Economic Liberalization: An Analysis of its Benefits and Pitfalls

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This paper seeks to analyze the benefit of economic liberalization, and at the same time also suggest safeguards, as we proceed rapidly on the path towards economic liberalization.

Understanding Economic Liberalization

To put it in the simplest possible terms economic liberalization implies creating a free and deregulated or liberal economy which is the opposite of a socialist economy which is a highly state controlled and regulated economy. In the socialist economy the state enjoys commanding heights. The state itself owns and manages the key or mother (capital-goods) industries; while other industries that remain in the private sector are subjected to extensive state control and regulation. Again, in a socialist economy, the state itself undertakes to provide essential services like healthcare, education and water supply, rather than let the private sector do it.

Now there are two ways in which a socialist or regulated economy can be liberalized: one by privatization and two by deregulation.

Privatization primarily means the sale of state owned enterprises; but it can also refer to the contracting out of a service, say, distribution of electricity or transport to a private party or parties. The idea underlying privatization is to expose the public sector production process to free market forces. In other words, the idea underlying privatization is to replace a system in which government owned monopolies manufacture goods and provide services, by a free market in which private players are freely allowed to compete with each other in manufacturing goods and providing services.

Deregulation, on the other hand, means many other things. Among these important are (1) easing and reducing the large number of rules under which private firms or an industry operates, (2) allowing private players within a particular sector to expand production freely; for example, let Tatas produce more trucks, if they deem it feasible and profitable, without obtaining prior government clearances as they had to do earlier, (3) opening up the sector to other entrants; for example do not confine the field of manufacturing trucks (heavy vehicles) only to one Tata company (the erstwhile Telco) but open up the field to other players/competitors (say Ashok-Leyland or Bajaj) should they choose to take on the Tatas and compete with them in providing better or cheaper trucks and heavy vehicles, (4) allowing existing players in one sector to diversify into other sectors; for example do not confine Tatas (again I have in mind their erstwhile company, Telco) only to manufacturing heavy vehicles or trucks but give them freedom also to make cars or even two wheelers should they choose to do so. Or for that matter, let them diversify into totally new sectors of their choice be it telecom, pharmaceutical or aviation if they think such diversification is viable and profitable; and lastly (5) having fewer restrictions on prices. Let the manufacturer or service provider have freedom in fixing the price for his product or service bearing in mind what is fair and what the market can bear.

As can be gathered from my definition of Economic Liberalization, I am viewing it primarily as a national or domestic economic ideology which seeks to replace the earlier ideology of Nehruvian Socialism in which the government owned and managed companies, known as Public Sector Units (or PSUs in short) played the major role in producing goods and providing services, thereby enjoying the commanding heights in the economy.

Why industries were regulated in the first place?

If currently most countries are in the phase of deregulating, privatizing or liberalizing their economies, the natural question that comes to our mind is why, in the first place, were domestic economies so heavily regulated in most countries? We must not forget that before Prime-Minister Margaret Thatcher in UK, President Reagan in USA and Prime Minister Nakasone in Japan began liberalizing their domestic economies in

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the 1970s, most of these economies were regulated.

The reasons generally put forward for regulated economies were primarily three. Firstly, there was the strategic argument. Some industries were seen as key to the military strength of a nation. Steel, energy, communications and aerospace are examples of industries that were frequently brought under public or state ownership for reasons of national security. Many other industries were seen as natural monopolies and it appeared impractical to have competition in public utility sectors like water supply, electric supply and gas, transport and telecommunications.

The second argument put forward by the protagonists of a state controlled and regulated economy was the market inadequacy argument. Governments took over several manufacturing and service sector industries in the private sector on the ground that the private sector free market was not allocating resources efficiently. It was argued that private sector was investing in sectors where profit margins were high but social utility low such as perfumes, luxury hotels, even unhealthy tantalizing entertainment (TV or cinema).

