

**SHAPING INDIA'S FUTURE  
- AND STRENGTHENING FREE  
ENTERPRISE**

**S. S. Bhandare  
Dr. C. S. Deshpande  
Raghavendra Katoti**



**FORUM**  
OF FREE ENTERPRISE

*“Free Enterprise was born with man and shall survive as long as man survives”.*

**- A. D. Shroff**  
Founder-President  
Forum of Free Enterprise



## **SHAILESH KAPADIA**

(24-12-1949 – 19-10-1988)

Late Mr. Shailesh Kapadia, FCA, was a Chartered Accountant by profession and was a partner of M/s G.M. Kapadia & Co. and M/s Kapadia Associates, Chartered Accountants, Mumbai.



Shailesh qualified as a Chartered Accountant in 1974 after completing his Articles with M/s Dalal & Shah and M/s G.M. Kapadia & Co., Chartered Accountants, Mumbai. Shailesh had done his schooling at Scindia School, Gwalior and he graduated in Commerce from the Sydenham College of Commerce & Economics, Mumbai, in 1970.

Shailesh enjoyed the confidence of clients, colleagues and friends. He had a charming personality and was able to achieve almost every task allotted to him. In his short but dynamic professional career, spanning over fourteen years, Shailesh held important positions in various professional and public institutions.

Shailesh's leadership qualities came to the fore when he was the President of the Bombay Chartered Accountants' Society in the year 1982-83. During his tenure he successfully organized the Third Regional Conference at Mumbai.

Shailesh was member, Institute of Fiscal Studies, U.K.; member of the Law Committee and Vice-Chairman of the Direct Taxation Committee, Indian Merchants' Chamber. He was also a Director of several public companies in India and Trustee of various public Charitable Trusts.

He regularly contributed papers on diverse subjects of professional interest at refresher courses, seminars and conferences organised by professional bodies.



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**Mr. Sunil S. Bhandare**, Former Economic Adviser, Tata Group, is presently Adviser (Economic & Govt. Policy), Tata Strategic Management Group.

**Dr. Chandras S. Deshpande** is Professor – Economics, Welingkar Institute of Management Development & Research, Mumbai, and a Member, Expert Appraisal Committee for Infrastructure Projects, Ministry for Environment & Forests, Govt. of India.

**Mr. Raghavendra Katoti** is Deputy General Manager – Economics, Department of Economics & Statistics, Tata Services Ltd.

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*"Time present and time past  
Are both perhaps present in time future  
And time future contained in time past"*

**- T. S. Eliot**

## **Setting the Perspective**

**T**he Indian economy has traversed a very fascinating journey of economic liberalization over the last quarter century. The dimensions of economic reforms have embraced vast grounds. Practically every aspect of the economy has witnessed momentous changes, be it in the sphere of industrial sector, external trade, exchange rate management, fiscal reforms and consolidation, tax reforms and tax administration, banking and financial sector, capital markets, foreign investments, infrastructure development, social sector, information technology

and telecommunications, et al. Indeed, India made its long-awaited tryst with economic freedom in 1991, which, in turn, has unveiled refreshingly new vistas of economic growth and prosperity. The philosophy of free enterprise and free market economy has triumphed, as was envisioned by the founders of Forum of Free Enterprise way back in mid-fifties and early sixties of the twentieth century.

During the post-reforms [1991-2016] period so far, the economy has achieved the highest rate of economic growth, averaging around 7% per annum. In particular, there has been leapfrogging of the services sector and emergence of competitive and modernizing manufacturing sector. India made major strides in globalization of her economy with growing share of external trade in her national output and increased flow of foreign portfolio and direct investments. Indian corporates created their fine footprints in the global markets not just through export efforts, but also through their investments in new enterprises as well as through mergers and acquisition of some of the giant foreign enterprises. Her achievements in many of the infrastructure areas, especially telecom, power, roads, ports and airports have been remarkable. As in the case of host of services and manufacturing sector, it is the unleashing of initiatives, investments and enterprise of the private sector, including strategizing of public-

private partnership models, that have predominantly driven the development of infrastructure sector in the post-reforms period. The entrepreneurship has been flourishing, aspirations of the middle-class have been ignited, and even those at the bottom of the pyramid are raring to move up the income ladder.

