures to provide medicines at reasonable prices. Voluntary organisations can play a useful role in creating safety net for health services for the weaker section of the society. It is interesting that Medical Bank system can play a useful role in creating safety net for health services for the weaker section of the society. It is interesting that Medical Bank system has been introduced in West Bengal to take care of the sick among the poor localities of Calcutta and other pockets of pathetic poverty. Missionary work is also known to be working in the area of health services. It is not sufficient to let the voluntary organisations and the state governments alone. The Central Government has made outlay on Family Welfare and Health Services, as shown in the following Table 2.

**Table 2: Central Plan and Non-plan Outlay on Social Service: Health & Family Welfare**

(Rs. Crore)

Particulars	1990-91	1995-96	1997-98	1998-99 (BE)
Health & Family Welfare	1273	2542	3369	4366

**Source: Indian Economic Survey, Ministry of Finance, Government of India, 1999-2000, New Delhi, p. 143.**

Nevertheless, the Central Government must come forward with enhanced resources to put an end to the deaths without medical care in the country. Global investors cannot be interested in the social welfare activities without some in-built incentives for investment, tax incentives, priority in allotment of land, etc.

The expenditure on health care is Re 0.10 per head per year. It is around 0.002 per cent of GDP. The expenditure on health services should be raised to reach at least 6 per cent of GDP. It makes out a case for hiking expenditure on health services, which have been neglected for a long time. Health is an important input to raise productivity of labour. It would be a potent factor to convince global investors to begin investing in the country in a big way if the workers enjoy health care services to stay healthy for a better part of life.

### Housing, Water Supply, Sanitation and Urban Development

Social Sector consists of housing, water supply, sanitation and urban development. The Table 3 depicts Central Government outlay on each of the components of the social sector.

**Table 3: Central Government Outlay on Housing, Water Supply and Sanitation, and Urban Development**

(Rs. Crore)

Particulars	1990-91	1995-96	1997-98	1998-99 (BE)
Water Supply, Sanitation Housing and Urban Development	828	1756	3449	4495

**Source: Indian Economic Survey, Ministry of Finance, Government of India, 1999-2000, New Delhi, p. 143.**

Potable water has become a serious problem in the country. Lead is contaminating water of the pumping sets and hand pumps. River water is not safe for bathing. It is contaminated with injurious chemicals that are washed into the rivers as a result of industrial effluents. People living in the deserts of Rajasthan, or up in the mountains of northeastern states of Tripura, Meghalaya, Nagaland, Manipur, Assam and other dry areas, have to walk long distance for water. The cost of drinking water works is substantially high. The state governments are not able to cope up with the problems alone.

The World Bank is funding a few projects for the provision of safe drinking water in some of the south Indian states. The sophisticated equipment is used to find sub-soil water reservoirs and construct pumps, wells and ponds for the supply of drinking water to the people of the region. Egyptian technique is suited to prepare underground channels for the supply of drinking water in the Thar Desert of Rajasthan. The World Bank and the friendly nations can join hands to help India overcome problem of drinking water in Rajasthan, Madhya Pradesh and other regions.

A co-ordinated approach should involve both the Planning Commission and the executive wing of the central and the state governments in the preparation of the projects and their funding operations. The World Bank has now taken out of the ambit of direct controls of national government as regards funding of any project in developing countries. The regional network of the World Bank is entrusted with the task of monitoring progress of such projects. However, execution of the project is the responsibility of World Bank is entrusted with the task of monitoring progress of such projects. However, execution of the project is the responsibility of national government. The World Bank is convinced of the country's capability to complete the engineering works. India is one of the few fortunate developing countries that have a vast technical base and the necessary infrastructure to undertake the engineering works for the provision of drinking water. The resources are available within the country to complete the project. The funds to mobilise the resources are not adequate. It highlights the need for the aid of the World Bank. The regions suffering from the problem of drinking water have potentials for the development of hotels and tourism industry. It resolves both economic and humanitarian problems if the drinking water projects are executed on priority basis.

Housing is another gruesome humanitarian problem. It is estimated that 25 per cent of the people live in shanties, slums and on pavements in the metropolis. Children of tender age constitute quite a substantial chunk of the mega cities in the country without a roof over their heads. The children are mostly the ones who have been deserted by the parents. Added to population in urban areas are the immigrants from the villages and small towns who have been deserted by the parents. Added to population in urban areas are the immigrants from the villages and small towns who have left their homes and families in search of jobs in factories and establishments.

The population of the people without a land and shelter is nonetheless significant part of the rural population. For rural land-less workers, the government has a scheme of distributing surplus land

among land-less workers. For urban population without shelter, the government should think hard of the ways and means to provide cheap dwellings.

The global investors are quite interested in constructing houses, sanitation and urban development for the people who are without a shelter, poor sanitation and lack of civic facilities in cities and other areas. To attract global investment in the segment, the government has a plan to allow foreigners to buy land in the country and build houses for the people without a roof over their heads, develop sanitation and civic facilities. It is yet to be seen as to whether the cost of the house, sanitation and urban development would be within the reach of the dwellers of shanties and slums. Here the social role would have to be played by the corporate sector to provide shelter for the families of their workers and members of the slums. Here the social role would have to be played by the corporate sector to provide shelter for the families of their workers and members of the staff with a provision of recovering the cost of the house within the period of tenancy. At the end of the period, the tenants should be made owners of the house and the tenancy agreement should automatically lapse. An integrated policy for the resolution of housing and urban development problem would be conducive to global investments in the country. It would create an environment for the development of contented and crime-free society.