Finally, there was the ideological argument in favour of regulated economy. We cannot overlook the fact that state control and regulation were embedded in the ideologies of many left wing parties; for example the Communist parties that ruled the erstwhile Soviet bock, the Labour and Christian Socialist Parties that ruled in England and continental Europe, and even the early Congress party which was committed to Nehruvian Socialism. Left ideologies honestly believed that the benefits from the efficient operation of the enterprise should go to the whole population and not just the private owners. Left ideologues also honestly believed that private ownership of the means of production gave too much power to private parties of hiring and firing workers.

The costs of regulated economy or why the need to liberalize arose

Having seen why economies in the pre World War II period, and a decade thereafter were heavily regulated, the next logical question that follows is why did the major economies begin to deregulate or liberalize? After all, we cannot forget the fact that regulated economies and its academic fallout, Welfare studies with text books like ID Little's *Welfare Economics* and Laski's *Grammar of Politics* were the staple food of thousands of graduates in India throughout the nineteen forties, fifties and sixties. Why then did the new generation intellectuals, from 1970 onwards, begin switching loyalty to economic liberalization and free market economics? The answer is to be found in the gradual realization of the costs of such regulated or state managed economies.

I shall hence, devote some space to discussing the costs of a regulated economy. In other words how and why the feeling that we need to liberalize economies began to gain strength, first in the limited emerging globalized world made up of Europe, USA and Japan; and then gradually in the rest of the world.

My analysis of the costs of regulated economies shall be naturally India centric. Admittedly, at first, Nehruvian socialism performed the vital function of laying the foundations of economic development. For example, Nehruvian socialism took healthcare, education, transport to remote rural areas and the land reforms brought about a virtual agricultural revolution in India. However, with the passage of decades, it gradually came to dawn on many economists and knowledgeable citizens (producers and consumers) that state managed or over regulated economy could also prove damaging and hamper welfare and development itself, especially if the regulations degenerated into a vested interest for politicians and bureaucrats to enrich themselves at the cost of the really poor. Endemic corruption, inefficient allocation of resources etc., the very evils alleged to be part and parcel of free market economies, now appeared to many as inseparable features of the socialist/ bureaucratic/regulated state.

Let me list and illustrate the costs of regulated economies that had become open eye sores by the beginning of the 1990s.

Inefficiency and lack of innovation

Firstly, in the absence of competition, government run PSUs, as also many highly regulated private sector units, became grossly inefficient or worked far below their optimal efficiency. The example that comes to mind here is that of the Indian auto industry. Since independence till the dawn of liberalization, Indians had to put with one major licensed producer of heavy vehicles (Tata Trucks) and two/three licensed car manufacturers (Ambassador, Fiat primarily); and these enjoyed assured monopoly profits thanks to the government policy of restricting/forbidding new entrants and limiting the number of vehicles to be produced by each firm. What was the outcome? Year after year we had to suffer the same machine model, the same car-body with perhaps a change in the shape of the headlamp, while the rest of the world went ahead producing more fuel efficient vehicles, with improved gear boxes, brakes and safety devices. In the absence of competition, there was just no compulsion to invest in research, and/ or innovate and bring out cheaper and better models. It was not that our manufacturers lacked entrepreneurial ability, but that their abilities were stifled by the 'permit-license Raj'. Tatas appealed number of times to be permitted to increase their output so that the larger scale of operations would generate more profits for investment in research and development which in turn would enable them to bring out better improved models but in vain.

Absence of transparency/ corruption

Secondly, a state managed economy usually lacked transparency and accountability. A classic example of this is the Unit Trust of India (UTI). The famous Unit-64 scheme would year after year declare same or increased dividends but never reveal its true Net Asset Value (NAV). Many searching analysts suspected the NAV did not permit such hefty pay outs. But the UTI being government owned, its US-64 scheme was perceived by a gullible public as a government scheme with assured returns and not as an equity fund that would give its unit holders market based returns. With the scheme giving unit holders a higher return than warranted by its NAV, the inevitable finally happened. UTI became unviable and collapsed. That its sinking drowned the hard earned money of many honest citizens is a different sad story. The point I particularly want to emphasize is the fact that since UTI was government owned, and, functioned in a non-transparent and unaccountable manner, it made politically dictated and risky investments which endangered the security of the hard earned money of its unit holders among whom were many honest savers and innumerable senior citizens. In other words, absence of transparency encouraged corruption.