What has also been the positive feature of this process of transformation is the rapid reduction in poverty ratio and lifting of millions and millions of rural and urban poor above the poverty line over the last twenty-five years. There could possibly have been much better trickling down of benefits of acceleration in growth momentum during this period. But, unfortunately, that has been thwarted by several structural rigidities of the economic system. Thus, there remain formidable issues of inadequate employment growth and growing trends towards contractual and informal sector job creation. But such fault-lines and inadequacies can be combated with more reforms, more focus on good governance, and more positive thrust on promoting and protecting responsible free enterprise system in the country.

Against this brief backdrop of the developments of the post-reforms period, the stage is now set to crystal- gaze into the next 25 years. Our endeavor

is to sketch the likely 'shape of things to come' keeping in view economic performance of the recent past, the policy framework that is already well-entrenched or evolving, and some emerging realities, which would have a strong bearing on India's socio-economic fabric for years to come. Our endeavour is to highlight the centrality of eight potential transformational determinants of India's emerging economic resurgence. All these features have already begun to define decisively India's economic landscape. While doing so, we have taken adequate cognizance of strengths and weaknesses of our developmental process, and also of the as-yet-untapped potential of India's economy, businesses and vibrancy of her middle-class and young population.

We are convinced that India has now established all the sinews of potentially achievable annual economic growth rate of 7 to 7.5% in a longer-term perspective. Already, she is the seventh largest economy in the global league with GDP of US\$2.1 trillion at current market exchange rate, and the third largest economy with GDP of US\$8 trillion in PPP terms. Her macro-fundamentals are sound and stable; and current investment capability is equivalent of at least around 35% of GDP. She offers four-dimensional secular promises of democracy, demography, demand and developmental agenda accompanied by good governance. Further, given her trappings



of large and growing markets, aspirational middle-class, proven entrepreneurial strengths, adoption and adaptability to modernization and technology, et al, she has emerged as one of the most attractive destinations even for foreign investments.

Also, there are some new striking features of her newly found outward orientation. No longer does India display any diffidence of early years of economic reforms in her quest for globalization. She proudly proclaims and commands recognition of her prowess in selected areas of manufacturing and services sectors – and not just in information and computer technology. No longer is she shy of opening up more and more areas of economic activities even for more intense global competition and participation. This stands in sharp contrast to winds of revival of protectionism gaining fresh momentum, and also, at a time, when headwinds of intimidating uncertainty are so stubbornly visible in the prevailing global milieu.

### **Some Emerging Contours**

In what follows, we will be indicating the factors, possibilities and the precautions, which need to be taken into consideration by policy-makers, and indeed, by all other stakeholders as well, to achieve the desired developmental objectives, and to ensure that India continues to stand counted in the affairs of global economic community.

- First, a significant learning of the last 25 years is that the broad philosophy and the fundamental spirit of liberalization have clearly been accepted and permeated throughout the length and breadth of India. In particular, the paradigms of an open economy, role of competition in promoting economic welfare, the dominant role of the private sector as the leading agent of economic change and the necessity of the withdrawal of the State from a host of activities, are no longer debated as fiercely as they were, when the reforms had just begun. In the last 25 years, we have had various political dispensations, including coalitions of political parties, ruling many central and state governments; and yet, barring a few instances of stoppages and protests, there has been no serious reversal of any liberal or pro-market economic policies. We are, thus, fortuitously placed in terms of the roles and responsibilities of the key stakeholders – the government, industry and business, including the new-age entrepreneurs of all hues, and the people at large – to take the nation forward. However, to realize our full potential as a nation, there is a lot more that must be done in the economic policy sphere and programs implementation without losing further time. And all that needs to be ably supported, enabled and facilitated by the polity of the day through effective governance to

ensure more equitable distribution of the gains of reforms.

- Second, the eight transformational determinants of economic resurgence are going to be the principal change-agents or 'game changers'. These are: first, demographic dividend; second, the imperatives of urbanization; third, PPP led infrastructure development; fourth, growth momentum via 'Make in India'; fifth, emergence of aspirational middle-class; sixth, flourishing entrepreneurship; seventh, financial inclusion; and eighth, competitive federalism.

There may be several more such transformational determinants will contribute greatly to the shaping the new Indian economic identity, which may have a distinct break from the past.

However, to translate these likely game changers into reality, it is undoubtedly going to necessitate path-breaking, often unpalatable, changes in public policy making; in economic and political institutional structures; in the sphere of regulation; and in the system of governance in general. Needless to say, a host of global factors – political, economic as well as geo-political, will have to be watched for, carefully and continuously, while charting and calibrating our course of action.

