

Speech of Shri Pranab Mukherjee, Minister of Finance

At the National Conference of Competition Commission of India

16th November 2009, New Delhi

“Competition, Public Policy and Common Man”

(November 16, 2009, 10.00 A.M. at Stein Auditorium, IHC)

My esteemed colleagues Shri Salman Khurshid, Justice Dr. Arijit Pasayat, Mr. Dhanendra Kumar, Mr Hari Bhartia, Mr. Chandrajit Banrejee, ladies and gentlemen.

I have great pleasure in inaugurating this Conference on “Competition, Public Policy and Common Man”, organized by Competition Commission of India in collaboration with CII.

Competition is the buzzword now in every walk of life - in industry, among service providers, among students, job seekers and employers. Higher productivity, efficient allocation of resources, increased consumer welfare through lower prices, better quality, wider choices and accelerated economic growth are the dividends that accrue from greater competition. It is on account of these dividends of fostering competition that the Government constituted the Competition Commission of India as an autonomous statutory body to promote and sustain competition in markets and to protect interests of consumers. I understand that the

Commission has by now embarked on the path of achieving its near term goal with focus on aspects like eliminating supply bottlenecks, enhancing productivity, reducing costs and improving quality of goods and services. The Competition Appellate Tribunal is also in place to decide on appeals as well as claims for compensation.

Competition law alone is not sufficient for realising the gains from greater competition. There is a need for broad based societal understanding of the law and acceptance of its value for fuller success. In general, there is a need to engage in advocacy with stakeholders, including public institutions, in order to build a culture of competition that is receptive to and supportive of the new competition regime. It is important to bring common people's concerns to the fore. I believe, the Commission would be in a better place to achieve its objectives in a milieu of greater ownership of the competitive principles. This could be achieved through wider stakeholder involvement and a perception of the masses of the gains through greater competition. Thus, the crucial question, relevant to the context is; how competition can secure the economic well being of the common man, the Aam Admi. As the purpose of this Conference is to address this concern, I hope, by the end of the day, you would gather sufficient insights in carrying forward the work of the Commission.

While it is instructive to look at international best practices in this regard, I believe that in view of the country context, a more nuanced approach be adopted and "one size fits all" approach needs to be eschewed. The large public sector presence and the relative restrictions on product and factor markets in India owe to the non-existent markets

(market failures), thrust to public sector in the initial years of planning process and the welfare orientation of public policy. Currently, the approach is to let: pure public goods with Government; 'private goods' be market driven; and congestible goods are increasingly in the public-private partnership mode. In the latter two, appropriate regulatory framework has a great bearing on economic outcomes. The framework of regulation cannot be a replica of those in Advanced Economies with different economic structure, safety nets and income distribution.

Thus, it is important that while fostering competition, our law and regulatory architecture effectively guard against market failures. Some of the socially desirable economic goals, which are of paramount importance for securing the interests of the AAM AADMI, may be termed as "uneconomic" in the free market. Moreover, abruptly freeing entry and exit conditions in the product and factor markets, and unrestrained competitive growth in industry might eliminate small players from the market and without safety nets in place, defeat welfare objectives that are central to democratic polity. The system of agricultural support prices and the special treatment given to smaller industrial undertakings are instances of this. Further, our Public Distribution System, despite its weaknesses, has immensely served us as an instrument to counter price exclusion in the food grain market. We have, over time, built checks and balances against these possibilities and the gradual and sequenced nature of the reforms process needs to be understood in this context. It may be slow; but has democratic sanction.

This, however, does not negate the idea of fostering competition in different segments of the economy. You would appreciate that it has been with the progressive facilitation of the interplay of market forces that India has achieved globally acclaimed rates of growth and

investment. The benefits of such competitive growth have certainly percolated to the common man in terms of enhanced employment opportunities, reduced prices and greater economic welfare. The recent trends in the growth of sectors like telecommunications, automobiles, civil aviation, newspapers and consumer electronics stand testimony to the desirable effects of competition on prices, quality and accessibility to the common man. Competition has, thus, produced many winners.

