

Fireflies Caught in a Logjam

Without second-generation reforms and a drastic overhaul of its institutions, India is condemned to mediocre income and growth.

By CHAITANYA KALBAG

as befits an ancient land, India is not bereft of clairvoyants.

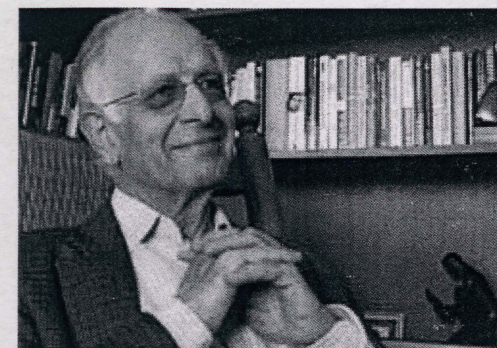
Three times over the past decade some of our best economists, managers, bureaucrats, industrialists, politicians and private citizens put their brains together and came up with differing scenarios for India's economic and political future.

Every time the intention was to present policymakers with a best-case route map to the India we wanted by 2050 – the world's third-biggest economy, an "emerged" economy with fairly high per capita income, a responsive political system, a good business environment, high performance, and low corruption.

In 2000 Arun Maira, now a member of the Planning Commission, and the Confederation of Indian Industry (CII) published four scenarios of what India might look like in economic development. The

most optimistic was *Fireflies Rising*, where millions of enterprises and initiatives lit up the nation's future. Then there were *Buffaloes Wallowing (While Children Are Waiting)*, where top-down progress pushes impatient youth to the sidelines; *Peacocks Strutting (While Little Birds are Scrambling)*, where more people are getting richer but many do not have market access; and *Wolves (and Tigers) Prowling*, where inefficiencies in government schemes are coupled with corruption and crony capitalism. It is not very difficult to see where we are today.

In 2005 Maira again worked with the CII and the World Economic Forum (WEF) to publish *India and the World: Scenarios to 2025*. Economic forecasters in Britain and India then worked together to estimate growth prospects for India under three scenarios: *Atakta Bharat* (or Hampered



Arun Maira, Member, Planning Commission

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India) where growth is hampered by systemic inefficiencies; *Bollyworld*, where growth will spurt to nine per cent for a while but fall back in a blaze of short-lived glamour and violence; and *Pahale India* or India First, where, like the fireflies, GDP growth would cross 10 per cent. *Atakta Bharat* foresaw GDP growth declining to six or seven per cent.

Realising the Worst

Unerringly, and unnervingly, our political system and bureaucracy have combined to ensure that the worst-case scenario will come to pass. Why are we so good at achieving so little?

India now ranks 60th out of 148 economies in the WEF's Global Competitiveness Index. Its rank has declined continually since 2009. India slipped three places to 134th in the World Bank's Doing Business 2014 rankings of 189 countries, behind Bangladesh, Bosnia, Uganda and Yemen. Both its strategically important neighbours, China (96) and Pakistan (110) did better.

The finance ministry and the central bank have been sounding more and more helpless as the economy continues to slide, under the baleful shadow of high inflation, to-

wards a "lasting growth collapse".

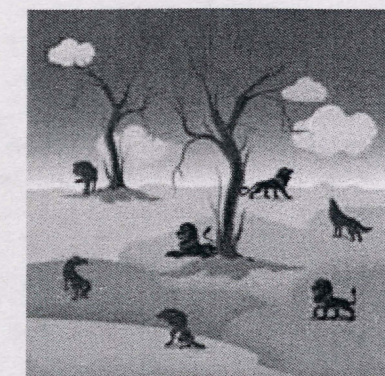
"High persistent inflation is inimical to growth. [Consumer Price Index] inflation ... has averaged 9.5 per cent for the last six years and the headline [Wholesale Price Index] inflation has averaged 8.6 per cent

safety nets for the vulnerable population," the RBI said in its policy review on October 29 as it ratcheted its GDP growth forecast for 2013/14 down to five per cent, the same as last year.

Is there a route-map out of this quagmire?

The Twelfth Five Year Plan was supposed to draw just such a blueprint for growth. It was drafted after unprecedented 'inclusion'. Regional meetings were held with groups of chief ministers. Social media were used to increase public discussion, including a Google Hangout that was also televised. More than one thousand students and professionals met in 10 locations to 'hack' the Plan so its messages could be communicated better nationwide.

