

## **14<sup>th</sup> CUTS International 30<sup>th</sup> Anniversary Lecture on Economic Governance in India**

Date: 21 January 2014

Venue: Indian Merchants Chambers

### **CUTS 30<sup>th</sup> Anniversary Lectures**

To mark its 30<sup>th</sup> Anniversary, CUTS International is organising a series of lectures around the world, including India, with eminent friends on topics of interest to go with CUTS's work agenda. The aim of the Lecture series is to address CUTS future interventions, which would help in promoting inclusive growth from the perspective of their impact on consumer welfare in the light of contemporary policy discourse on trade, regulation and governance.

In this series, the 14<sup>th</sup> Thought Leadership Lecture was delivered by Rajiv Lall, Executive Chairman, IDFC Ltd. on the subject 'Economic Governance in India'. Other eminent panellists in the Lecture included Siddhartha Roy, Economic Adviser, Tata Group; Sucheta Dalal, Managing Editor, Moneylife; Pradip Shah, Chairman, IndAsia Fund Advisors and Shailesh Vaidya, President, Indian Merchants' Chamber (IMC) Managing Committee.

The event commenced with a 10 minute documentary entitled '30 Years of Social Change' showcasing the journey of CUTS through 30 glorious years and CUTS' endeavours, which were enthusiastically received by one and all. Around 100 people participated in the event.

### **Welcome Remarks**

Shailesh Vaidya began his welcome address by congratulating Pradeep S Mehta, Secretary General, CUTS International, for organising lectures on crucial subjects from time to time. He warmly welcomed and thanked Rajiv Lall as well as all the other eminent speakers present at the Lecture and addressed the distinguished gathering on the issue of Economic Governance in India.

He opined that the importance of enhancing economic governance in India can hardly be overstated. He indicated that India as a country has the unique opportunity of showing rest of the developing world as to how openly democratic societies can achieve inclusive of growth leading to sustainable development. He informed the gathering that the Chamber's theme of the year is also Sustainable Development, which attempts to find a practical way to overcome India's deep rooted social and political fractures that thwart progress and condemn hundreds of millions of people in enduring poverty and ignorance.

He lamented that unfortunately the government has not been successful in encouraging policies, which are conducive for investment. Instead they have complicated the whole investment scenario by causing delays and slowing down innovation and pushing brain drain from the economy. He emphasised on sustainable development in India and added that at the root of sustainable development lies high quality economic governance. However, he pointed at some of the positive aspects that India has been able to achieve in the years, after independence. Given that India is one

of the world's largest democracies, change often takes place slowly in this country and this frequently gives rise to messy and chaotic situations. Nevertheless, there is no doubt that India is changing and people have become more progressive in finding solutions within the parameters of law.

In his address, he underlined that public private partnerships need to play a key role in providing the talent to build and run a new India. However, it is unfortunate that they have not taken off to the desired extent in India.

He suggested that India should embrace smart regulation to transcend the traditional developmental issues by adopting best practices employed elsewhere in the world and reap the benefits. This is possible, according to him, only when India maximises its unique demographic dividend by enhancing collaboration among industries, academia and the government in pooling their best resources. In all this, innovative use of technology will prove to be a game changer – transforming the prospects of India's least fortunate residents and thus ensuring that inclusive growth and sustainable development becomes a reality sooner than later. He remarked by citing several examples on welfare schemes that India would need to perk up the economic governance considerably in order to keep it less expensive for the society.

He expressed that there is a need for a rational long term sustainable strategy for development that would enhance the resource access for those at the bottom of the pyramid while checking the wasteful expenditure of those at the top. This strategy must then be broken down into specific sectors – for example, transport, energy, housing, energy, pollution control etc. – and implemented impartially across the economy. Any failure to do so on a priority basis will prove disastrous for the economy.

In conclusion, he opined that globalisation is crucial for the growth of the Indian economy, but it must be recognised that it is a double edged sword. He cautioned the gathering that one can imagine the world a decade from now and envision the skyline of major international cities lit up with the names of leading Indian brands. However, he hoped that such a growth is not achieved at the cost of the marginalised and vulnerable. If it is, that is not worth having.

### **Boosting CUTS Work Agenda**

Pradeep S Mehta warmly welcomed the guests and narrated the history of the Lectures. He said that rather than holding one big event, as was done during CUTS 20<sup>th</sup> and 25<sup>th</sup> anniversaries, it was decided to organise smaller events around the world as CUTS is an international think and action tank with Centres in Africa, Europe and Asia. He informed the audience about the upcoming Lectures to be held in different parts of world viz in Canberra, Australia; Lusaka, Zambia and in Bangkok, Thailand. He said since CUTS works on the three verticals of good governance, fair trade and effective regulation, the idea of the Lectures is to cover the pertinent subjects, so as to enhance and inform CUTS's work agenda.