- Third, in this context it is important to recognize that the economic world outside India is fiercely

competitive and is likely to be even more so in the coming days/years. The global economy is yet to wriggle out of the ripple effects of Great Recession of 2008. Various forces, global developments and events are shaping the course of global economy in unpredictable manner. Evidently, the global economy is besieged by what is referred to as VUCA [volatile, uncertain, complex and ambiguous] environment. Multilateral institutions such as the WTO, IMF, World Bank, et al may perhaps witness a decline in their influence and power, but their comprehensive renewal or replacements have not yet arrived or even discernible. The architecture of evolving new global economic order is still very hazy and indeterminate.

Illustratively, it is not as yet clear whether WTO or the various trade treaties/RTAs would dominate the global trade. The multinational corporations and their global value chains would also have crucial implications for the developing countries and the businesses within them. Simultaneously, on the positive front, there are several 'global best practices' available which can be and need to be replicated. It could be in designing targeted welfare programs; it could be in building and maintaining of urban infrastructure or it could be in the ease of doing business. The Indian policy-makers and other stakeholders have to constantly navigate

these challenging global circumstances and situations. Needless to say, the imponderables such as threats from terrorism, extremism and other geo-political adversities also loom large to cause disturbing and destabilizing effects on our own future course.

- Fourth, although political commitment to economic reforms holds the key to success, there are instances where populism holds sway and economic logic is often relegated to the background. Such populism manifests in the impairment of fiscal and financial health of the economy. We have been witness to such situation far too frequently on grounds of political expediency, and we can brush aside such lurking threats only at great peril! Many seemingly 'unpopular' decisions may, in the long-term, prove to be economically desirable and more sustainable. In cherishing and preserving the democratic methods of consensus building, the government of the day needs to ensure that speedy, effective and timely decision-making should not be a casualty. The picture gets further complicated because of the proliferation of the dominant regional and state-level political parties and their 'championing' of 'local' interests. These stumbling blocks need to be overcome with courage of conviction by the government/s of the day, without giving in to

the vested interests and lobbies for short-term electoral gains.

- Last, the current happenings in the economy may have a few profound underpinnings that need to be taken cognizance of by various stakeholders. The effect of ‘force multiplier’ created by modern technology, especially in the digital world, has just begun to play out. The seemingly chaotic order today is or may be similar to when electricity was first invented, and the world at that time would have attempted multifarious application of the same. This current phenomenon will have an impact on two counts – first, the existing workflows across industries will get dis-intermediated or modified, aimed at driving efficiencies; and second, the disruption, due to new born technology will alter existing businesses in different but unknown ways. This, therefore, has become the common denominator, and current economic models may not be factoring it too well. There would be challenging issues concerning social tensions incumbent upon displacement of labour or loss of job opportunities and imperatives of re-training and re-skilling of not just the existing, but new entrants to the labour markets.

Let us reflect on this aspect a little more. The rapidity of self-employment movement, or what the Prime Minister describes as ‘personal

sector', is partly being led by the top talent in the country and backed by 'smart and patient' capital. Evidently, they are trying to solve some of the toughest issues facing the country and in some cases the mankind. There is enough density of these players, to believe that someday one of them will crack the code for the problems they are attempting. This large-scale activity is, in the process creating employment and value, which, in certain sectors, is multi-fold. The numbers are perceived to be only growing by the day. These in effect reflect the 'idea' part in the economy, which current measures of national accounts may not capture adequately. More so these attempts by the entrepreneurial ecosystem will actually converge periodically over success and these spikes may, all of a sudden, become visible to the world. We believe that this is where India's hidden potential is being translated on ground. Adding to this, the fact that all businesses today are not available to public markets!

Another unearthed element of the economy is the vast under-estimated unorganized sector in India. Unorganized or informal sector constitutes a critical part of the Indian economy. According to the Report of the Committee on Unorganized Sector Statistics, 2012 [a] more than 90% of workforce and about 50% of the GDP are accounted for by

the informal economy; [b] a high proportion of socially and economically underprivileged sections of society are concentrated in the informal economic activities; and [c] high levels of growth of the Indian economy during the past two decades is accompanied by increasing informalization.

There are indications of growing inter-linkages between informal and formal economic activities. There has been new dynamism of the informal economy in terms of output, employment and earnings. According to National Commission for Enterprises in Unorganized Sector Report [2008], lack of reliable statistics on the size, distribution and economic contribution of the sector has been a major constraint in providing a realistic understanding of the significance of this sector to the Indian economy. Absence of such crucial data has led to the neglect of comprehensive development planning and policy strategy.

