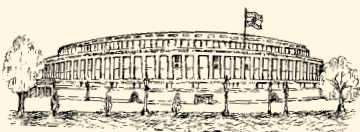


Issues for Parliamentarians

To facilitate informed discussions among Indian Parliamentarians on key economic policy issues

Good Economics is Good Politics



Parliamentarians' Forum on Economic Policy Issues (PAR-FORE)

Agenda for India's Renewal – *Reforms for all*

This issue note is drawn from the recent debate initiated by The Economic Times entitled 'Agenda for Renewal.' It summarises not only the agenda so expounded but also captures the subsequent debate thereon and additional issues that have emerged to help Parliamentarians and people take a considered view whenever issues around this debate are discussed in and out of the Parliament.

BACKGROUND

The genesis of the current Agenda for Renewal can be traced to pre-independence India when eight eminent Indian industrialists drew up the Bombay Plan in 1944-45. The Bombay Plan contained a set of proposals in the World War II era for the development of post independence economy of India. The Plan proposed state intervention in the economic development of the nation, but was never officially accepted. Yet, the first five-year plan of India echoed the main proposals expounded in the Bombay Plan.

There is a need to move the policy approach from one of being about reforms for the formal sector and entitlements for the poor to one of reforms for all

Since then much water has flowed with India adopting reforms in the 1990s, which were spurred by the arrival of the World Trade Organisation, collapse of the Berlin Wall and end of the cold war etc. Entrepreneurial spirits were unleashed by the dismantling of the licence, permit and quota *raj*. Consequently, India has witnessed high growth rates with a blip in 2009 due to external factors. At the same time, politicians turned to the areas of natural resources for their sustenance. This led to a series of high pitched corruption scandals affecting governance at large, with policy paralysis infecting the executive badly.

Alarmed with the deteriorating situation, on January 17, 2011, a small but noted group of 14 citizens¹ of India wrote an open letter to the leaders of India, raising the burning issues facing the nation such as governance deficit, corruption, the need to distinguish between dissent and disruption, environmental concerns, etc. and called for concerted action and offering to lend their hands to effect a positive change.

This group of 14 wrote a second open letter to the country's political leadership on October 11, 2011. This was triggered by the August 27, 2011 historic debate in the Parliament on the Lokpal Bill and supported the need

for the urgent passage of a well-crafted Bill. The Group also announced working with professionals commissioned by them to study issues of governance and public accountability, the results of which would be made available to the parliamentary committees.

Six stalwarts², including Deepak Parekh and Ashok Ganguly who were also signatories of letters referred to above, crafted the *Agenda for Renewal* at the invitation of the *Economic Times*. The days following the *Economic Times* Awards for Corporate Excellence at Mumbai in November 2011, have witnessed intensive and extensive discussions and debate on the ten-point Agenda from political parties, businessmen, civil society and academics. The matrix captured below shows salient highlights of the same.

The Ten-point Agenda and Comments thereon

Summarised Agenda	Summarised Commentary
<p>1. Dispelling gloom and doom: Instead of adding to negativism, all should support the government for issues such as passage of bills. The opposition needs to have a more mature outlook of the future and businessmen should demand better performance not just from the government, but also from the opposition.</p>	<ul style="list-style-type: none"> • The opposition continues to ignore the plea for support in passing of bills citing the reason '...it is the government which is responsible for governance and not the opposition.' • The present policy paralysis is not legislative but executive. <p><i>CUTS: Political management by the UPA is rather poor and needs to be rejuvenated.</i></p>
<p>2. Taking faster decisions to restore investor confidence and avoid policy paralysis: A policy paralysis at the centre, controversy over several past decisions on national resources, lack of clarity in many areas are all causing frustration among domestic and foreign investors. Everything needs to be made transparent and foolproof.</p>	<ul style="list-style-type: none"> • Need to simplify laws and policies to make it easier and less expensive to start businesses. <p><i>CUTS: Adoption and implementation of National Competition Policy and Regulatory Impact Assessments to be carried out in every area and procedures be rationalised and burden reduced.</i></p> <p><i>Overdue administrative reforms with better atmosphere for performers to be done.</i></p>
<p>3. Wooing foreign investment and investors with big and small measures: India needs modern retail such as cold storage and faster movement of perishable commodities. Entry of Carrefours, Walmarts and Tescos of the world will make this faster and opening up foreign direct investment (FDI) in more sectors will create an environment that is conducive to foreign investment, where foreigners and companies feel that it is easy to do business.</p>	<ul style="list-style-type: none"> • Immediate action, such as: i) relaxation of foreign ownership limits to 49 percent in the insurance sector, 51 percent in multi-brand retail and allowing minority investment in education and aviation which could translate into US\$15bn; ii) relaxing interest rate cap on Foreign Currency Non Residential deposits to increase inflows from NRIs; and iii) increasing existing caps on investment into corporate bonds/government securities to increase FII flows. • FDI by large retailers would help in production, improve supply chains and eliminate intermediaries in the farm-to-consumer chain. <p><i>CUTS: Foreign and domestic retail chains be mandated to invest in rural infrastructure as a win-win situation. Rural roads impact rural poverty hugely.</i></p>

