

Challenges of change

By S L Rao, Jun 27, 2014, DHNS :

Modi has to transform the culture of Indian government and governance so that it acts in the interests of the nation.

Prime minister Narendra Modi is set to change India's economic policies. It is with a different ideology from the Congress ideology of distributive justice, state ownership and control over key industries, and inclusive growth. His speeches show he wants to move India to a market economy with tight regulation, stimulus to investment (foreign and domestic), and provide opportunities for the disadvantaged to build capabilities, and employment in industries.

The Congress ideology has given us some GDP growth and poverty reduction, but little growth in employment, along with massive corruption with a nexus between politicians, bureaucrats, business men and state owned enterprises. Enormous expenditures on handouts for the benefit of the poor through subsidies and social welfare schemes have not reached many they were meant for. Considerable amounts have been stolen and diverted for profitable use by the thieves. Poorly designed infrastructure projects and innovative but badly implemented public-private-partnerships have led to non-performing assets with nationalised banks of a magnitude that affects their viability. Administrative lethargy and lack of coordination have prevented projects from being implemented, with consequent adverse effects on the economy.

Modi has from his first day in office introduced changes to improve administration, accountability and implementation. He has begun eliminating or reducing government charity to the 'poor,' the first being the massive increase in railway tariffs to reduce the drain on government finances. There will no doubt be many such actions in the forthcoming budget and later.

Late prime ministr P V Narasimha Rao changed India in 1991 by removing many obstacles to enterprise and reducing the active role of government as participant in the

production

economy. He tried with limited success to open India to foreign direct investment. But he could not tone up and speed the administration. Innumerable restrictions and bottlenecks to growth remained. Inefficient state-owned enterprises created shortages, delays, and losses covered from government

budgets. Restrictions on FDI, poor regulatory environment, massive corruption because of poorly monitored large government expenditures -- all these weaknesses increased manifold in the recent 10 years of Congress-led UPA government's rule under Sonia Gandhi and Manmohan Singh.

The UPA regime added massive expenditures on untested social schemes ostensibly for the poor and deprived. They became a source of much waste, were a big avenue for corruption and theft, principally because of poor monitoring evaluation and implementation. The reforms under Narasimha Rao and Manmohan Singh as Rao's finance minister, only plucked low-hanging fruit. Even that stimulated economic growth over two decades. Now Narendra Modi has to implement more difficult changes if India is to reach and sustain its undoubted potential for economic growth and prosperity of its people.

Not the first

Modi will not be the first head of a government to change a set economic ideology for his country. F D Roosevelt did it in the USA during the Great Depression and after. He changed the country from one where government allowed the private sector almost total freedom, from a laissez-faire economy into one in which government had a considerable regulatory role, and a key role in investment for building infrastructure. Margaret Thatcher in Britain changed the state's economic ideology from that of the Labour party at that time.

She moved Britain from a welfare state to one in which the role of government was considerably reduced. In both democracies, other political parties and interest groups opposed and in due course accepted most of the changes. But FDR and Thatcher had to battle ideologues, vested interests, trade unions, and many other groups, and the media, who preferred the status quo and challenged the changes. But in both the countries the situation was so dire that people welcomed any changes that might get them out of the morass of massive unemployment, poverty and stagnation.

Narendra Modi will face opposition to changing India's Congress bred economic ideology. It will grow. We have already seen the negative reaction to the unavoidable railway tariff increases. The opposition has been largely supported by the media. There is little attempt to educate the public that any subsidies from government will have to adversely affect some other part of government activity.

Unlike FDR and Thatcher, Modi has not inherited a disastrous economic situation. His challenge is graver. It is to put India on a path of sustainable growth. His spectacular electoral victory was based on a

stagnating economy, with little employment growth, persistent inflation, declining savings and investment, rising deficits in government budgets and the external balance of payments. Government delays and corruption have held back project implementation. He has to invest in building human and physical infrastructure. He has to transform the culture of Indian government and governance so that it is in the interests of the nation and not of individual profiting politicians, bureaucrats and businessmen.

Change has to be implemented through a vast bureaucracy of 'perpetrators and collaborators.' Although pliable, many have vested interests. They will dither and delay. So will politicians of all hues (including the BJP), businessmen and bureaucrats at all levels, denied wealth opportunities. Crony capitalists denied profitable favours, and state owned enterprises, will use every trick to prevent the essential Changes. There are other reforms that are overdue, for example, in labour laws. Trade unions, NGOs, and the many do-gooders will prevent forward movement. Many media houses will give these opponents much space. Modi has to counter all this. His team must have those who will help change an exploitative 'socialist' and state-run economy into one that encourages enterprise under strict regulation.