Under the changed circumstances where informal sector is increasingly interlinked with the formal, and plays pervasive role in the economy and in the livelihoods of the people, it is imperative to improve the information base of the sector. It is necessary to build a comprehensive statistical base on various dimensions of the informal economy as an integral part of the



national statistical system. Once the large chunk of unorganized sector is brought under the organized mainstream, the real prowess of the economy would be understood more clearly. All these trends should be viewed as a submarine moving underneath the economy and the sense of exuberance conveyed by the eight building blocks identified earlier would only be accelerated with the submarine!

### **India @ 2040 – What Size and Shape?**

At the very outset, we must recognize wiser counsels of many hardcore economists and forecasters, who constantly keep cautioning about the limitations, and often the futility of long-term forecasting. Doubtless, there is a lot of substance in their arguments. Also, we must carefully listen to what Ruchir Sharma in his latest book *“The Rise and Fall of Nations”* has observed: “The crisis [**that is the global crisis of 2008**, the emphasis is ours] turned the world on its head, disrupting trade and money flows, unleashing political revolts, slowing the global economy, and making more difficult to discern which nations would thrive and which would fail in such a transformed landscape”. Further, he also asserts that “every nation is equally vulnerable to the cycles of boom and bust that kill most runs of strong economic growth... The waves of crisis following 2008 global meltdown crippled many economies, weak and strong, developed and developing. Following the

well-established patterns of economic development, the new stars of a new era are likely to emerge from nations that are overlooked as scavengers and slow-footed vegetarians and whose rise is starting without a lot of hype”. In the closing observations of his book, Ruchir Sharma also refers to the research work of a noted psychologist, wherein the author Philip Tetlock in his book *Superforecasting* presents “evidence confirming both the obvious point that forecasts get less reliable the farther they reach into the future and less obvious point that they become no more than accurate random guesses beyond five years”.

Nevertheless, several eminent planners, economists, and even Nobel Laureate Lawrence R. Klein have since yesteryears ushered and often used modern statistical and econometric forecasting models in an attempt to predict the future. There is inherent belief that the forecasting is a *sine qua non* of long-term planning, strategic thinking and transformational directions. Such efforts build certain degree of predictability and enables building confidence and definite degree of certainty about the economy’s future. Businessmen, professionals, households and individuals normally feel more positive and optimistic in planning their future in such an environment. Their decisions tend to become more efficient. Admittedly, there often could be possibilities of several fault-lines thanks to likely inaccurate forecasts; and whenever they

underestimate or overestimate the likely occurrence, thereby incurring additional pains or costs. They may lead the economy go astray. Yet, forecasts are considered crucial for all economic and business activity. Looking into the future involves uncertainty and risk; and the fact that forecasts may turn out to be inaccurate may create a serious dilemma for policy and decision-makers. Hence, it becomes inevitable to have inbuilt system of mid- period comprehensive evaluation and effect mid-way course corrections in conformity with the changing dynamics of socio-economic and political scenario.

We believe that keeping this perspective in view, NITI Aayog would be working on the 15-Year Vision document at the behest of Prime Minister Narendra Modi, who has also been reiterating the imperatives of ambitious goals and 'out of box thinking' on this subject. Indeed, there can be nothing more ambitious and aspirational than to envisage the long- term annual real GDP growth objective of 7.5% for the Indian economy not only for the next 15-year period, but also spread over the next 25 years. Critiques would certainly argue that such linear extrapolation of growth rate, based on the recent performance of the economy would be too simplistic and even foolhardy. However, we strongly believe that the focus on developmental agenda and its implementation, more broad- based national consensus on further reforms, strengthening of cooperative federalism, building up confidence

of various stakeholders, strategizing of the eight building blocks and more inclusive development strategy would make even impossible possible!

- Leaving that aside, at the envisaged annual rate of growth, we project that India @2040 would be an economy of US\$12.5 to 13 trillion at 2015 constant prices [2015 prices] in comparison with her present size of US\$2.1 trillion. With India's progressively maturing economy, her standards of living would be gradually edging up with high-middle and advanced economies. Consequently, her current multiple of PPP GDP would tend to slide down; and, based on our crude judgment, PPP GDP would still be at twice the level of GDP at market exchange rate, that is, around US\$25 to 26 trillion. This would be just about one-third more than the current size of Chinese PPP GDP of US\$19.5 trillion.
- Structural composition of the economy would shift furthermore strongly towards services sector, whose share would expand to 70% by 2040, while that of agricultural sector would drop progressively to much below 6 to 7% and industry sector would contribute to not more than 25% - almost the same level or even slightly lower, despite the best of success of the 'Make in India' manufacturing mission. This structural change would be in conformity with the current

economic pattern of many advanced countries of the world.