Government has contributed a lot to this process through change in policies. For instance, peak non-agricultural tariff protection have come down gradually from a level of over 150 per cent prior to 1991-92 to a level of about 10 per cent on date. The pace of change was calibrated to ensuring greater competitive ability and at the same time constrained by revenue needs from indirect taxes. Besides, excise duties have also come down substantially over the years; adoption of State-level VAT by all States and the proposed goods and services tax (GST) would help achieve a common market for goods and services at lower rates of taxes avoiding most of the hitherto cascading nature of the taxes. The Empowered Committee of State Finance Ministers have released the Discussion Paper on GST for stakeholders to deliberate, which the Conference may also like to deliberate. Often concern is being expressed about the sustainability of the current levels of fiscal deficit through allusion to their crowding out impact. I would like to reiterate the point I have made umpteen times that the short-term stimulus would be unwound when recovery is firmly in sight and that in the current conjuncture of low off take of credit in a milieu of ample liquidity, the fear of crowding out is misplaced.

There is a widely held view that the impact of the global economic crisis has been less pronounced on India, partly because of the strict

market discipline enforced by our sectoral regulators, while at the same time maintaining a competitive environment. The resilience shown by the Indian economy in face of adversities and the timely fiscal and monetary stimulus put in place by the Government and the Reserve Bank of India helped the Indian economy to weather the crisis. On hindsight, I tend to agree that the impact of the global financial crisis on the Indian economy would have been harder on the common man without such intervention.

Nonetheless, there are many anti-competitive practices in our existing system, which call for a comprehensive review, which this conference would deliberate upon. It is by now well-recognized that a reduction in concentration ratio in industry cannot be simply equated to increase in competition. The task at hand with the Commission is onerous. It is indeed a formidable challenge to locate, establish and curb prevalence of manipulation, collusive practices, abuse of dominance, etc. Yet, regulating markets and preventing anti-competitive practices become inescapable, particularly because, prevalence of such market practices hurt the poor most.

I am told that you have, quite appropriately, kept a session to deliberate on the possible use of competition and its regulation as significant strategy to empower farmers to have greater access to markets and to realise better prices. Agricultural markets in India are characterized by market imperfections. Farmers do not reach consumers directly and there is a chain of intermediaries, who do not always work competitively. Hence, a huge gap exists between the consumer prices and the prices received by primary producers. While farmers often do not get their due share, consumers end up paying more than what would be payable if agriculture markets were competitive and efficient. Thus, there is tremendous scope to improve competition in these markets

through public policy changes and innovative measures, which in turn is likely to contribute to farmers as well as consumer welfare. The litmus test of the efficacy of competition law and policy is its outreach to the common man. The Competition Commission will have to work in close unison with the central, state and local governments and other stakeholders to achieve this.

I see that another session of this conference is devoted to competition in public procurement. Procurement of materials and services for developmental programmes is a key economic activity of the governments at all levels. The primary objective of an effective procurement policy is to obtain goods and services to achieve the best value for money. Effective public procurement avoids mismanagement and waste of public funds. Competition among suppliers helps governments realize this objective. It is therefore, important that the procurement process is not affected by attempts to undertake practices such as collusion, bid rigging, fraud and corruption. This requires strict enforcement of competition law and education of public procurement agencies at all levels of government to help them design efficient procurement processes. This will also increase cost effectiveness of public spending in infrastructure, social and other sectors.

Common man is not only a consumer, but a producer also. The consumers do not mean only the final consumers, but also those who purchase goods or services for commercial purposes. In the long value chain, everybody tends to become a consumer or customer somewhere. In a competitive market, producers who are consumers of raw materials and intermediate goods and many services pay less for them and become more competitive through lower costs and lower end prices.

The concept of sector-specific regulations arose out of the opening up of the utility sectors that are networked. The Government took on the obligation of providing universal service of facilities like telephony and electricity. Most of such utilities have been opened up for private sectors also. Sector-specific regulators were set up to prevent inefficient use of resources, protect consumers and to ensure universal service at affordable prices. Competition law also aims at prevention of market power and thus ensures efficiency and consumer welfare. Thus, the roles of sectoral regulator and competition regulator are both consumer-centric and hence complementary. In this context, it is highly appropriate that you have chosen to deliberate on regulation synergy in your conference.

I must say that the Conference is well- focused and hope that it would be able to explore and establish the linkages between competition, public policy and the needs of the common man. I must compliment the Competition Commission and CII for jointly organizing this conference to address common man's concerns.

I thank you for inviting me to speak in this Conference. I wish you success in your endeavours.

Thank you.