The World Bank is interested to provide aid for the construction of cheap houses for the people who are without a shelter at their work places. The State and the Central governments must be able to produce a co-ordinated plan to avail of the loans from the World Bank for drinking water, housing, sanitation and urban development.

## Infrastructure

Energy, cement, transportation and communication are important factors in the economic development. The Government has to make special efforts to develop the infrastructure. The following table 4 depicts Central Plan and Non-plan performance for the development of the Infrastructure.

**Table 4: Trends in the Performance of Infrastructure Sector (%)**

*(Change over Previous Year on average)*

Particulars	1985-90	1996-97	1997-98	1998-99 (P)
Energy	7.6	7	4.6	5
Cement	8.7	8.6	8.1	2.8
Transport & Communications	10	9.1	13.5	8.1

**Source: Indian Economic Survey, Ministry of Finance, Government of India, 1999-2000, New Delhi, p. 143.**

Infrastructure and social net for global investment make a country socially and economically stable. Development of infrastructure guarantees success of business. Development of roads, power and communication system would go a long way to paving the way to resolve the riddle of influx of immigrants from the rural areas to mega cities in search of job. The speedy transportation would obviate the need for millions of people to live near their work places. They can commute long distances in shorter duration if the superhighways are constructed connecting big cities to distant urban and rural areas. Agricultural sector would take care of the industrial and urban areas, including the big cities. Supplies of vegetables, fruits and the animal products would be steady and stable.

Power and the communication system are the important nerves for healthy development of the country. Modern telecommunication system should be cheap and cost effective. Vast scope exists to integrate social net with the global investment. Impact of both, the power and the communication system, and cost effective. Vast scope exists to integrate social net with the global investment. Impact of both, the power and the communication system, would be profound on the development of skill and creation of jobs for the educated young persons in the rural regions. The central and the state governments can produce comprehensive plans taking into account the finances and the material resources for the development of the power and the communication system all over the country. The World Bank is willing to provide aid for the power projects and the telecommunication systems.

### **Employment and Labour Welfare as Safety Net for Global investments**

Employment and labour welfare is the indicator of sound and stable economic growth. Additional jobs are the fuel to strong demand for consumer goods and service sectors. The recent recession in Asia and Latin American countries is set in by drop in employment. The government must resort to deficit financing if the economy is threatened by burgeoning burden of high unemployment. India presents a case of high rate of unemployment. Investment in employment and labour welfare is threatened by burgeoning burden of high unemployment. India presents a case of high rate of unemployment. Investment in employment and labour welfare serves as the safety net in times of economic reversals, e.g., depression or inflation. The following table 5 gives an idea about the central plan outlay on the employment and labour welfare.

**Table 5: Central plan Outlay on Labour Employment and Labour Welfare**

*(Rs in Crore)*

<b>Particulars</b>	<b>1990-91</b>	<b>1995-96</b>	<b>1997-98</b>	<b>1998-99 (BE)</b>
Labour Employment & Labour Welfare	289	507	651	831

**Source: Indian Economic Survey, Ministry of Finance, Government of India, 1999-2000, New Delhi, p. 143.**

It is true that, under the constitution, the state is responsible for jobs and labour welfare. It is also a fact that states are put in strait conditions of inadequate resources to do the feat of job and maximum labour welfare for every able bodied person in the country. Central and the state government should join hands together to encourage self-employment in the tiny sector and cottage industries. Financial and banking institutions should be persuaded to part with some specific amount of their profits for social investment to create jobs and provide labour welfare after a short term of training in the chosen vocation. It would be an integrated approach to have social safety, economic diversification and healthy environment for global investments in the country.

### **Experience of Asia Pacific Rim Countries**

It transpires from the experience of Asia Pacific Rim countries that safety net is the bulwark to meet any contingency that may overtake the economy. Citing the example of Indonesia that is still passing through terrific trauma of social upheaval at the heels of unprecedented inflation. It is a stark case of the contemporary history that proves the desirability of safety net. All the events culminating into economic chaos are the results of high rate of illiteracy, absence of education and training to take up new jobs and vocations and inadequate provision of essential commodities for

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the masses. Unemployment and inflation made the global investors to disinvest their capital. The Indonesian currency came under high pressure. Even steep devaluation to the tune of Rupia 1500 and above could not rescue decline in the value of the currency. As a matter of fact, the \$ was accepted as the currency for accounting and pricing of the products in Indonesia. Had there been strong safety net to take care of employment, food, medicine and education, there would not have been the upheaval of the kind that took place in Indonesia.

In contrast with Indonesia, India was able to steer through the worse phase of financial problems in 1989 when the country had to pledge monetary reserves in London to get foreign exchange to meet its obligations to pay interest and repay loans. The country did overcome the financial problem of external debts without a pinch of social disorder. The safety net was strong enough to wither the economic setbacks. Global investors did not reveal apprehension about the inability of Indian economy to get over the problem of foreign reserves. It does not mean that social net should not be strengthened. High rate of unemployment calls for the safety net to create new jobs for millions of unemployed. In conclusion, social net is the bulwark to make the global investments productive for economic development. The economic liberalisation would not be beneficial to the host country without a social net. It must incorporate a comprehensive policy for employment, education, technical training, provision of health services, drinking water, houses for the homeless, steady and stable supplies of goods of mass consumption. The free economy takes off when integrated approach is made to safety net for global investments in the country. In crux, market creates inequalities that the social safety net removes.

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