

**Sardar Patel Institute of Public
Administration(SPIPA),Ahmedabad
in association with FICCI-Gujarat State Council
Inaugural Address of its Lecture Series
"Competition, Economic Policy & Common Man"
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It is a privilege to be here today to deliver this lecture under the aegis of the Sardar Patel Institute of Public Administration and FICCI. It affords me an opportunity to share my thoughts on the subject; it also provides me an opportunity to walk down memory lane. It is almost 40 years – though it seems like the other day – that seven of us of the 1973 batch of the IAS reached Ahmedabad after the initial training at Mussorie. We knocked at the doors of the predecessor of SPIPA – the Gujarat Institute of Training in Administration(GITA). The then Director was Mr. N. Vittal, a distinguished civil servant, who rose to be the Central Vigilance Commissioner. Interestingly, and perhaps appropriately, the Institute was located in a complex called "**New Mental Hospital.**" We were put up in the Vishram Grah near Delhi Darwaza which was known as the "**Old Civil Hospital**". And so we started our professional journey in Gujarat going from the Civil Hospital to the Mental Hospital and back every evening!

2. My memory tells me that for all seven of us, this was the first exposure to Gujarat. A new region, a new language, new culture and, of course, different food and eating habits. While we slowly learnt to cope with the new sights and sounds, what stood out even in the early days was:

- (i) the warmth and easy level of acceptance of outsiders by the people; and
- (ii) the fabled spirit of enterprise from the street corner shopkeeper to the biggest textile magnate.

It is these qualities of head and heart which have put the people and State of Gujarat far ahead of the others. It is this that is responsible for the economic miracle on the Sabarmati river to lift from a similar expression "miracle on the River Hang" - used for South Korea.

3. Ladies and gentlemen, to speak on the evolution of Economic Policy to such a distinguished gathering, many of whom have been participants in the economic miracle, would be like carrying coals to Newcastle. Nevertheless, let me attempt a helicopter view of the landscape.

4. The architects of independent India were deeply influenced by socialism and this is reflected in the manner in which the levers of economic power were vested in the State during the first thirty years or so of planned economic development. This was also necessary because private enterprise was shy and had limited resources. Hence, the State provided the anchor in economic activity, be it steel plants, be it power plants, be it fertilizer companies, be it oil refineries. A logical corollary was heavy touch centralized planning of the Soviet variety. Another corollary was tight leash on what the private sector could do and where it could do. Basically, the model of economic development was reliance on capital goods production, import substitution and laying the foundations of an emerging India.

5. Winds of change started blowing, albeit feebly, in the 1980's. 1991 was, as is now repeated ad nauseam, a watershed in the history of India's economic development. Physical controls in the form of industrial licensing gave way to financial controls. Trade policy was rationalized and protective tariff barriers were lowered. The tax regime was made more business friendly. Intellectual Property Regime was aligned with international best practices. Regulatory reform policies in various economic areas were pursued.

6. How did the growth story respond to the policy changes? The GDP growth was an average of 3.5% during the period 1950's to 1980's. This led to the famous expression "**Hindu rate of growth**" by the eminent economist, Raj Krishna. Slowly, the country moved to a higher growth path. Between 1980 to 2000, growth was 5.5% p.a. In the decade beginning 2000, it is 8%+ and touched 9% for a few years before the financial crisis. Post-crisis, the growth story has slipped for a variety of reasons – largely domestic, partly global.

7. The composition of the growth story also moved India into the league of emerging economies in which the services sector contributes the most to the GDP. The share of services to GDP is almost 59%. Industry contributes 27%, of which the share of manufacturing is 15.4% and the contribution of agriculture to GDP has declined to around 13.9%. This clearly indicates the shift away from a primary sector driven economy.

8. The "big bang" reforms of 1991 were not a conscious bold step in a new direction. They were in a way thrust on the policy makers. India ran headlong into its worst fiscal and balance of payments crisis to date. The fiscal deficit had ballooned to nearly 9% of GDP; the current account deficit had gone to almost 3% of it; there was a flight of capital from India; and confidence plummeted to an all-time low. Hence, the changes beginning 1991 which I mentioned earlier.

9. Once the initial spurt of reforms was over, the pace became more gradual – sometimes even painfully slow. That perhaps is in keeping with the Indian philosophy of incrementalism. Today, this issue of policy changes is the subject of intense discussion once again. Cynics are now talking in terms of the "**Hindu rate of reform**"!

10. What has been the **unfinished agenda on Economic Policy**? I have tried to identify seven major themes. Firstly, the growth story has

been somewhat narrow. It has bypassed **Agriculture** and allied activities. Consequently, we have 65% of the population living in the countryside with the sector contributing only about 14% of the GDP. This is responsible for the supply side constraints which have been pronounced in the last few years. As a result, the high inflation which is now sticky and structural, not cyclical. In the more extreme scenario, this could lead to social tension, which we as a nation can ill afford. Incidentally, Gujarat deserves praise for its management of the rural economy which has provided a second string to its economy and made growth more sustainable.