- At the projected growth rate, India's poverty ratio would certainly drop from the present 22% to less than 7 to 8% by 2040 even granting the possible revised definition up-scaling some of the parameters for determination of poverty, in conformity with inevitable changes in standards of living of an average Indian then. Admittedly, there would still be a large population of about 120 to 140 million, who would require extreme focus in terms of social welfare programs aimed at alleviating their absolute levels of poverty. Even so, one would envisage millions and millions of India's population would be lifted very much above the poverty level incomes; and most of them would gradually turn into strivers and achievers.
- By 2040, Indian middle-class would expand – perhaps more than double – to, say, between 450 to 500 million strong. The consumption standards of this class would unleash the demand for whole set of consumer goods, consumer durables as well as high standards of housing, education, health care, entertainment and recreation services, et al.
- To support the size of the economy of 2040 and rising standards of living of the people, would transpire into massive development of basic and

infrastructure industries over the next twenty-five years. India@2040 would experience at least four-fold growth in consumption of finished steel to about 320 to 350 million tonnes [as against 80 million tonnes at present]; four-fold expansion in cement consumption to about 1250 to 1300 million tonnes [as against 320 million tonnes at present]; and five-fold expansion of electricity consumption to about 5500 billion units [against little under 1100 billion units at present]. Even with such massive dimensions of consumption of such infrastructure industries, India@2040 would still be about half of what the China's current gigantic consumption levels of the very same goods.

- Finally worldwide, education in general and higher education in particular have been significant growth-enablers. The demographic dividend that India currently enjoys has a flip side in that we need to educate the youth with modern and relevant skills so that they become employable, and still better, turn into employers. The current state of our higher education system is too well known. By 2040, with the efforts of the concerned stakeholders – both public and private - we have to strive as a nation, to ensure that at least 5 of the Indian universities are ranked in the top 100 globally, and several others moving towards institutions of excellence. This is certainly achievable, if we

progressively reduce red tape, infuse fresh air through entry of private and foreign universities and curb the excesses of private as well as public predilections in this holy field.

Already, the private sector has 'arrived' in the higher education domain in India. Persons like Azim Premji have shown that if there is an enabling environment, a socially committed and dedicated individual can do a lot of constructive work in the field of higher education. But, clearly, we need far more exemplary personalities like him to address the huge scale of challenges in the sphere of education in general, and higher and advanced knowledge education in particular. We believe that the prevailing mandatory provision of corporate social responsibility will not remain as an exercise of compliance and tokenism, but transform into genuine and conscientious initiatives and efforts to mitigate the inadequacies and gaps in India's social sector needs.

### **FORUM's Ten Point Agenda**

Having taken such a broad-sweep crystal-ball gazing of Indian economy by 2040, we would like to conclude by setting out the following Ten Point Agenda for shaping the future and strengthening the foundations of free enterprise going beyond our current journey of economic liberalization:

- First, it is the most opportune time for the NDA Government to evaluate the need for setting up Ministry for the Future. This thought is briefly conceptualized by a columnist Gautam Bhatia, in his recent Times of India article, citing the example of similar ministry in Sweden. It has been pointed out that Sweden's Council for the Future examines methods of cooperation between countries, ways to reconcile competitiveness, employment opportunities in emerging fields and new forms of inclusive development. All of this sounds so much relevant to the emerging Indian scenario, albeit this thought may seem somewhat vague at this stage and too futuristic. But FORUM strongly contends that this can become an integral part of the new format of NITI Aayog, which the Prime Minister wants it to think out of box and also to engage seriously in formulation of 15-year vision document for the country.
- Second, FORUM has now intrinsic faith in the success of the path of the economic reforms currently being pursued by the NDA government and also envisage that the process of reforms and developmental agenda would progress further and their constituency would expand throughout the nook and corner of the country. What we are genuinely concerned about is the consistency and progress of implementation Also, there are now numerous



flagship programs on developmental side as well as on pro-poor social welfare or inclusive strategic side. Hence, we believe that implementation and implementation alone would be the key towards accomplishment of our ambition of becoming economic super power in the global league going toward. For this purpose, it is also necessary that various policies and programs must proceed in tandem and cohesively.