The absence of transparency in the functioning of government departments and PSUs encouraged corruption. Sting operations, like Tehelka, have revealed how under the table, exchange of money took place in several deals struck by political parties and government departments with private firms, domestic and foreign.

Bureaucratic management/red-tape/corruption

Thirdly, a state managed economy ultimately ended up degenerating into bureaucratic management characterized by red tape and other associated evils, including corruption. The bureaucracy often put its own or government dictated interest above that of the tax-payer citizens and the general public. A plethora of rules and regulations, an unnecessary large number of NOCs and clearances by different government departments led to red tape and delay which often killed a project. An example is the Tata-Singapore consortium's attempt to build an international airport at Bangalore. As the consortium met one requirement, another was insisted upon. For quite some years the consortium went on fulfilling new demands, while during all this time the cost of the project escalated. Finally, in despair the Singapore party walked out and the dream of a world class airport being put up by world class private parties evaporated into thin air.

In many other cases, manufacturing firms (including small units) willingly paid speed-money to hasten the movement of a file or obtain quick clearance. Corruption soon began to be perceived as systemic, something built into the bureaucratic system of management. In due course, speed-money (in plain language, bribing) began to be considered a necessary cost of production. The cost of red-tape/bribing was ultimately passed on to the consumer, who in the absence of competition was denied access to better and cheaper foreign goods and services. The principal beneficiaries were obviously the bureaucracy and the industrialists, who suffered no loss since the burden of high cost, less efficient products was ultimately borne by the Indian consumer.

Labour Militancy and Political Interference

Fourthly, many students of economic liberalization claim labour militancy and political interference as among the high costs that most of the regulated economies have to pay. In the case of India, I would like to illustrate these costs with reference to two PSUs, viz. Indian Airlines and State Electricity Boards, and the government's textile policy in the 1950s and 1960s.

In the case of IA, I would like to list the following reported facts as illustrative of labour militancy and political interference:

1. Pampered pilots and engineers have delayed flights or struck work on the flimsiest of grounds. On one occasion a pilot refused to take off, until the chief air hostess, senior in age to him and with whom he had had an altercation, was offloaded and replaced.
2. Ministers have been known to delay flights till they reached the airport. Ministers and bureaucrats have insisted on priority bookings for themselves, families and friends, even if this meant downloading booked (at times even seated) passengers.
3. Then we have reports of governments, ex-prime ministers and bureaucrats not paying for chartered flights used for private and electioneering purposes.
4. The monopoly IA enjoyed, emboldened its militant unions, to make demands like concessional flights for staff and their families even when the airline was making losses.
5. In May 2000 one MP (Janata Dal) on board an Alliance Airways hopping flight, Delhi-Allahabad-Patna, phoned on his mobile to the Aviation Minister (Sharad Yadav) requesting change in route so that he and his team could be dropped at their destination, Patna,

first. In other words, the aircraft was made to change its route for the convenience of the MPs who wanted to deplane at Patna first. The angry passengers did file a PIL and the court expressed displeasure at the behaviour of MPs and the airlines and also took special note of the fact that no passenger should have been allowed to use the mobile phone since it interferes with the functioning of the aircraft's electronic system.

6. Abusing and milking PSUs was not confined to these two PSUs. It had almost become a universal practice and habit among ministers and bureaucrats. An example from Goa may be cited here. Mr Rajiv Pratap Rudy, the Civil Aviation Minister in 2004 enjoyed a private Goan holiday with his family. However, the bill from the five star luxury hotel landed in the office of the state owned Airports Authority of India for payment. It was only when the newspapers raised the controversial issue of a minister milking a PSU, that the minister rushed to pay the bill from his own pocket.