### **Economic and Political Governance**

Rajiv Lall thanked CUTS and other panellists for providing him the opportunity to speak on the subject of economic governance, which he is an ardent scholar. He began his speech by stating the fact that there is a need to contextualise the topic of economic governance. He also stated that economic governance cannot be seen in isolation but will need to be hand in glove with political governance although there can be a debate on these two governance issues. He cited the example of

the eminent political scientist Francis Fukuyama and his idea of liberal democracy defined in his book titled 'The End of History and the Last Man', wherein he argued that the worldwide spread of democracies and free market capitalism of the West and its lifestyle may signal the end point of humanity's socio-cultural evolution.

Lall pointed out that this was said by Fukuyama in 1992 and since then the world has witnessed two financial crises, one in Asia in late 1990s and other in 2008. Both these crises have rekindled the debate about how well liberal democracy can meet with free markets and how can they work together. Debate about role of markets, efficacy of markets and implications of market on economic equality have become the topics of discussion in developed and developing countries. In this context, he brought out the unparalleled success of a new model of State Capitalism represented by Chinese experience, so far. He said that China seems to be increasingly articulating an alternative model, as a viable differentiator for social organisation and market organisation. He expressed that empirical evidences suggest that India is way behind in terms of achieving Millennium Development Goals (MDGs) in comparison to China.

However, according to him, India's success should not be measured only in terms of economic performance but needs to be evaluated on the basis of what has been achieved since independence in wider terms. He pointed out that it is democracy and the values of democracy, which are absolutely of crucial importance and the ability to choose must be taken into consideration while determining India's success or failure.

### **Challenges of Economic Governance**

Lall reviewed objectively the political governance record of India and said that India's performance in regards to achieve MDGs has been disappointing. However, political evidence suggests that India has unambiguously succeeded in building a successful democracy considering that probability of India to succeed as democracy was predicted to be zero when India became a Republic in 1950. He added that India has fared well in terms that the Indian democracy, over the last 65 years, has become more representative if one looks at the indicators of representation, especially the increased level of participation with greater voice of disadvantaged class and caste composition. He expressed that the participation of backward classes has increased in terms of levels of decision making, in politics as compared to pre-independence history of India, which is a complete turnaround.

Moreover, from the socio-political perspective, social equality and social dignity are equally, if not more important than economic equality. He articulated whereas India may not have been till date as successful as it may have wished in delivering economic equality to disadvantaged section of society historically but in terms of voice participation and social dignity, the country has made good progress. It is in this context, that India has actually delivered on political and social dignity participation. He thus argued that on political governance, counter-intuitively, India has done remarkably well.

Even as India made transition to a greater political participation, the challenge of Economic Governance is a bit different and daunting. He pointed that economic governance has become challenging in terms of contest between socialist and republic values adopted after independence as against newly adopted market economy after 1991. Up until 1991, India's economic system relied on state intervention and the entire bureaucratic machinery was conditioned towards this system. While India adopted economic reforms and deregulation in 1991, it has not been able to successfully transform the role of state *vis-à-vis* the market economy, which is today the biggest challenge and is

further complicated by the very political success of democracy. In other words, the interplay between democratic politics and management of market economy with instruments, such as laws and bureaucracy has not been able to keep pace with this transformation. Economic Governance, in this context, can be evaluated around three broad matrixes:

1. Degree of state intervention in the economy
2. State regulators' conduct *vis-a-vis* the private sector and
3. The lack of independence in their functioning and inter-generational linkage between democracy, economy and policy making

After doing number crunching, he stated that the share of Public Sector Undertakings (PSUs) in total sales of companies (listed companies) in 2003 was around 41 percent while in 2013 it increased to 43 percent, which is surprising and not expected after liberalisation. While on the other hand, in the unlisted companies arena, he cited example of infrastructure sector of electricity where supply chain provides a vivid picture of state intervention in fuel supply from transmission to distribution. The only segment, which has been aggressively liberalised is the generation segment and rest remain in the realm of state control.

In this context, he pointed out that today the issue is that the State is reluctant to give up the economic space of the country while the private sector is eager to get into that space and therefore regulation assume greater role, so as to inject competition but greater question remains who is to be regulated? He articulated that an inherent conflict exists with State, as an economic service provider competing with private sector but also playing the role of a regulator.