Summarised Agenda	Summarised Commentary
<p>4. Reviving power and energy sectors: India can not have higher growth without adequate power. In the 12th Five-Year Plan outlay of a trillion dollars, almost 45 percent is to be spent on energy. For this, money is to be well spent and many issues have to be resolved such as tariffs; ability to buy power from private generators; under-recovery and theft; etc.</p>	<ul style="list-style-type: none"> • Reforms including privatisation, generation and distribution have not met with spectacular results and are areas for imaginative reforms. • Need an energy blueprint for a renewable pool of clean energy. • Deregulation of prices of fuel is unlikely to materialise unless we figure out whom to subsidise. <p><i>CUTS: State Electricity Regulatory Commissions have to be made totally independent of the government to carry out its role effectively.</i></p>
<p>5. Rolling out big reforms in agriculture: Agriculture marketing laws are outdated; distribution and logistics from the farm gate to the food plate are filled with inefficiencies and corruption. The cost the consumer pays is far too much and the price the farmer gets is far too less.</p> <p>There is an elephant in the room, the Agriculture Produce Market Committee (APMC) monopoly, which the government is not acknowledging.</p>	<ul style="list-style-type: none"> • 0.7 percent of the gross domestic product (GDP) goes into fertiliser subsidies and much of this supports the inefficient domestic fertiliser industry rather than the farmer. Food subsidy, too, has failed to reach the poor. • Rural economy which accounts for 70 percent of our population should be viewed holistically including rural infrastructure, rural industry, employment, health and education. • The most essential reform is to invest in the poor, not pamper the rich. <p><i>CUTS: APMC has to be dismantled in states through a carrot approach.</i></p>
<p>6. Building new cities and making existing ones better: About 70 percent of India's GDP in 2030 will come from cities, according to McKinsey Global Institute. Demand for urban land will rise from 7.5 million hectares in 2007 to 18.6 million hectares. To renew cities, we need more public-private partnerships (PPPs) because all capabilities do not lie only in the state or private sector. What is needed is leadership and a sense of urgency.</p>	<ul style="list-style-type: none"> • Need to create new cities such that these are sustainable. By 2030, 40 percent of Indians are expected to live in urban areas. Cities will become the key to inclusive growth. • Lack of incentives for low carbon development, absence of power at the city and lower levels and lack of communication components in the policy to increase acceptance of services like Bus Rapid Transport (BRT) and Non Motorised Transport (NMT). A comprehensive plan for urban development is needed. • Modification of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) funding criteria to incentivise states to create their own state urban transport policies aligned to the national policy is needed. • JNNURM 2 would need a larger share of Plan expenses, capacities in the ministries of Urban Development and Housing and Urban Poverty Alleviation need to be buttressed and PPPs should be encouraged.

Summarised Agenda	Summarised Commentary
<p>7. Devising a fair land acquisition policy and resolving conflicts. Delays and controversies pertaining to acquisition have resulted in intense conflict between business, the state, and farmers or locals. A clear, equitable and transparent policy can help avoid such conflicts. Such solutions, including giving portions of developed land to the farmers or locals who have given up their land, annuities and jobs, in addition to upfront compensation, are possible and have indeed been tried out.</p>	<ul style="list-style-type: none"> • Selective re-purposing of rural and urban land towards higher productivity and higher value-creating activities is a must. Not only should the Land Acquisition Bill be passed at the earliest, other complementary measures, such as digitisation of land records, would be necessary to implement the law. <p><i>CUTS: Landless labour, small and marginal farmers constitute 82 percent of the rural population. Manufacturing is the way forward for their gainful employment, as also being witnessed in the Special Economic Zones in a small way.</i></p>
<p>8. Ensuring better inter-ministerial coordination. India's economic growth could be higher by at least two-percent if the various ministries in the Central government coordinated better with each other. For example, better coordination between the power, environment and coal ministries could have helped many power projects kick off faster.</p>	<ul style="list-style-type: none"> • The present policy paralysis is not legislative but executive. The present and likely future compositions of the Parliament would make passage of legislations difficult and one should not expect the opposition to rise above politics – that is not the nature of opposition. For this reason, better inter-ministerial coordination is paramount. <p><i>CUTS: Furthermore, there is a need for Policy Coherence Units in the PMO and CMOs to deal with turf issues.</i></p>
<p>9. Allowing education to function as a for-profit business. Schools generate US\$20bn every year, but education in India is not allowed to function as a for-profit business. In reality, companies and investors work around this by setting up 'consulting companies' to provide services to schools in return for a fee. Education should be allowed to run as a business.</p>	<ul style="list-style-type: none"> • Need to open up the education sector to encourage new participants and improve quality and quantity with private participation. Must for sustainable growth. <p><i>CUTS: Mindset change is an imperative to allow private sector in the field of education, and also healthcare.</i></p>
<p>10. Encouraging transparency in political funding to weed out corruption. Corporations and business houses continue to be the largest contributors to political funding. But corporate contributions to political parties and candidates are shrouded in secrecy. Electoral compulsions for funds become the foundation of the whole superstructure of corruption, according to the report of the National Commission to Review the Working of the Constitution (2001). Transparency</p>	<ul style="list-style-type: none"> • Politics should be reinstated as essential mediation of power between the state and the people for the larger good. There should be an institutional arrangement to enforce traceability of funds. A body like the Election Commission should oversee this. • Political parties fund themselves in various ways, often requiring collusion by civil servants. • India also needs a law to regulate political parties, ensure they hold internal elections, maintain detailed books of accounts, etc. • There is a need to do away with the provision of donations with tax breaks to the parties and the