In the case of State Electricity Boards, the following may be listed as the principal causes for the Boards being perennially in the red:

1. Populist measures for gaining votes such as politically mandated tariffs and giveaways to certain constituents even when they do not need subsidization like rich farmers.
2. Inefficient workforce often recruited on the basis of political (ministerial) recommendation, or, on grounds that merit is less important and must make way for recruitment of 'sons of the soil' even if found unsuitable. Little wonder, quite some SEB staffers indulge in absenteeism with impunity and in general show no innovativeness at work.
3. Corrupt practices within SEBs are by now legend. Staff (from top down to linesmen) are known for openly conniving at and even helping private parties steal electricity. An Economic Times editorial of 11th July 2000 stated that the annual commercial losses of SEBs add up to a mammoth Rs 2,000 crores, while the combined return on capital employed is a scandalous minus 20 per cent.

A final example of how the interventionist hand of government can make for unprofitable enterprise and its ultimate collapse is the case study of the Government of India's (GOI) textile policy. I outline below the various steps which destroyed the once flourishing textile industry which was the pride of India.

1. In the 1960s, textile units were forced to supply certain varieties of cloth at below cost of manufacture for distribution through ration shops to the poor. In actual practice the poor did not benefit, but the middlemen and dealers made a tidy profit collecting the cheap (subsidized) cloth against bogus ration cards and then selling it in the open market. For some time, so long as markets were buoyant and people had purchasing power, the textile mills made up the loss incurred on selling subsidized cloth to ration shops by charging extra to the buyers of the rest of their production. However, subsequently when the markets became depressed, the mills found it difficult to sell the free quota at much above cost price in the open market, and began incurring losses.
2. To add to the woes of the textile mills, the government refused the industry's request to expand and sell more in the free market. Even their suggestion to change the product-mix was rejected.
3. The last straw on the camel's back was when the courts ruled that bonus was a deferred wage which the mills must pay even if they made losses.
4. The industry now had no option but to seek government permission to close down or retrench workers. This too was turned down.
5. Finally the mill owners, with no scope for profits and facing mounting losses, simply moved away to other industries.
6. Faced with dying/rusting mills, the government decided to take over their management.
7. As expected, government failed to revive/run the textile mills with profitability. Nevertheless, the government insisted on running the loss making mills by incurring fiscal deficits. But for how long could it do this? The inevitable finally happened. Faced with unending deficit financing and bankruptcy, the government simply abandoned the textile mills to their fate.

The above steps outlined, clearly indicate how a government's meddlesome policy brought about the demise of a one time premier and flourishing industry.

Benefits of Privatization/ Economic Liberalization

Having seen the costs of a regulated economy, I would like to look at the other side of the same coin, mainly, the advantages of deregulation or privatization. And, I would like to illustrate the advantages by citing an example from UK which may be said to have pioneered the ideology of privatization (or deregulated economies). The example is that of British Electricity, a state owned monopoly involved in generation of electricity, which had become a white elephant, annually running into heavy losses and causing the state unsustainable heavy deficits to keep it running. It was to avoid bankruptcy and cut the drain on the British economy, which was rapidly sinking to the status of a second rate economic power in Europe, that the decision to privatize Electricity generation was taken.

Once the 'Iron lady' (Prime-Minister, Margarat Thatcher) privatized the nationalized electricity generation, the new private service providers, eager to cut costs and improve service, did what the government could never have contemplated or dared. The new private sector owners of British Electricity found that British Electricity was costly, primarily because it relied on using British coal to generate electricity. Now British coal (thanks to centuries of mining) was of inferior quality and cost much more to produce, when compared to coal imported from France. Hence the private service providers decided to stop using British coal and instead switched over to using imported coal from Europe and even gas. As a consequence of this act, the British coal mining industry collapsed and closed down. Miners went on a massive nation-wide strike to save their jobs; but the iron lady refused to yield. The beneficial results of this firm policy were clear for all to see. Immediately there was unemployment of miners who had to either live on doles or switch to alternate jobs; but in the long run the British as a nation got cheaper and better electric supply. What is more important, the continuous subsidizing of inefficient coal mining industry, which was not only making the treasury bankrupt, but was also dragging the British economy down, was halted and Britain was able to recover its lost status as an economic power of some significance in Europe and the world. Britain's oldest industry, mining, collapsed but the British economy, as a whole, gained.

