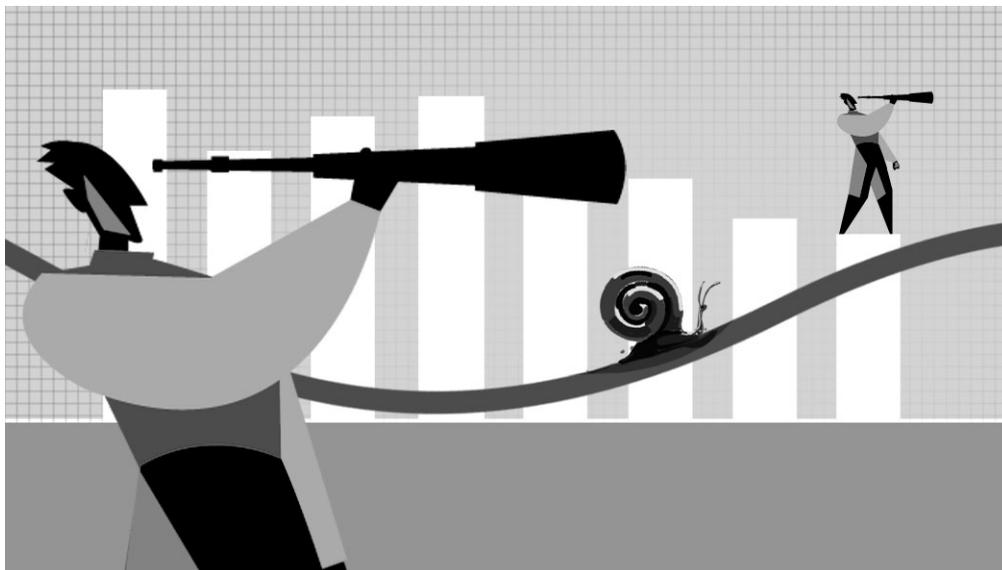


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Three-page notes considered harmful

In each major area of public policy, we need intellectual capabilities in understanding where things are going wrong, and in building a strategy for change

There is a fresh interest in finding our way out of the malaise of low growth, which has afflicted India from 2011 onwards. The economy or any problem within it has many moving parts. While there is an appetite for policy measures, these will not do the trick. A solution that can be written up as a polished three-page note is one that does not get to grips with the problem. Ministers and officials are keen on action and there is a cult of speed, but there is a distressing performative element. What is required is a deeper diagnosis of problems, planning out the full change required, and establishing teams that have intellectual capacity, empowerment, and longevity.

“Isomorphic mimicry” is thinking that something produced by a government agency and called “GDP” is a measure of macroeconomic conditions. The best measures of macroeconomic conditions in India are the quarterly data on revenues of listed firms, and the projects outstanding data in the CMIE Capex database. These show that India hit a period of low growth starting in 2011-12.

In recent months, there is an increased recognition that the economy is faring badly. This has given renewed vigour to the search for solutions. Many in the policy community are writing or reading policy proposals. The typical policy proposal that is handed around is a three-page note. This approach does

not work.

Our policy and public administration machinery in India is in a shabby mess. We are not at a mature state where all that is required is polishing the apple. The economy, and the state, are complex creatures with many moving parts. We need the intellectual capacity to see the moving parts, and think through the programme for change.



SNAKES & LADDERS

AJAY SHAH

Consider the banking crisis. What’s the magnitude of the equity capital shortfall in Indian banking? Why did things come to such a pass? How can we reduce the damage caused by the banking crisis? Why does the RBI regulation of banks result in failure? Can PSU banks work well if regulation is fixed, or is privatisation essential? What is the bargain to shoot for, where taxpayer resources are exchanged for banking reform? A coherent understanding of this full picture is required in

order to grapple with the problem. There are many moving parts. We need to go to the root cause to solve a problem, and also to find the lowest-cost solution to a problem.

The banking crisis is just one of the issues facing the country. The stagnation of investment, the decline in private infrastructure investment, financial sector reforms, reforms of tax policy and tax administration, the judiciary, the criminal justice system, etc: Each of these areas requires grappling with com-

plexity. Three-page notes do not solve problems.

Why do three-page notes rule the roost, despite persistent failure in achieving outcomes? The first problem is about intellectual capability in public policy. The quality of teams has declined, and weak policy teams are in their comfort zone when debating and implementing three-page solutions.

The second issue is the cult of speed. There is a lot of rhetoric around the notion of an “action-oriented government”. There is an element of theatre in making announcements, which are hailed by a media that does not know enough to ask supplementary questions. Cleaning the Ganga is to get done in two years, and the banking crisis is to be solved in six months. This encourages the search for three-page notes.

A third issue is the disproportionate role of engineers and IT. For many problems, the solution that is offered is computerisation. Nobody objects when the action proposed involves bringing in an IT team. However, most problems of public policy in India cannot be solved by a thin layer of computer technology. What we need is not mere improvements of plumbing, but deeper change. As an example, in 1991, a single-window IT system overseeing industrial licensing was not the answer; abolishing industrial licensing was the answer.

We proudly say that India is now an emerging market (EM). We assume that India is now more like other emerging markets and less like other developing countries. However, the essence of being an emerging market is a leap in state capacity. Emerging markets exhibit a different level of capability in thinking about, and implementing policy. When I started at the Ministry of Finance in 2001, I felt that there was a process afoot where we were building a treasury that would one day look like an EM treasury, a central bank that would look like an EM central bank, etc. The process of building state capacity has, in many important respects, gone into reverse.

We are in dangerous territory, with a \$2-trillion economy and the institutional capacity of a developing country. As an international visitor said to me a few years ago, he came to India expecting to see something like China, and instead found something that looked like Indonesia.

What is the way forward? In each of the major areas of public policy, we need deep intellectual capabilities in understanding where things are going wrong, and in building a strategy for change. This must translate into a legislative and executive track. On the legislative track, we need to draft high-quality laws and carry them through the legislature. On the executive track, we need to build organisation diagrams and process manuals. Pulling these things off takes years; we should not crowd out the slow long process of fundamental change by insisting on quick results.

This requires the development of teams that combine intellectual capacity, empowerment, and long-time horizons. Each success story in reform from 1991 onwards has a set of key persons (inside and outside government) who took it upon themselves to solve problems at their root. Such teams have to be fully immersed in the problem, have acute situational awareness, and be able to make tactical moves every day as part of a larger understanding of the long-term direction.

The writer is a professor at National Institute of Public Finance and Policy, New Delhi