Summarised Agenda	Summarised Commentary
<p>in the ways that companies engage in, manage and oversee political funding, is an imperative, a first step to cleaning up the corruption problem. Both companies and political parties need to take the lead in this.</p>	<p>political parties should open up their fund raising activities to scrutiny.</p> <ul style="list-style-type: none"> • The field is heavily tilted in favour of businesses, the supply side of graft. <p><i>CUTS: Need to overhaul the Parliamentary Democratic system to a Presidential system at the Centre which can allow the Chief Executive (National Sarpanch) to engage good brains as ministers who would not need funding to fight elections and also promote national integration. A similar direct election of governors at the state level could also be done.</i></p>

ADDITIONAL AGENDA

While debating on the agenda, the learned citizenry also raised some additional issues. Some of them are given below.

- *Involve People in Decision Making:* Creating more power and infrastructure in absence of people's participation would not help. Rather than restrict the role of people in Indian democracy to voting once in five years, people ought to have a direct and continuing say in the decision-making process.
- *Infrastructure Finance:* The PM stated in the India Economic Forum in November 2010 'We need to develop long-term debt markets and deepen corporate bond markets. This, in turn, calls for strong insurance and pension sub-sectors.' These are critical to attract private capital flows to fulfill infrastructure plans.
- *National Integrated Logistics Policy:* The proposed policy would need to establish and implement dedicated rail freight corridors, national expressways, last-mile roads/rail, multi-modal logistics parks, road maintenance, technology adoption, skills development and equipment and service standards.
- *Good Governance:* The economic consequence of good governance over the next ten years could yield between US\$0.5 and US\$1tn and boost GDP growth by 0.5 percent. Three major structural changes in the electoral process is proposed: direct election of a president who is then free to appoint a cabinet of ministers and similar direct election of governors at the state level; harmonisation of calendar for elections at the Central and state levels and state funding for the elections.
- *Labour Reforms:* Labour laws need to be reformed to restore employer's right to lay off workers upon payment of adequate compensation to them, alongwith retraining.

- *Step Up R&D for Sustainable Growth:* There is a need to increase research and development (R&D) on new products, services and business models. Advanced research through PPPs is required to lead in product development and improve manufacturing base.
- *Youth-centred Face of Reforms:* With the average age of the country's population lying somewhere in the mid-20s, India boasts of a young work force among large economies. India needs to convert the advantage of a growing working population into a permanent driver of economic growth through a sustained emphasis on nurturing this human capital.
- *Internationalise India:* Looking beyond trade in products and services, it has been estimated that even limited increase in people flows could add several percentage points in the GDP. There is potential to initiate further policy measures to increase internationalisation of the Indian economy.

ISSUES FOR DISCUSSION

- ◆ How can these issues be fleshed out for a more comprehensive and 'doable' agenda? Will nationalist people and parliamentarians bite the bullet?
- ◆ Can a holistic view be taken, and if not, how should priorities be determined?
- ◆ What method can be devised to ensure coordinated effort between the Centre and states? The Inter State Council is dysfunctional and needs to be revived.
- ◆ The Group of 14 which wrote an open letter to the leadership of the country on October 11, 2011 also announced working with professionals commissioned by them to study issues of governance and public accountability, the results of which would be made available to parliamentary committees. Can this report not be made available in the public domain?

ENDNOTES

1. Deepak Parekh, N Vaghul, Ashok Ganguly, Jamshed Godrej, Justice Sam Variava, M Narasimham, Yezdi Malegam, Anu Aga, A Vaidyanathan, Bimal Jalan, Keshub Mahindra, Azim Premji, Nachiket Mor and Justice BN Srikrishna.
2. Deepak Parekh, Chairman, HDFC; KV Kamath, Chairman ICICI Bank and Infosys; Ashok Ganguly, former Chairman, Hindustan Unilever; Zia Mody, Head of legal firm AZB Partners; Sunil Bharti Mittal, Chairman, Bharti Enterprises; and NR Narayan Murthy, Founder, Infosys Technologies.

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