11. Secondly, **infrastructure** is proving to be a binding constraint in the movement to a higher trajectory. There is a deficit of Power; a gap in port handling capacity; constraints in surface movement with the roads not being of the desired level. The involvement of the private sector and, of late, the Public Private Partnership (PPP) model has helped but not adequately. In the energy sector, in particular, the policy induced distortions impinge substantially on coal and gas.

12. Thirdly, the **Financial Sector** and the tax regime has not moved fast enough to support a vibrant real sector. The net result is that the cost of money is prohibitively high. Inflation has a major role to play in this regard. But it is also compounded by the inefficiency of the banking and financial system. On the taxation side, the desirability of a unified common market in the form of a pan-India Goods and Service Tax (GST) cannot be over-emphasized. Studies show that, other things remaining constant, the GST itself will contribute 1% + to the country's GDP.

13. Fourthly, the reforms of the last twenty years have almost completely bypassed the **land and labour markets**. No doubt, both are sensitive from the socio-political point; but they are critical from the economic aspect also. A more forward looking perspective will be required if the country has to

compete with the South East Asian economies let alone the developed industrial countries.

14. Fifthly, the new India is blessed with a demographic dividend of younger people who can contribute to the growth story. But meaningful contribution requires **relevant and upgraded skills**. The common refrain from various groups – in industry and services – is that they do not get people with the skills they require. It is, in that sense, a case of water, water everywhere but not a drop to drink. We have millions of people. They need to be skilled in what they do to be useful. The Central Government has, in response, started an ambitious National Skill Development Programme which, between 2007-2022, hopes to provide new skills or upgrade the skills of 500 million people. The unique feature of this is the reliance on the private sector to substantially deliver this target.

15. Sixthly, while the so-called “Licence Raj” substantially ended with economic reforms, the “**Resource Raj**” (Prof. Raghuram Rajan) is alive and kicking. This came to the fore in the allotment of Spectrum in early 2008 by the Telecom Ministry and was evidently a manifestation of “crony capitalism.” Attention was focused on this in the political and civil society space as an instrumentality of corruption. I had the privilege last year of chairing a high-level committee to make recommendations on the Allocation and Pricing of Natural Resources. In the limited time available to us, we looked at the key areas of Coal, Mining, Petroleum & Natural Gas, Spectrum and partly at Forests, Land and Water. The main thrust of the recommendations was that it is necessary to move away from a opaque system to a more transparent system of allotment with the price, by and large, being determined by a market determined process. This, we believed, is not only necessary to ensure that the State gets the intrinsic value of what it is giving away for commercial exploitation. It is also necessary to follow that route to raise the bar of credibility in the eyes of the people at large.

Most of our recommendations, I should say, have been accepted. We have now to watch the implementation.

16. Lastly, there is the critical issue of the **Governance architecture and institutional credibility**. This is something which was considered peripheral for long. No longer so. No one can precisely identify the mix of reasons why some countries do well than others on the economic matrix. But one thing stands out as empirical evidence: good institutions and sound governance have a positive correlation with rapid and sustainable economic growth. This is something whose time has come and all sections of society should demand this as a matter of right.

17. Let me now turn briefly to the **role and function of economic regulators**. Essentially, regulation is the prerogative of the sovereign. However, as a good practice, the government has been setting up statutory regulatory bodies for enforcing rules and regulations and providing the credibility of a level playing field in sectors which were hitherto reserved for the State and have, in response to the liberalization paradigm, opened up to private investment. Hence, the string of bodies such as SEBI, CERC (and later State level Commissions), TRAI, IRDA, AERA and so on. More such regulators – for coal, mining, real estate, etc. – are proposed to be set up.

18. The experience so far has been generally good and invested the decisions of the regulators with a fair degree of independence and credibility. However, it is important to provide them a framework which affords genuine autonomy. Basic to this is financial independence which will protect them from ministerial intervention. Effective Parliamentary oversight yet minimal executive interface in the affairs of regulators is widely recognized as the mantra for success.

19. The quality of regulators is equally critical. The selection process needs to be distanced from the line ministries and kept as independent as

possible, preferably under the oversight of the senior judiciary. This will ensure that the selection process brings forward the best talent and minimizes the possibility of, what is called, regulatory capture.

20. Having covered the economic landscape, let me turn to **competition policy and law**. Competition policy is broadly interpreted to include policies that enhance competition in local and national markets. It is said to be the fourth pillar of government's economic policy along with fiscal policy, monetary policy and trade (including industrial) policy. As for Competition Law, it is the legal instrument designed to prevent anti-competitive business practices by firms. Effective competition policy and law is an important constituent of a good regulatory and business environment.

21. Competition – the process of rivalry between business enterprises for customers – is a fundamental characteristic of a flexible and dynamic market economy. By responding to the demand for goods and services at lower prices and higher quality, competing businesses are spurred to reduce costs, increase productivity, make investments and innovate in products and processes. As a result, both economic efficiency and consumer welfare are enhanced.

