

## FROM THE RINGSIDE

How to soar in the Year of the Boar

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All great civilisations tend to be superstitious. Chinese astrology predicts that 2007, which will be the Year of the Boar, brings a good business climate as well as general feelings of abundance. A year of complacent contentment.

However, the Year of the Boar comes with a warning: the Boar is prone to overindulgence.

How will India fare in the Year of the Boar? On the one hand, there is reason to "feel good." GDP growth has averaged eight per cent over the past few years. The 2006 estimates vary, but even the World Bank expects that the growth rate will come in at just under nine per cent for the year. Most forecasts predict only a modest slowdown over 2007 and 2008. The stock market has been surging: the Sensex is up 4,000 points since the beginning of 2006, and domestic and foreign investor interest should continue to strengthen as third-quarter results are announced after the New Year.

The Year of the Boar also brings the promise of widespread prosperity. India still has a long way to go — as evidenced by the recent release of NSSO data showing that a third of the rural population lives on less than Rs 12 a day — but public and private initiatives are making inroads into rural India as well as economically marginal urban areas.

Ambitious public-sector initiatives such as the National Rural Employment Guarantee Scheme, Bharat Nirman, or the National Urban Renewal Mission clearly intend to make a difference.

On the other hand, the warning labels cannot be ignored. The boar's tendency for overindulgence is barely in check. The RBI's Report on State Finances for 2006-07 shows some improvement in states' deficits and debt reduction, but this is not uniform across states. The Sixth Pay Commission has also been constituted and will likely recommend a pay increase. Its recommendations are not technically mandatory for states, but they do appear to be politically mandatory.

The Eleventh Plan approach paper's call for more public investment rests on optimistic growth targets, and contains ambiguous plans for locating the resources. The discussions about adjusting the FBRM targets, or suspending them temporarily, only postpone the underlying reality that India will either need to increase its tax realisation, or achieve more results with the existing expenditures.

More tensions are on the horizon as rising energy import costs affect India's external balance. Net energy imports have been increasing since the mid 1980s from five per cent of use in 1986 to over 20 per cent of energy use in recent years.

India is also vulnerable to undermining its potential by wavering and vacillating in reforms — this aspect of the country seems to be stuck in the Year of the Boar. Its political institutions, a dense network of politicians and bureaucrats spread across three levels of government without a clear coordinating body or ethos, seem almost designed for delay.

All concurrent subjects (and many of the policies on the Union and State lists too) require the Union and the State Governments, which often have different political constituencies and ideologies, to work together. Most policies fall under the purview of several ministries or independent departments — with 51 of them it would be hard to avoid overlap.

Within the ministries and public-sector bodies, detailed procedural norms for procurement, consultation, and audits shape decision-making as much as the policy goals themselves. One former minister's comment on the system: "No enemy of India could devise a system better designed to paralyze decision-making. Administration in India has degenerated into a system of endless correspondence and meetings as a substitute for action."

To make matters worse, India has limited functional and purposive mechanism for coordination across this array. Inter-governmental and inter-ministry coordination takes place in ad-hoc meetings, committees, or bilateral negotiations. The Inter-State Council meets, but irregularly, and its decisions are not binding. Inter-ministerial working groups have been created for particular subjects (such as infrastructure or power), but longer-standing institutional changes such as single-window clearance, particularly in the states, have lagged.

Parliament could be a natural co-ordinating body (in addition to being one that makes laws) across levels of government and ministries, but it has limited resources for doing so.

Members of Parliament are given allowances for housing, but not for research. Most of the research is done by the departments themselves. Many of the committees that examine bills ex ante are mostly ad hoc committees that are dissolved after the bill is dealt with. Many bills pass without comment or discussion.

New Year's policy resolutions for the Year of the Boar are simple to state, and harder to elaborate. It is straightforward to say, "Keep a prudent fiscal policy", and less obvious exactly what spending plans should be reduced, or which taxes adjusted. It is easy to say, "Streamline decision making," but less obvious to identify which departments, offices, or levels of government should delegate their seats at the table for the sake of simpler process.

We could recommend "empowering Parliament," but that would beg the question of why it has not exercised this prerogative to make the changes itself and in this effort become more relevant.

We resolve instead to devote the next few joint pieces to untangling the underlying institutional features that preserve complacency and prevent change. In the meantime, Happy New Year.

*(Regular columnist N.K. Singh and Dr. Jessica S. Wallack, a professor of economics at University of California, are collaborating on a book on infrastructure reforms on India. Essays based on their research will appear every fortnight.)*

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