

The more things change

Half a century back, John Kenneth Galbraith, the then U.S. Ambassador to India, described the country as a “functioning anarchy”: More recently (The Economic Times, March 15), Martin Feldstein, the renowned economist, and a self-confessed “big fan” of India, recently said that “*it is something of a miracle that India works as well as it does, and it is growing as well as it does*”. Obviously, things have not changed much, but should we continue to depend on miracles for growth?

Consider, for one thing, the regulatory environment (and, of course, environmental regulations!). Sunil Munjal of the Hero Group recently said ‘*Even after all the reforms, there is too much government, too much interference and too much corruption*’. (Even the rules on stock exchange ownership are open to a variety of interpretation as a recent case illustrated!) Huguette Labelle, Chair, Board of Directors of Transparency International, recently said that “*India needs regulation but a mountain of regulation is not necessarily better because it becomes almost impossible to enforce*.” No wonder we are ranked 132 of 183 countries, much lower than six years back, by the World Bank in ease of doing business. (We rank equally low in the Transparency Index.)

The regulatory maze reminds me of the Late Dhirubhai Ambani, the founder of Reliance, and, arguably, the greatest entrepreneur in post-independence India. Arun Shourie was once a strident critic of Mr. Ambani and his ways; later, he paid a fulsome tribute to Mr. Ambani saying that in the license/permit raj, the methods he used to get around the regulatory maze were the only practical way of doing business in India. Have we changed much?

Consider the closure of so many mines (and other businesses) under court orders, because for years they contravened environmental or other regulations – in Bellary,

in Goa, in Odisha, etc. A few questions keep recurring in my mind: should we not be concerned with the impact of the closure on the other, innocent stakeholders in the mines? Are the regulations clear and unambiguous enough for everybody to understand what exactly is allowed and not allowed? Is the entrepreneur in today's India very differently placed as compared to Mr. Ambani during the 1970s? Could one reason for the complexities and contradictions of our laws and regulations be the perception of the drafters about where their power comes from? Does it come from giving efficient service to the citizens of this country who are their clients, of being "user-friendly", or through deliberate creation of complexity, of opacity – so long as you keep the political masters happy? (The more sincere bureaucrats are increasingly avoiding decisions on worries of future investigations).

Is it a corollary of the feudal political culture we operate in? Consider the PSUs, where one's position often depends more on pleasing the minister than on serving one's clients or running the institution efficiently? (Is it more convenient to keep PSUs headless because then their functionaries become even more subservient?) Consider the way LIC purchased ONGC's shares, obviously at the instance of the Ministry, to bail out a failed disinvestment issue. Should that (or shoring up the capital of public sector banks) be the objective of LIC – or serving the policy holder through safe investments of the savings they are entrusting to it? Consider, again, the case of Coal India whose directors have been threatened with court cases by a hedge fund investor in the company, for disregarding the interest of the minority shareholders. The issue: the coal price determined by political masters, not by the board which is supposed to act in the long term interest of all the shareholders. Consider also the rollback of the passenger fare hike by the new railway minister, who obviously feels more responsible to his leader, not to the railways and its passengers. His predecessor described the Indian Railways as being in ICU. How long before it joins Air India, the power distribution companies, the power sector increasingly starved of fuel?

One other manifestation of our political culture is the top down model for helping the poor and the unemployed, with too much of the expenditure not reaching the intended beneficiaries. But then, that model permits our political masters to claim how much “they” are doing for the poor. Will not a model of bottom up social improvements, with the government acting more as a facilitator, be better? (Hindustan Times is currently running a series on bottom up improvements “India Awakened 2012 – Agents of change”).

Even if social welfare is the priority objective of our economic policies, paraphrasing Peter Drucker, growth and employment creation are the *needs* of social welfare. And that requires encouragement of labour intensive manufacturing and capital investments: neither seems to be on the cards. James Robinson and Daron Acemoglu, U.S. academics, have recently come out with a book *Why Nations Fail*. They argue that one important reason is the absence of a government which can implement its decisions. What do the recent policy reversals – railway fares, FDI in retail, cotton exports, etc., etc. – tell us about our future?

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