22. The process of competition is, however, not automatic. The Chicago School, which is wedded to "Laissez faire" philosophy, would have us believe that markets will regulate themselves. But perfect competition is as much a mirage as the perfect wife or the perfect spouse! Vested interest groups, large monopolistic firms and other stakeholders may distort the process of competition. This happens not only in emerging economies but also in advanced industrial economies. Hence, the need for a robust competition policy/law. This is the flavour of the season across the globe with about 120 countries having put in place competition regimes.

23. India was among the first developing countries to have a competition law in the form of the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969. It was enacted on the recommendations of the Monopolies Inquiry Committee(MIC) which reported that there was high concentration of economic power in over 85% of industries at that time. The MRTP Act was substantially amended in 1984 and again in 1991. Its focus was on size and control of market power. The dynamics of the reforms of the 1990's called for more than amendments. An expert Committee set up in 1999 recommended replacing the MRTP Act with a modern competition law for fostering competition in markets and targeting anti-competitive practices. Accordingly, the Competition Act was passed in 2002 whereunder the Competition Commission of India (CCI) has been set up.

24. When the Act was being proposed, there was a debate on whether the country and business really needed a competition law so soon after de-regulation. The debate was settled in a perverse manner: the Act had a legal challenge and had to be amended in 2007. It was substantially enforced from May 2009 – three years ago. In fact, the provisions concerning M&A were enforced only one year ago. That is to say, Competition enforcement is recent.

25. As in most international competition laws, the Indian Act seeks to:

- (a) prohibit anti-competitive agreements, including cartels(S.3);
- (b) prevent abuse of dominant position(S.4); and
- (c) regulate mergers and acquisition above the specified threshold (S.5 and 6)

26. During the last three years, the CCI has received 267 matters alleging violations of Sections 3 and 4 of the Act relating to anti-competitive agreements and abuse of dominance in diverse sectors such as insurance,

travel, automobile manufacture, real estate, pharmaceuticals, financial sector and entertainment. It has passed final orders in more than 200 cases. Penalties have been imposed where warranted. Where, after inquiry it has been found that competition could be enhanced if certain government policies are modified, the CCI has suggested changes in such policies. The law is slowly beginning to bite.

27. Apropos M&A, we appreciate that Indian industry needs to consolidate and grow in an inorganic manner. It is this spirit that informs our handling of cases in which there are no competition concerns. Since the notification of Sections 5 & 6 in June 2011, the Commission has decided 56 cases, all within 30 days. As the merger thresholds have been consciously kept at a high level and the economy is sluggish, the number of filings may be relatively less. But they will increase and become more complex. Time is of the essence of merger transactions. While the Act provides for 210 days for a decision thereon, the CCI has a self-imposed limit to clear cases within 180 days.

28. In spite of the constructive approach that the Commission has followed, some sectors and government agencies concerned are seeking exemption from the provisions of the Competition Act. This is being put forward on the specious ground that the sectoral regulators are equipped to handle matters concerning those industries. The sectoral regulators are no doubt competent and have domain knowledge. But they are equipped to handle only technical and tariff or royalty related issues. Issues of competition, market behaviour and the inter-related matter of M&A has to be the function of the market regulator. That is not only appropriate and desirable. It is also the best international practice.

29. Finally, let me touch on the extremely vital aspect of **Consumer Welfare for the common man**. While protection of the interest of

consumers is in the preamble of the Competition Act, the Consumer Protection Act (COPRA), 1986 is the Act dealing directly with the consumer. Competition Act focuses more on B to B and incidentally on B to C.

30. International framework in this regard suggests different models. In a few countries such as Zambia, Zimbabwe, etc., there is a hybrid law dealing with both Competition and Consumer Protection. In a few cases – most notably Australia – there are different laws but a hybrid agency. This is the Australian Competition and Consumer Commission. Most countries, though, have separate laws and separate agencies. This is the practice we follow in India also.

31. Essentially, the COPRA Act concerns itself with Unfair Trade Practices. On the other hand, CA has a wider mandate to look at actions that stifle competition. The former focuses on the demand side; the CA Act on the supply side. Yet both legislation have a common goal and a common spirit – to deal with distortions between Supply and Demand in the market place. The end result is benefit for both ends of the chain – the producer and the consumer.

32. Ladies and Gentlemen, let me conclude by recalling what the Prime Minister, Dr Manmohan Singh, had said in his speech at the Annual General Meeting of an industry chamber in 2007. He had mentioned that there are 10 areas in which industry leadership can help to ensure that our growth process is both inclusive and broad-based. One of the areas, he stated, was the need for robust competition:

“.....desist from non-competitive behaviour. The operation of cartels by groups of companies to keep prices high must end. It is unacceptable to obstruct the forces of competition from having fair play. It is even more distressing in a country where the poor are severely affected by rising commodity prices. Cartels are a crime and go against the grain of an open

economy. Even profit maximization should be within the bounds of decency and greed! If a liberalized economy has to succeed, we must give full play to competitive forces and the private sector should show some self-restraint in this regard."

Thank you, Ladies & Gentlemen.