- Third, it is imperative to strive towards more enduring sectoral stability, as the transformational changes would lead to secular and sharp decline in the share of rural economy in general, and the agricultural sector in particular. In a scenario of “as is condition”, there is a virtual certainty that India would be 50% plus urban by 2040, accounting for perhaps three-fourths of national output and income emanating from vibrant manufacturing and services sectors.

For the past many years, several of our eminent strategic thinkers, scientists and economic planners have put across their concerns about likely aggravation of adverse implications on socio-political and socio-economic milieu of our country as a result of such sectoral distortions. Indeed, many ideas and programs are currently being experimented or being conceptualized to mitigate the challenges of rural-urban divide,

such as [a] PURA [Providing Urban Amenities to Rural Areas], so passionately advocated by our former President, Dr. A P J Abdul Kalam, and which has also grabbed the attention of some of the states; [b] Krushi Vidnyan Kendras; or [c] recently articulated concepts of CILLAGE [city in a village] and AKRUTI [Advanced Knowledge-Based Rural Technology Initiative] by Dr. Anil Kakodkar.

The essence of all such great ideas is to enhance standards of municipal amenities and services and social and public utilities, including rural connectivity, education and health, social welfare in rural areas and create conditions to raise the income of rural society to become comparable or if possible even better than what is possible in urban areas. Indeed, Dr. Kakodkar argues that rural habitat can transform with knowledge-based technologies, which would allow “a much higher degree of democratization and decentralization”. He further points out that with technology like 3D printing backed by a strong communication infrastructure, manufacturing could well become a more decentralized process. Under such conditions rural economy could well become the preferred alternative even for industrial activities on account of greater proximity with nature provided there is adequate infrastructural support.

FORUM, therefore, suggests that there must be a holistic evaluation of a host of various missions/ programs that are currently being geared or articulated for rural sector. Equally importantly, the transition towards urbanization need to be navigated far more efficiently and effectively than in the last couple of decades. Keeping in view the perspective of next twenty-five years, the focus should be to avoid aggravation of rural-urban divide, going forward.

- Fourth, FORUM strongly makes a case that quest for fiscal and financial stability must move harmoniously together. This is crucial not only for macro-economic stability and sustainability and for anchoring firmly inflation rate and interest rates structure, but ensuring adequacy of financing of long-term high economic growth. Of course, there are multiple dimensions of what fiscal and financial stability would imply. From FORUM's perspective, as regards fiscal stability, the bottom-line is that central and state governments together would move towards 'zero' revenue deficits – indeed, should even strive for revenue surplus; and reduce fiscal deficit to GDP ratio to be not more than 3.5% of GDP with obvious flexibility in the rarest of rare cases calling for counter-cyclical leeway of up to 1.5% of GDP on grounds of external crisis like situation [a la Global Great Recession of 2008/2009]. Simultaneously, the

quality of expenditure needs to improve with progressive reduction in revenue spending and corresponding growth of capital expenditure on social and physical infrastructure.

FORUM is greatly worried about the current challenges experienced by the Indian banking sector, especially the PSU banks – their serious impairment of balance sheets and high incidence of non-performing assets. Fortunately, things are changing with a whole set of recent measures by the government and the RBI, including strengthening of the capital structure of banks. But FORUM wants these efforts to be strengthened further, including more effective implementation of the recently passed Insolvency and Bankruptcy Code, which seeks to deal with insolvency of corporates, individuals, partnerships and other entities. For this purpose, legal apparatus to administer the code need to come into operation promptly. FORUM also strongly advocates the case for not just further disinvestment of PSBs, but also strategic privatisation of at least some of the nationalized banks obviously other than SBI, which is currently in the midst of effecting merger of its subsidiaries.

- Fifth, FORUM finds it imperative that our planners and policy-makers must provide extreme focus on transforming our education system with

a view to harnessing India's opportunity of demographic dividend of the next twenty- five years. We have to make our education system more effective for human resource development that entitles and empowers youth to become a prime mover to take the country forward. Every youth is capable of making incremental contribution to the growth of the economy rather than become a burden on the society.