The nationalization of British generation of electricity is one case study, I have cited. Other studies made show, how the privatization of British Airlines and Telecommunications, also led to improved services and lower prices thanks to competition and open market policies. What is true for Great Britain can also prove true for India, if privatization is undertaken in the correct manner and spirit. The privatization and opening up to competition, previous monopoly sectors in India like Insurance and Banking, are testimony to this fact.

Pitfalls of Liberalization or Necessary Safeguards

Now, what do I mean when I say India must embark on privatization or a policy of economic liberalization in the correct manner and spirit? What I mean is that we must guard against the numerous pitfalls that one is likely to come across while privatizing or liberalizing, and adopt adequate safeguards to protect ourselves from such pitfalls. Let me enumerate the pitfalls of liberalization which we need to guard against.

In the first place we must guard against undertaking privatization for the sole purpose of reducing fiscal deficits and realize that the primary objective of privatization is to promote competition and efficiency. The ultimate success of privatization can only be judged, when it succeeds in both reducing the unsustainable drain on the public exchequer, while at same time ensuring that goods and services are provided by private players at competitively determined fair prices. A lot will depend on what we do with the proceeds or money obtained by government selling its PSUs. If we fritter the money away on populist measures, or, worse allow it to be siphoned into private pockets then we will only be inviting disaster. The proceeds from the sale of PSUs, in my opinion, must principally be used to build infrastructure which would enable Indian private firms to become more competitive. For example, if the money is used to build more and better roads that will save fuel costs of transport for trade and industry, etc., then that will make Indian manufactured goods cheaper and more competitive, and this in turn will benefit the economy.

Secondly, since competition is going to create temporary re-allocation of resources, closure of inefficient units, and cutting down on surplus staff, we need to provide what Nobel Prize winner Amartya Sen, termed 'a safety net' for those adversely affected. We must provide 'a golden handshake' by ensuring that those opting for the Voluntary Retirement Scheme (VRS) are paid a decent sum of money. The sum of money must enable the voluntary retiree (who more often does not voluntarily retire but is subtly persuaded to retire) to have a decent standard of living after stepping down from office or work. The safety net also includes provision for private pension schemes being put in place before the present government pension scheme is dispensed with. The provision of a safety net also implies providing for universal education and healthcare for all (via private or public sector spending) so that in the long run every Indian is able bodied and capable of work.

Thirdly, timely re-training for new jobs is another safeguard measure we must adopt. As computers replace typewriters and ATMs replace old time cashiers, the old staff must be provided with re-training that would enable them to work with the new technology and be re-employed in the ever expanding banking industry. In this context, I would like to mention that the fear that widespread unemployment will accompany privatization is somewhat misplaced. For example, the new technology does enable the present behemoths, like the huge over-staffed PSU banks, to become thinner and leaner and employ less people per branch; but at the same time the new technology makes it cheaper to open and operate more new branches in urban and remote rural areas. As new computerized banks and ATMs crop up in every nook and corner, not only will the volume and profit of the banking sector go up, but also more newly trained staff will be required to man the new branches. If one looks at the phenomenal scope for banking to expand in India, one can gauge the new employment that can be generated by the expanding private sector banking in a free economy.

Fourthly, privatization or deregulating the economy does not mean that the government gives up its primary responsibility of steering the economy. In a liberalized economy, the government does not 'row' (own and manage) the economy, but 'steers' it. Steering the economy implies that the government cannot abandon its primary moral responsibility of ensuring that goods and services are provided to all citizens. Government's first option should be to allow private players to emerge from within civil society who would produce the goods and services the community requires. And so long as there is competition and scope for profit, the private sector will emerge. Some private players will emerge to cater to the rich and niche markets, while others will emerge to tap the massive middle and poor class market by producing appropriately lower priced and qualitatively different products and services. The really serious problem arises only in the case of those who have inadequate, or, no purchasing power to afford goods and services even when offered at cheap rates. And this brings me to the next/fifth safeguard, subsidies.