The Plan was trumpeted as a new way forward. Montek Singh Ahluwalia, Deputy Chairman of the Planning Commission, said the 'good' outcome was conditional on following the right policies at the Centre as well as the states. "There are many areas where action lies entirely in the domain of the states," he said in emailed comments, adding that this was the first Plan that does not focus on a single growth projection but on three different scenarios.

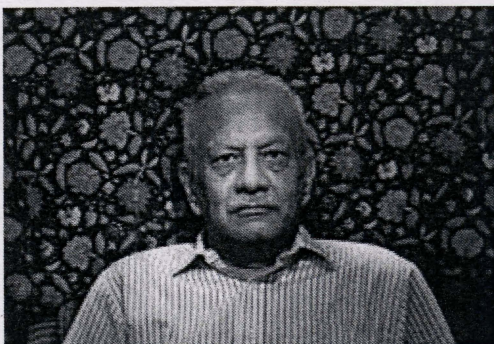


RAJ VERMA

... There are wolves (and tigers) prowling, where inefficiencies in government schemes are coupled with corruption and crony capitalism

during the last three years. Such high inflation eroded real consumption, lowered savings, caused financial disintermediation, widened the current account gap and placed additional pressures for subsidised





Nitin Desai, Eminent economist

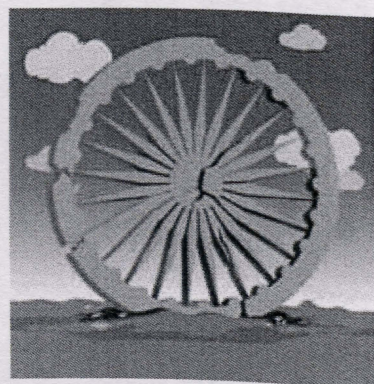
"Even when we have a road map there are too many back-seat drivers telling you to move right, move left. And in a very open democratic system there are not one but many back-seat drivers"

The Flotillas Set Out

In July 2012, a group led by Maira within the Planning Commission published three 'flotilla' scenarios: *Muddling Along* (Insufficient Action), *Falling Apart* (Policy Logjam) and *The Flotilla Advances* (Strong, Inclusive Growth). In each scenario a large collection of ships tries to move ahead purposefully, led by a 'commodore', the elected prime minister. We seem to squarely fit the Policy Logjam scenario, where the document says: "A flotilla of ships is trying to sail together, but ships keep colliding with each other. The ships do not communicate enough. Consequently, ships often sail off in different directions. The flagship is spending too much time just getting the flotilla back together, leaving little time to coordinate future directions."

The National Council for Applied Economic Research was tasked to use these scenarios and come up with growth projections. Its modeling threw up specific numbers: the *Flotilla Advances* scenario would see average GDP growth of 7.8 per cent during the 2012-17 Plan period; *Muddling Along* would see growth averaging six per cent; and in *Policy Logjam*, the average would drop to just 4.8 per cent. GDP growth rate would decline across all sectors because of significant fall of investment

(both private and public), and a rising fiscal deficit. "The country will enter the 'low-middle income growth trap'. The results also show high fiscal and current account deficits, which are unsustainable as the debt levels would rise leading to greater debt servicing burden," the scenario document, titled *Shaping India's Future*, said.



Atakta Bharat (Hampered India) is a scenario where growth is hampered by systemic inefficiencies

Ahluwalia was not so pessimistic, saying: "The fact that growth in the first two years is close to our low end projection does not mean that the policy logjam scenario is coming true. The low growth in the initial years reflects the fact the world

growth has been very low."

Ahluwalia also noted that the Eurozone had negative growth in these years. Even China slowed down considerably. But he adds: "I must emphasise that the deceleration is not entirely due to global factors. Domestic constraints have arisen which are holding up implementation of large infrastructure projects. This problem needs to be addressed."

Very simply, those 'domestic constraints' lie in our institutions and administration. Both are not equipped to manage a 21st-century economy. "Do remember in the scenarios it says the condition of the institutions is creating the logjam. People don't trust these institutions," says Maira, a former India head of the Boston Consulting Group.