This transformation needs to be perceived in the context of:

- [a] emerging shortage of skills in a variety of fields, be it modern agriculture, livestock and dairy farming, floriculture, manufacturing, construction or logistic management;
  - [b] knowledge era which pervades various spheres of science and technology, including internet of things and digital economy; and
  - [c] a host of quality services which the ageing societies of, say, the West and Japan require in large numbers from diverse areas of healthcare to personal attention; from financial services to managerial and legal services; et al.
- Sixth, FORUM is generally inspired by a host of well thought out 'Flagship Programs'. However, to convert these programs into a self-sustaining and win-win strategy for all stakeholders, requires political commitment across states of

India, as many of these are multi-state projects. No doubt, the movement on 'ease of doing business' has begun in right earnest. However, it has to be made much more inclusive - in a sense that the SMEs need to find it increasingly easy to conduct business without irrational and inconsistent policy and procedural hurdles and rigidities. Also, it needs to be recognized that the call for 'Make in India' should not degenerate into a sentiment of 'Make Everything in India', which is neither economically prudent nor socially desirable. The policy-makers should not succumb to the temptation of 'nationalism' or 'Swadeshi' in making economic decisions.

- Seventh, FORUM wants specific focus on strengthening institutions of regulation and governance. It is too well known that no amount of good economics can deliver the desired results, without effective governance. In this context, it is noteworthy that the NDA government has been making a brave attempt to back its developmental measures with the required government support, often in the form of e-governance. The unholy nexus of corrupt politicians and bureaucrats and corruptible businessmen has the potential to damage the entire system. The good and effective governance has to manifest itself, especially at the lower levels of decentralized and local administrative machinery, where the interface

with citizens is direct and immediate, especially in the delivery of public utilities, food grains through PDS, direct benefit transfer or other such services.

Herein lies the role of institutions. Recent economic literature unambiguously demonstrates that societies and even nations retain their long-term prosperity, if they have adequate and high-quality institutions in place. These are essentially growth-enhancing, market-enabling or competition-promoting institutions. Equally critical is the healthy interface and sustained relationship between the 'political institutions' and the 'economic institutions'. From the viewpoint of taking the reform program speedily forward, the role of institutions is of crucial importance because often they are the vehicles through which effective governance is delivered.

Regulation is also critical. Although 'licence-permit-control-raj' is history, there is a pivotal role for regulation without 'inspector-raj' in a market economy. A significant aspect of regulation is in curbing anti-competitive behavior, anti-consumer cartels, et. al. On the macro-side, however, the role and functioning of Independent Regulatory Agencies (IRAs) is critical in the delivery of physical, financial and other infrastructure such as – electricity, insurance, telecom, ports, civil

aviation, water resources et al. In India, so far, the results of IRAs such as CERC, IRDA, TRAI, et al have been mixed at best. Going forward, the success of economic policies in achieving the desired results would be critically dependent on these three parameters and the interplay among them - governance, institutions and regulatory apparatus.

The healthy interface among institutions, regulation and governance form the core of successful implementation of any economic policy. Such apparatus will have a very crucial role to play in protecting the legitimate interests of all the stakeholders and in ensuring timely delivery of the public utility services at realistic rational prices and in a transparent manner.

Further, inducting laterally proficient technocrats in the process of implementation would go far. Institutions like the Competition Commission of India also need to be strengthened. One of the critical aspects relates to the 'capacity building' in/of these institutions. Very often they are manned or headed by former government officials or retired bureaucrats. It is necessary to induct fresh professional talent at various levels in these institutions. Similarly, institutions of governance are also equally important. And, as Prof. Avinash Dixit has argued, government is one part of governance. Other stakeholders including



business and industry also need to enforce code of conduct and effective self-governance measures and systems. As discussed in one of our previous chapters, corporate governance reforms also need further strengthening.

- Eighth, FORUM believes that judiciary reforms are one of the key pillars of transformational changes, without which economic reforms alone will not deliver the desired results. The reforms in judiciary are required to ensure timely and affordable effective delivery of justice, especially in commercial cases, which would in turn enhance India's status in 'ease of doing business'. Further, the access to justice should no longer continue to be an illusion in a country where predominant section of population is below poverty line or belong to low-income strata, which cannot afford the cost of legal support and services.

It is well-known that currently, due to the inadequacy of judiciary infrastructure including number of courts, availability of judges, case management system, et al, millions of cases are pending in various courts of India for the past many years. Mere enactment of stricter laws and rules alone would neither transform India into a significant player in a globalized market nor would ensure more jobs and inclusive developmental process.

The FORUM, therefore, recommends that it is imperative to give judicial reforms the primacy of focus to enable India to truly fulfill its Constitutional commitment to secure economic and social justice to its citizens at large, and to facilitate high economic growth through effective and speedy enforcement of laws and contracts. But the approach must be systemic and not piecemeal, with due emphasis on prioritizing and sequencing of judicial reforms within a rigorously imposed timeframe. We also contend that Central Government must use the forum of National Development Council and/or Inter-State Council to take the state and local governments on the board, as dispensation of justice at the decentralized level also assumes far more crucial importance.