Fifthly, we need to retain subsidies and cross subsidies, where these are absolutely necessary to ensure that no section of society goes without the provision of goods and services. If a mass transport system like buses running on diesel, caters to the middle class and poor, it is only fair that diesel is sold at less than cost price and the company is allowed to make good the loss by charging appropriately more on sale of petrol used largely by the more affluent car owners. Likewise, in the field of medicine and healthcare, where due to absence of any purchasing power, the private sector is not going to enter, the government will have to provide subsidized or free healthcare and education, in the form of government run rural health centres or municipal schools. The cost, needless to say, will have to be borne by the exchequer which in effect means the affluent tax payers.

Sixthly, while liberalizing and privatizing our economy, we need to be on guard against imbalanced regional development. Since the private sector will naturally be first attracted to open shop in high spending areas or states, a very real possibility of neglect of underdeveloped or undeveloped areas being neglected cannot be ruled out. The state even in the liberalized economy, can take many steps to promote balanced regional development. One way by which government could ensure this happens, would be by compelling, for example, every profitable private airline which is operating three profitable routes, to operate one route to one underdeveloped state or area, the North East for example.

Where compelling highly profitable private firms to shift to underdeveloped areas is not feasible, the government will of course itself have to step in and do the needful as is being done in the case of the state of Jammu and Kashmir, expending money from the exchequer. To prevent the exchequer from going bankrupt; the government will have to consider surtax on the highest income bracket group or a special cess on purely luxury goods and services provided by certain highly profitable private sector players, like luxury five star hotels.

Seventhly, the state must have in place appropriate and strict environmental protection policies in order to ensure that private sector greed does not lead to ecological disasters. One such policy would be a ban on deforestation and positive encouragement to aforestation. Another example of government environmental protection policy, fully compatible with a liberalized economy, would be to monitor and punish private sector units/factories that pollute the atmosphere emitting too much CFC and other globally banned polluting gases, responsible for depleting the ozone layer and resulting in global warming. In other words, adopting economic liberalization simply cannot mean allowing a greedy and irresponsible private sector to make money at the cost of environmental degradation that harms the national and even international community. It is roughly estimated that about 70 per cent of our industries have failed to meet globally prescribed environmental production norms. A de-regulated economy is not an economy without any regulations whatsoever; it is an economy with the correct regulations that protect environment.

Eighthly, a liberalized economy needs the safeguard of a sound competition policy that would protect the consumer by debarring unfair trade practices and providing a level playing field to all players. The demand for a clear enunciation of such a policy was finally met, when the cabinet approved on 26th June 2001, the much awaited competition policy based on the SVS Raghavan Committee Report. The new competition policy has three main ingredients. Firstly, it sets up a Regulator who will examine all cases of Acquisitions and Mergers (A&M) where the assets of a company are more than Rs 1000 crore and turnover more than three thousand crores. The aim is to help faster A&Ms, but at the same time prevent unhealthy competition. Secondly, it sets up a Competition Commission to deal with issues like price rigging methods, restricting supplies and distribution in the areas adopted by various producers, etc. Thirdly, regarding the procedure to be adopted for A&Ms, the cabinet decided that the prior permission for A&Ms, will be optional, but the government will enjoy the power to examine suo motto any case if it finds that competition is affected. By and large the competition policy has been welcomed as providing a necessary safeguard in a liberalized economy. However, one valid criticism made needs to be taken note of. Industries like oil and telecom have correctly pointed out that the figures of Rs 1000 crore assets and Rs 3000 crore turnover, are peanuts. Dominance, these companies argue, must be measured in terms of ability to distort prices and/or prevent entry and not in terms of size of assets and turnover. There is some validity in this argument because the ultimate aim of a competition policy should be to ensure 'contestable' markets, that is, an open economy. It can be argued that even if a company has 100 per cent market share, there really need be nothing to worry about so long as there exists the threat of entry of a competitor (or even imports).