China Gets It

Maira notes that in China, which also lives by five-year economic plans, administrators and institutions are subjected to a performance audit that coincides with each new plan. Bureaucrats' promotions depend on how they did over the previous five years. In India, in depressing contrast, we have had only two Administrative Reforms Commissions in our 66-year history. The second one, constituted in 2006 under the leadership of Veerappa

Moily, delivered its 15th and final report in April 2009 – just before the Congress-led United Progressive Alliance won a comfortable second five-year term. It ought to have been a fortuitous coincidence, a blueprint for action for UPA-II.

The trouble is that nothing much has happened after the Moily ARC reports were submitted. Its recommendations were approved by the cabinet. However, "Many of the recommendations have not percolated into the administration," Moily told *Business Today*. What was blocking the reforms? "The bureaucracy," he said. "We should really have a five-year plan for governance and technology – technology changes so fast."

But was that the only hitch? "The political will is missing," Moily admitted rather sheepishly.

Ajay Chhibber, a Stanford-trained economist who took over in mid-August as the Director General of the newly-created Independent Evaluation Office, should know the difference between China and India. Chhibber was previously the Assistant Secretary General and Regional Director for Asia and the Pacific of the United Nations Development Programme.

Chhibber points out that around 1995, about 15 years after China launched its economic reforms, Premier Zhu Rongji launched major reforms of government and bureaucracy. "He carried out second-generation reforms... He realised that the government he had was not suited for a modern economy and was actually holding back China's growth." If you take a 15-year view, UPA-II was perfectly placed to implement the Moily ARC recommendations. Its second term would have been a springboard for sustained

high growth. Instead, "it was parked away and shelved," Chhibber says. "The opportunity was lost."

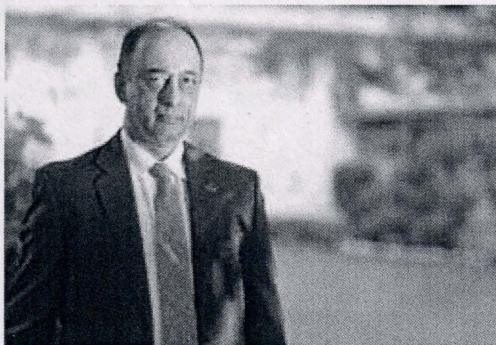
The tools for change were available. For four years now, Prajapati Trivedi has headed the government's Performance Management apparatus. Results-Framework Documents (RFDs) have been drafted to evaluate a host of ministries. But these performance reviews are not linked to promotions, or financial incentives (bonuses) – recommended by the Sixth, Fifth and Fourth Pay Commissions.

In contrast, 17 states have enthusiastically embraced performance reviews. Kerala has published two years of reviews, triggering widespread debate. Jammu & Kashmir Chief Minister Omar Abdullah has won praise for the speediest implementation.

The Rusting Steel Frame

In India, after you enter the central civil services through a tough examination, promotions are inevitable simply by being there. Many of our administrators lack the technical competence for crucial projects, unlike in China where bureaucrats spend a lifetime in one ministry. "Here they are shuffled like a deck of cards," Chhibber says. "No other country in Asia has a similar structure."

Change may finally be coming. On October 31, the Supreme Court ordered the Central and state governments to set up within three months, Civil Service Boards to advise administrations in transfers, postings and disciplinary action. "Fixed minimum tenure would not only enable civil servants to achieve their professional targets, but also help them to function as effective instruments of public policy."



Ajay Chhibber, DG, Independent Evaluation Office

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Repeated shuffling/transfer of the officers is deleterious to good governance," Justices K.S. Radhakrishnan and Pinaki Chandra Ghose wrote in their landmark ruling.

He also noted that Moily's ARC had recommended the setting up of an independent Central Civil Services Authority that would decide assignment of domains to officers, and fixing tenures.

Fresh out of the UN system, Chhibber can see these issues more clearly than most of us. What he sees is a country suffering from muscular dystrophy. "The head and arms and legs are not properly attached to one another. You design all these beautiful flagship programmes, but the implementation is at the state level," he says. "You think you can sit in Delhi in a country the size of Western Europe and design these schemes, expect them to be implemented uniformly across states and districts with such huge differences in capacity. I think it is absurd."