- Ninth, the global economy is currently in the midst of dynamic uncertainties. The advanced countries are dealing with their own set of home-grown problems such as - slowing growth, massive inequalities and socio-economic disparities; declining productivity levels, stubborn unemployment, et al. In addition, the problems of international migration and fallout of Brexit have further accentuated the existing uncertainties. Many international organizations such as the IMF, OECD, WTO, et al. have already forecast a slower global output growth as well as world trade growth during the current

and the next year. In some countries and in some prominent quarters, there is a proposal for rethinking on globalization; and there is evidence of protectionist barriers also being erected.

In such a situation, while it may be tempting for Indian policy-makers to renege on the path towards more international integration, but such a strategy would be self-defeating and counter-productive. As and when the wheels of the global economy return to growth, we would have lost big opportunities by shutting our doors to overseas engagements. Wisdom, therefore, lies clearly in pursuing 'calibrated globalization'. India has a lot to gain, not lose, by global economic interaction and our own recent history bears testimony to this aspect. Globalization needs to be looked at as an affirmative good rather than as a necessary evil.

- Last, to strengthen the market-driven economy and free enterprise system, the FORUM would like to recall and endorse eminently articulated four key points from the Thirteenth Nani A. Palkhivala Memorial Lecture delivered by the then RBI Governor Dr. Raghuram Rajan in February 2016. These are: [a] ensuring a level playing field with easy entry and exit - and that competition leads to efficient outcomes; [b] the protection of property rights; [c] a broad access to the capabilities that allow individuals

to function in society; and [d] provision of basic safety net.

## **In Summing Up**

To conclude, a lot has already been said about our twenty -five year journey of post-reforms era, in terms of policies, performance and the potential that lies well within our reach thanks to our advantage of eight building blocks - and if we implement the FORUM's agenda in its true substance and spirit. India surely needs more inclusive and more sustainable, yet faster growth. The journey of the next twenty five years will depend on ideas that are still evolving and need to be applied with considerable understanding and deftness to define progress, sustain development and govern our societies. At the same time, issues of risks to the environment and social harmony are grave and have to be resolved with passion and compassion. India's economy by 2040 must be tempered by recognition of the societal and environmental risks that are now evident and can derail conventional patterns of economic growth.

Circumstances and conditions that governed the launching of economic reforms twenty-five years back were different from conditions that are prevailing now. The State is generally on the retreat from its commanding and dominant position in planning and development. The private sector has become the driving and dominant force - it has

become much larger; and it is the engine of growth for the economy. The Indian political firmament has become more diversified and more complex with many strong regional parties and coalition governments have become the norm in the system of governance. With dynamic and unpredictable change in the world - often turbulent, uncertain and complex - the challenges of shaping the future are becoming more daunting.

India will be most secure in times of uncertainty if it is internally cohesive, stable and strong. Therefore, strengthening the Indian economy and society provide the keys to the strategies for India to weather the turbulence around the world. India will be in a stronger position to influence the change in the world when it is internally more cohesive, stable and strong. Hence, when the world around is changing, India must concentrate even more rigourously on administrative, regulatory and institutional reforms from within.

In such emerging contextual framework, we strongly believe that the Indian enterprise should remain genuinely 'free' - free not only from government's disrupting interference or influence, but also free of and free from private vested interests, from cronyism and from the unholy nexus of politicians-bureaucrats-industrialists.

As we complete the 25 years of a unique phase in nation's economic history, the next twenty-five

years are bound to present us with new, unforeseen challenges - globally as well as at home. If we commit ourselves to the tasks that we have briefly outlined in our analysis, we could possibly emerge as a global economic force to reckon with. But even more important, by 2040, we would have demonstrated to the entire world that parliamentary democracy, market reforms and inclusive socio-economic development can and do co-exist and India can regain her ancient glory and prosperity by embracing and not by discarding or tampering with the philosophy of FREE ENTERPRISE.

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*“People must come to accept private enterprise not as a necessary evil, but as an affirmative good”.*

**- Eugene Black**  
Former President,  
World Bank

# FORUM

## OF FREE ENTERPRISE

The Forum of Free Enterprise is a non-political and non-partisan organisation started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems through booklets, meetings, and other means as befit a democratic society.

In recent years the Forum has also been focusing on the youth with a view to developing good and well-informed citizenship. A number of youth activities including elocution contests and leadership training camps are organised every year towards this goal.

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