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From the ringside

Why we need a core economic agenda

The recent Cabinet decision to remove the 10% cap on voting rights on foreign banks evoked favourable responses all around. Its rationale is simple — no sensible investor will put in money unless voting rights reflect the corpus committed. This decision is an integral part of the banking reform roadmap now approved by the government. The euphoria generated in banking circles may, however, be somewhat premature.

• **First**, the decision was fulfilling a promise made a year ago. Chidambaram's first budget speech of July 8, 2004 contained this commitment.

• **Second**, while this decision marks the latest implementation of commitments made at that time, one important unfulfilled promise remains: to raise the cap on foreign equity for Insurance from 26 to 49%. We have heard nothing recently about the Insurance matter but presumably even minimum consensus within the UPA eludes a formal Cabinet decision for enabling introduction of a Bill to amend the earlier Act.

• **Third**, the fate of the decision is still uncertain. Amendment of the Banking Regulation Act containing the voting rights provision is likely to be referred to the Standing Committee. This is not the first time such a Bill has been introduced. An earlier version by the NDA Government went to the Standing Committee and was allowed to lapse.

The present Bill is a refinement of the earlier Bill since any acquisition beyond 5% now requires RBI approval (this is considered a prudential requirement and could lend some comfort to Left-oriented detractors) whereas the earlier one was based on an automatic approval. The Left parties have vehemently opposed the new Bill and the BJP has also made negative remarks. If both the Left parties and the BJP oppose the Bill, its passage in Parliament is guaranteed to fail. Either the Left reconciles, believing that the new safeguards are adequate to allay misgivings, or the BJP change their mind.

The present state of play raises the more important issue that a basic distrust between the two mainstream parties makes pursuit of economic reforms an uphill task. Governments in power think differently than they did in the Opposition and the Opposition change their view the moment they come to power. While tactical manoeuvre is part of the political dynamics, economic development becomes a casualty.

Take the case of the Congress first. While in Opposition, it gave a hard time to the NDA in securing their consent for the opening of the Insurance sector and the present limit of 26% on foreign investment was the outcome of prolonged negotiations. On Banking reforms, the Bill introduced by a former Finance Minister to reduce government equity to 33% in nationalised banks which would have brought about a culture change, even while retaining its public sector character, did not receive any support from the Congress. Informal interlocutors from the NDA to persuade the Congress drew a blank. Similar was the fate with proposed changes in Labour Laws. No doubt, there were several other important Bills like the Electricity Bill, 2003, the changes in telecom policy, to name a few, which did receive their support and became law.

Reversing roles when the UPA came to power, it is curious that measures actively pursued by the BJP like the introduction of VAT, raising foreign equity in Insurance from 26% to 49%, increasing the cap on voting rights beyond 10% are now being opposed by the NDA. The opposition to the introduction of VAT is the worst case because even though this may have been conceived by an earlier Congress Government, it was actively pursued by two successive NDA Finance Ministers. The detection of loopholes overnight when the NDA moved to the Opposition is inexplicable.

The development process requires continuity of policies. Spokesmen for successive governments marketing India as a credible investment destination have argued that changes in India are embedded in a deeper social consensus which spans political parties. Further, that seven successive governments since 1991 have pursued same set of policies while altering priorities, sequencing and nuancing them to suit their needs.

Given the federal nature of our polity, where coalition politics is the likely pattern in the foreseeable future and several demographically large States would be governed by regional parties, policy consistency is central to any development strategy. It is now well accepted that in any fractured coalition politics, regional parties or coalition partners will drive the national agenda in the absence of minimum understanding between two mainstream national parties. It is a challenge to the ingenuity of senior political leadership in both these parties to devise a workable strategy so that policies discussed for long and broadly endorsed do not become the casualty of short-term political gains.

The number of important legislations which were either not introduced following opposition even prior to the Bill securing Cabinet approval, or worse, allowed to lapse in either of the Houses or the Standing Committee is quite large.

The National Common Minimum Programme is a common agenda of the UPA partners. So is the manifesto of the NDA representing a broad commonality between the NDA partners. Evolving a ‘‘core agenda’’ on some key issues like legislations to govern a regulatory framework for infrastructure, social security system, reform of banking and financial institutions, improving the supervisory and prudential standards to protect small shareholders and investors, improving productivity of say coal for power needs or enhancing efficiency of ports, freeing agriculture from a cluster of outdated regulations or making mega cities and urban conglomerations more liveable or improving education and health efficiency are some areas where commonalities would be higher than divisiveness.

A common core agenda must span the political spectrum. Who should take the initiative? Policy initiatives are usually the prerogative of the government in office. The corpus of legislative and regulatory changes which await us is an enormous challenge. Getting a Bill or two through ploy or clever floor management speaks well of the incumbents but in the long run is no substitute to a consensus-based broad commonalities.

The present stalemate in Parliament can only be a transient aberration. This is only the first year of the government and national elections are not on the horizon. India's interest is far too important to be blighted by tactical political ploys on who should take credit and on whom the blame must rest.

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