Ahluwalia, however, asserts that the 12th Plan built in unprecedented flexibility for central schemes. "There are many areas where action lies entirely in the domain of the states," he says.

Chhibber should be concerned. He has the unenviable task of auditing the government's big "flagship"

schemes, like the Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS) and the Sarva Shiksha Abhiyan (the universal education plan). He is going to start with the public distribu-



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tion system (PDS). He has been guaranteed autonomy, and his reports will go directly to the prime minister, parliament, and the public.

To put things in perspective, India spends a high four per cent of its GDP on subsidies. "The irony is that we became a welfare state before we became a developed state," says Chhibber.

Inclusion = Exclusion

Maira says there is a problem with our definition of inclusion. Our approach to inclusion is about hand-outs, in food, jobs, and education. What it should be about is creating a whole ecosystem that will create more enterprises and jobs. The capacity of public institutions is always limited, and political space is not an unlimited quantity.

Over the past 10 years, the central government has introduced more central schemes than all its predecessors put together. Telling the states "I am giving you the money, you have to spend it like this" will not work in education, healthcare, food or MNREGS, Maira says. Huge dams and Ultra Mega Power Projects require a large amount of land, capital, and a complex distribution system. "The world is coming to a model of more distributed production and management. Across the world people are concentrating on designs of platforms and networks that other people can plug into."

Urban development is a classic



Veerappa Moily, Minister, Petroleum & Natural Gas and Former Chairman, Administrative Reforms Commission

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example of our failure to connect and learn. The Urban Development ministry set up a system called PEARL (Peer Experience and Reflective Learning). It was a platform for cities to come together and learn who is the best among them at different things – managing water, waste, electricity, sanitation, public transportation. The cities met, learnt from one another, exchanged best practices, and voted for the best in each area.

Then, the joint secretary in charge of PEARL was transferred, and it is now limping along. Maira says the states are eager to learn and to run by themselves and want the Planning Commission to provide the platform. Instead, a lot of time is spent supervising the states. This is not about learning, this is about control and prescription.

Nitin Desai, a respected economist, former Chief Economic Adviser to the Finance Ministry and a former Under Secretary General of the United Nations, was one of the people who worked with Maira on the scenario-building.

"Basically the focus of the scenarios as they have emerged today is very much on alternative configurations of domestic forces, though they have reference to the external environment," Desai says.

But what is the point of scenarios

if they do not become action plans?

Time for the Witch Doctor?

The scenarios are like diagnostic tests when you are ill – the medicine has to follow. Ahluwalia says since 75 per cent of the investment that takes place in the economy is private investment, the policy framework is obviously very important since it determines how people will act. But that is not entirely true. The Food Security Bill, for instance, is a huge central scheme that will require implementation across very diverse geographies and political landscapes.

"Even when we have a road map there are too many back-seat drivers telling you to move right, move left. And in a very open democratic system there are not one but many back-seat drivers perpetually telling the driver: '*Aisa nahin, right ko turn karo, aisa nahin left ko turn karo*'," Desai says.

He points to Manmohan Singh, who is buffeted by a myriad of forces. Apart from 10 Janpath, he has to contend with coalition partners as well as strong regional satraps. "Now this is a very sad thing for a professional planner to say, but in the end it is all *Bharata Bhagya Vidhata*."

Like Ahluwalia, Desai too is not overly pessimistic about the future. In many areas people's lives are im-

proving. A qualitative change is taking place in the nature of administration at the state level. There is a much greater focus on results and performance. You see this in states like Gujarat, Madhya Pradesh, Chhattisgarh, and Bihar.

"There is a degree of urbanisation in rural areas that we are under-estimating. We are under-estimating that half the voters will be under 35, and of them nearly half will be post-1991, post-liberalisation," Desai says.

He thinks the back-seat driving may become a little easier; there will be greater coherence in political restraints on policy. Performance will count, not Yadav pressure groups or Dalit pressure groups or Muslim pressure groups. More people will focus on governance.

Clearly, India is on the cusp of a transition from a rural to an urban society, hopefully from being a society of little kids to a society of young adults. Will that mean greater maturity in the way we run our economy? Our prophets are primed and ready to see into the future; that future will be strong and robust and sustain one-fifth of humankind only if we get our fundamentals right. We have just about run out of scenarios. The real world is waiting. ♦

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