The final and ninth pitfall we need to be on our guard as the government proceeds to privatize the economy is what may be called crony capitalism and crony regulators. Crony capitalism emerges when the government sells its PSUs to its cronies or friends at less than its market value and deliberately opts out of the process of getting the best price through a process of transparent bidding. PSU sales in many cases have been so indistinguishable from racketeering that former World Bank chief economist, Joseph Stiglitz once said 'most privatization is robberisation'. A recent case of such crony capitalism was well brought by the Comptroller and Auditor General of India (CAG) in his well documented latest report. It pertained to the sale of Mumbai's Juhu Centaur Hotel owned by the Hotel Corporation of India, an Air India subsidiary. I do not think I can do better than to put across the substance of the CAG's report to you by quoting from Praful Bidwai's syndicated middle article that appeared in Navhind Times (Panaji, dated 19th May 2005). Bidwai writes, 'A member of the board of a public sector airline owning hotels, himself a hotelier to boot, is appointed to advise the company on disinvestment. Having insider access to information about the hotel's assets and liabilities and strengths and weaknesses, the man then becomes the sole bidder for the property. The hotel is sold to him for Rs 153 crore, with PSU banks providing the bulk of the money. Meanwhile, the property's assessed value (reserve price) is mystically lowered from Rs 246 crore to Rs 102 crore by a hefty 59 per cent. Yet the buyer fails to come up with the money on time. He is given repeated extensions at the pleading of the Disinvestment Minister. Within just four months, the buyer gets an offer for the hotel from a multinational (Accor), which is at least 50 per cent higher than the price he paid. There could have been no more effortless, smoother, and more unscrupulous way of quickly making a cool Rs 75 crore at public expense!' As the well-documented CAG report makes clear, the hotelier is Ajit Kerkar and the minister is Arun Shourie, one of India's most ardent advocates of privatization.

Parallel to crony capitalism is the pitfall of crony or rogue regulators. Regulators are appointed to regulate the players in the free market and to ensure a level playing field. It is therefore very important that in a liberalized economy, we appoint independent and impartial regulators. Unfortunately, in India, regulators are not appointed by an independent agency, but by Selection Committees that are controlled by the political executive of the day. As a consequence we often find that senior, pliant bureaucrats are favoured for the post of Regulators. The Standing Committee of Parliament on Energy had recommended selection of regulators through the Public Service Commissions, but to no avail. One example of the appointment of a crony regulator is provided by Gajendra Haldea, the NCAER chief advisor, whose middle page article was published in the Times of India of 22nd June 2004. Haldea observes how the Government of Delhi blatantly went ahead to appoint a one man Regulator incharge or private power supply companies, a man who had no legal or financial expertise and who had a son who was on the payroll of a private licensee whose tariffs and license conditions the regulator had to determine. To drive home the gravity of the malpractice, I am tempted to compare it to appointing an advocate as a High Court judge, whose son is in the employment of a litigant, whose case the judge is going to hear. Another worrisome aspect of crony regulators in India is that they levy their own fees and spend them as they like. No legislative oversight has been mandated, contrary to established practices in developed democracies. The one man Regulator appointed by the Delhi Government mentioned above drew a daily allowance of 500 US dollars per diem while travelling abroad, and these expenses were dispersed by the Delhi Power Supply Company which came under his regulation. No wonder the term 'rogue regulator' has begun to appear in American management literature pertaining to privatization in the developing world.

To conclude, I would say, let us go ahead with economic liberalization or privatization because as shown, the costs of a regulated economy are indeed high, while the advantages of free competitive markets are obvious. But while doing so, let us move ahead with open eyes, fully aware of the pitfalls on the way to privatization and do everything necessary to safeguard ourselves from them. After all economic liberalization does not mean jobless growth or even growth for the benefit of only a few. Its success cannot be measured only in terms of increased GDP, trade surplus, profits and reserves. The factors for measuring its success must also include considerations like job-losses and inequitable distribution.