In telecommunication sector, which has made remarkable progress in India, there is still a conflict between the Telecom Regulatory Authority of India (TRAI) and the Department of Telecommunications (DoT) both competing with each other.

### **Democratic Problems and Remedies**

Lall further brought out major problems faced by democracies around the world, particularly the problem of competing interests, competition between state and the centre in a federal structure and inter-generational conflict. He stated that these problems are mainly responsible for the fiscal deficit situation in a country He cited the classic example of agriculture policy making in India, which brought out how a policy encourages fiscal deficit and is left for the next generation to take care of it while addressing the consumer welfare issue. According to him, the real dilemma lies in reconciling the obviously ethical imperative of strengthening democracy with delivering better economic governance.

He suggested two solutions in this regard – institutional initiative, wherein need is to create a truly national institution to adjudicate some of conflicts and dilemmas, which are not political in nature. For example, he suggested on revitalising Planning Commission of India, as an institution that engages with all stakeholders in a dialogue. He said that it is possible if it is headed by a person of large political stature but parted from the government to negotiate and to have a dialogue. Another example given by him was that of Reserve Bank of India (RBI), which has evolved as a national institution in recent times. He thus articulated India to evolve national institutions, which would permit adjudication of conflicts and dilemmas, in a non-partisan manner. While making concluding remarks, he opined that for this to happen, India needs a Statesman in the country to lead from front.

Siddhartha Roy said that when one looks at economic governance, three key issues come into picture viz protection of property rights, enforcement of contracts and provision of informational/physical infrastructure. He enunciated that governance is not a market process it is rather enforced through formal or informal channels or through community system. He elucidated on various community system followed by shepherds in Switzerland so also water protection/governance mechanism followed by farmers in Nepal and Philippines for common good of the community.

He further emphasised on the significance of regulatory uncertainty and its adverse impact on investments in the country. He cited an example of certain private companies being allowed to seek higher tariff for their imported coal fired power in on-going projects, which was not part of the original contract and was based on a bidding process. Such discrepancies in enforcement of contracts need to be avoided, so as to ensure predictability of policies/rules that are laid down by the Government.

### **Towards Successful Economic and Political Governance**

Sucheta Dalal stated that over the last year or so the national dialogue was about the people who were left out of mainstream development and decision making process. According to her, that is the reason that a political party, which is merely one year old (AAP), been in power in Delhi as they tried to include common man in decision making process in order to enhance economic governance.

She stressed that in the entire policy making economy, we need to discuss in the context of what the people and the consumer want and that will lead to successful economic and political governance. Expressing her concern, she said that the biggest stakeholder in the country, which is the consumer who consumes goods and services is kept out of the entire decision making process and is rarely consulted.

Speaking about the manner of unjust inequitable taxes and the way it affects common man and smaller companies, she said that the government is trying to enforce regime of draconian tax laws and harassing business. Not only more will be paid for goods for services through inflation, even taxes will also be paid more. There will not be much of a change in the taxation clauses, as it serves the government better until stakeholders, such as business chambers across the country raise their voice.

She informed that India's investor population has experienced a huge decline in recent times. Among the factors that deter retail investors from putting money into the market are: rampant market manipulation; consent orders by the market regulator that let off some culprits easily; a lethargic complaint redressal system and not so investor-friendly policies by the government. There is something dramatically wrong. She stressed that there is a need to discuss and introspect at the policy level about why the investors are not investing.

She concluded by saying that economic governance in India needs a substantial change and various stakeholders need to identify their roles to make that change happen.

Pradip Shah emphasised on the importance of efficiency and effectiveness of regulations and public institutions in India. He expressed that economic governance is efficiency and effectiveness of

public financial management and effectiveness of regulations. Political, civic and economic governance complement each other but they are not necessarily interdependent completely.

According to him, effective implementation of law in India is weak and is one of the key issues that need to be analysed and rectified. India needs to follow the US approach in terms of devising and implementing its law as in the US all the laws and policies are made keeping consumer welfare in mind and following the philosophy that the consumer is king.

He opined that, there is a need to enrich the quality of institutions created for economic governance perspective. Shah was critical of the role of the Planning Commission and called for a redefinition of its duties and responsibilities. He suggested that it should become Planning cum Monitoring Commission and should possess a very strong monitoring wing that checks the translation of plans into implementation.

He concluded by saying that today, one of the reasons for poor economic governance is lack of inter-ministerial coordination. India's economic growth could be higher if the various Ministries in the central government coordinate well with each other. Union Cabinet should set out few common strategic goals while implementing economic governance and every Ministry and concerned departments should work in tandem for the realisation of such goals.