

'COMMENTARAO' in |The Telegraph" of March 23
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"Regulatory Appointments as key to development" by
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In the last 12 years the amounts of money illegally diverted to private hands from national resources has reached astonishing proportions. A few of the most notorious ones are well-known. The CAG estimated presumptively that well over 1.70 lakh crore was lost to the country in the telecom 2G spectrum scam; 1.86 lakh crores in the coal block auctions; that , Praful Patel as the civil aviation minister ordered the ailing Air India to buy 68 planes and not 28 as was originally approved, and in order to do this, Patel gave a long-term perspective as an excuse, while releasing valuable Air India routes to private parties; in 2010 the country lost Rs 70000 crores in the Commonwealth Games scam. Welfare schemes also have been a source of much theft and diversion of national resources to private hands. The public distribution scheme is said to have made rich men of many officers of the Food Corporation of India. By creating millions of bogus ration cards to divert subsidized grains to the market, many bureaucrats and traders made big money. It is estimates that 40% of subsidized kerosene for the poor is diverted for adulteration with diesel for trucks. . Money from the MNREGA scheme is said to reach

perhaps 50% of its expenditures to desired beneficiaries. .Most government projects and welfare schemes have substantial diversion of resources illegally to private parties. These are said to include low and high level bureaucrats, politicians, Ministers and intermediaries. Intriguingly, though there are many newspaper report, and other documentation, it is difficult to name anyone who was arrested, punished and whose illegally gained assets were confiscated.

The framework for the administration and regulation of economic policies and enterprises in India, with all the details of institutions, procedures, rules, approvals, etc, that are laid down, was developed to implement the "socialistic pattern of society" from the 1950s to 1980s. Over time, the rules and approvals became more stringent and many in number. In 1969 Indira Gandhi nationalized banks and insurance companies. It was declared to be a boon for the poor and for agriculture and rural India which would now access credit easily. These opened a fresh avenue for which rules and procedures could be devised and enable more theft by those who ran the system and the contact men who brought the two parties together. During this period, government started or nationalized enterprises in infrastructure, basic and other

industries. Wherever there was an existing, or more rarely a new private sector enterprise it was tightly controlled by government departments. All investments were subject to detailed government scrutiny and approval. Government approval was necessary to decide location, capacity, technology, source and extent of import of technology and equipment, royalty that could be paid, number of employees, etc. An army of inspectors would separately descend in teams to, detect and punish 'violations'.

"Socialism", required not only subsidies and freebies but also promotion of equality. Taxation was almost confiscatory and prevented large accumulations of capital. Tax evasion, "havala" to accumulate capital illegally in overseas banks became common practice for many businesses (and intermediaries and government functionaries. . . Rigid licensing led to under invoicing of exports and over invoicing of imports so that funds could be illegally accumulated abroad. With control over financial institutions, there was also their use for illegal accumulations abroad. When private domestic and foreign banks re-emerged in the 1980s, they were a fraction of the economy.

State owned and controlled financial institutions dominated financial markets.

To an extent Rajiv Gandhi in the 1980s, and of course Narasimha Rao and Manmohan Singh in the 1990s began unshackling the economy and enterprise from “license-permit raj” From 1991 I was fortunate to head NCAER, then the premier body for large scale sample surveys on different aspects of the economy. As I looked at the data from household consumption surveys I was astonished that no one had pointed to the dramatic changes in income and consumption trends. There was a surge in consumption of manufactured consumer goods even among those that most manufacturers and economists had dismissed as “too poor”. The world hailed this (mistakenly) as the rise of the middle class in India. Of course it was not comparable to such a class elsewhere. Incomes were still low and even consumption was limited, but it had begun.

The relaxations in license-raj and taxation after 1985 and especially after 1991 left intact the bureaucratic control structure of government departments and officers. Control raj remains. The difference is that the pickings are now much larger

as evidenced by the many scams and the financial condition of state owned banks.

With economic growth, many things that had little value in "socialist" India became far more so (like coal, telecom spectrum, iron ore, airline routes, some road projects, toll ways). The investigative process of past years was not geared for this scale of potential and actual thefts. Government employees found it very profitable to collude in them. The judicial process was too slow and tended after many years of meandering trials to either acquit for lack of enough evidence, or to let off the accused with nominal fines.

Statutory regulators were created to rule on many issues which could lead to large profit, or to sell natural resources. However they had limited penal powers, no authority to punish government servants, and in any case were themselves retired bureaucrats who were reluctant to punish anyone and especially their tribe.

An exception was the Competition Commission of India which had powers to fine malefactor companies in proportion to their turnover acquired

by using illegal means (like price collusion). Though CCI has fined many companies in cement, real estate, etc, thousands of cores of Rupees, very little has actually been recovered. Appellate Courts and the Tribunal have stayed them for years. This is a good example of a judicial system that has not understood the damage to the economy because of misbehavior by enterprises

The present government is clearly wedded to the control raj created by the Congress party. It has no intention of changing it or moving obviously to a market economy. It speaks against corruption but will not dismantle the systems and procedures that enable it to occur in a big way. It will not reform the administration and the police for which blueprints by Commissions were not implemented by the UPA government as well. There is yet no attempt to introduce individual accountability and. No government (this one as well) has added the required numbers of judges and Courts to more speedily handle the large number of cases in Courts. The biggest litigants in India are governments. Despite promises, government departments continue to appeal against all unfavorable judgments.

Easing the doing of business in India seems to be purely rhetorical.

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