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ourview

Cry freedom

Some lessons from the latest Index of Economic Freedom

It is very easy to read all the wrong conclusions from the latest Index of Economic Freedom, which ranks 157 countries according to the freedom they offer their citizens to truck, barter and trade. The Heritage Foundation, a free market think tank in the US, and *The Wall Street Journal* (*Mint* published the index on Page 21 on Wednesday) publish the index every year.

Hong Kong, Singapore and Ireland top the charts. However, the world's two most dynamic economies—India and China—are among the stragglers at the back of the line. India's rank is 115. China is even worse, at 126.

So, what's all this fuss about economic freedom all about?

The Heritage Foundation website says that the economic freedom index "documents the link between economic opportunity and prosperity." The obvious conclusion from the latest index is that the lack of economic freedom in India and China does not seem to have affected their ability to

The world's most free economies are also likely to be among its richest. There are very few poor or lower middle-income countries in the top 25. Similarly, the poorest countries have the least economic freedom. For example, the countries in the top quintile have an average per capita income of $28,217 while those in the fourth quintile (which includes India and China) have a per capita income of $3,790.

It could also be spuriously argued that countries can afford economic freedom only after they reach a certain degree of prosperity; till then, the state has to drive economic affairs. This is patently untrue. India and China started hurtling towards prosperity only after their respective governments unfettered their economies to some extent.

The Indian and Chinese economies have expanded rapidly despite the relative lack of economic freedom because they are emerging out of a centuries-long trap of low productivity and low incomes

bility frontier. So, they have been able to close the gap with a minimal of economic reform and globalization. But as they catch up with countries that are currently more productive and richer, both India and China will have to learn to be more productive and innovate if they are to stay in the game. This cannot happen in a controlled economy. Japan's sclerotic economy is proof of the fact that long-term growth comes from economic freedom rather than from state-led development.

Let's stick to the Indian case from now on. Over the past decade and a half, despite

> We need a more fluid economic structure that will allow entrepreneurs to take risks and

JAYACHANDRAN/MINT

many false starts, the Indian economy has got a lot of its macroeconomics in place. Taxes are moderate. Protective tariff walls are lower. Most licensing has been consigned to the rubbish bin. There has been far less progress on the microeconomic front. Companies still struggle with a corrupt inspector raj. The freedom to start and close down a business is severely restricted. Labour laws are an incentive to employ fewer people and use more capital instead.

These are the really big issues that need to be tackled in the years ahead. In an essay written to go with the new

in the concept of economic fluidity. He says that economic freedom reflects the amount of fluidity in the institutional, organizational and individual elements of an economy. Such fluidity "allows the mixing of ideas and generation of innovation."

India needs a more fluid economic structure, which will allow its entrepreneurs to take risks and innovate. While macroeconomic freedom has considerably improved since 1991, there is still a lot of work to be done at the micro level.

That will allow India to move from a Keynesian to a Schumpeterian mindset.

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grow at spectacular rates. But look at another obvious correlation.

These two countries have been positioned well below the global production possi-

economic freedom index, Carl J. Schramm, CEO of the Kaufmann Foundation, brings

How shackled are Indian entrepreneurs? Write to us at views@livemint.com

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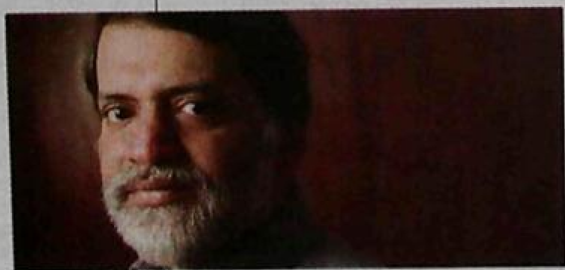
guestview

'OUR' SOCIALIST AGENDA: THE TIME TO OUST IT HAS COME



Barun S. Mitra
Director of Liberty Institute, an independent think tank based in New Delhi.

The world has come to admire India's democratic institutions. However, many may be unaware that in this, the largest democracy, all political parties have to profess the same political ideology—socialism. The Supreme Court has now asked the government and the Election Commission to explain this apparent paradox. Under the Representation of the People Act, all political parties in India have to pledge allegiance not only to the Constitution and integrity of India, but also to socialism.

The socialist intent of the Preamble has been extended by law to the Representation of the People Act, 1951, (RP Act) through an amendment in 1988. Section 29 A (5) of the Act now states that the application for registration "shall be accompanied by a copy of the memorandum or rules and regulations of the association...shall bear...allegiance to the Constitution of India...to the principles of socialism, secularism and democracy, ...uphold the sovereignty, unity and integrity of India."

Rajiv Gandhi's government introduced this amendment when the ruling Congress party enjoyed three-fourths majority in Parliament. The amendment was carried without any dissenting vote.

But at the root of this change, was the infamous 42nd Amendment to the Constitution, enacted by the Congress government under then prime minister Indira Gandhi during the days of national emergency, in 1976. The Bill had proposed nearly 60 amendments—one of these amended the Preamble to the Constitution to term India a "sovereign, secular, socialist democratic republic."

When the Janata Party formed government after the Congress lost the 1977 election, it sought to undo most of the draconian provisions of the 42nd Amendment, but retained the section that pertained to socialism and secularism in the Preamble. While Indira Gandhi wanted to lean towards socialist policies and diluted protection of property rights in order to pursue a more active intervention in the private sector, Morarji Desai's government actually deleted the right to property as a fundamental right from the Constitution in 1978. Clearly, there was an almost unanimous opinion in Indian politics that socialism was the preferred path for the country.

However, B.R. Ambedkar, the man who helped draft the Constitution, specifically gave his reason for non-inclusion of the word "socialist" when it was sought to be inserted in the Preamble by another member during the deliberations. Ambedkar did not want the Constitution to tie down future generations. He said in the Assembly on 15 November, 1948 : "(H)ow the society should be organized in its social and economic side are matters which must be decided by the people themselves according to time and circumstances. It cannot be laid down in the Constitution itself, because that is destroying democracy altogether... It is perfectly possible today, for the majority people to hold that the socialist organization of society is better than the capitalist... But it would be perfectly possible for thinking people to devise some other form...which might be better than the socialist organization of today or of tomorrow."

In 1950, when the Constitution was adopted, the Preamble read: "We, the people of India, having solemnly resolved to constitute India into a sovereign, democratic republic and to secure to all its citizens..."

Six decades after Ambedkar's caution, three decades after the amendment which added socialism in the Preamble and two decades after the change in the election law that made it mandatory for all political organizations in the country to affirm to the cause of socialism, there is now an opportunity to seriously reconsider this whole issue. The Supreme Court recently issued a notice to the government, in response to a public interest petition questioning the validity of the affirmation of socialism. The court wanted to know the practical and legal implications of having a socialist intent in the Preamble, as reflected in the RP Act.

> Countries where socialism was the only political ideology of the state inevitably degenerated into dictatorship

The Swatantra Party in Maharashtra has been trying to challenge this provision in the high court for more than a decade, with little success. If all political parties are to have the same ideology, we would hardly need multiple parties. If we don't have parties, there would be no need for contested elections. If we don't have free and fair elections, we won't have representative democracy. If we don't have democracy...does this path sound familiar?

What is at stake is not whether one believes in the tenets of socialism or secularism. At stake is the democratic and political process, which includes campaigning and convincing the people of any particular political ideology; and the freedom of the people to choose from the competing policies.

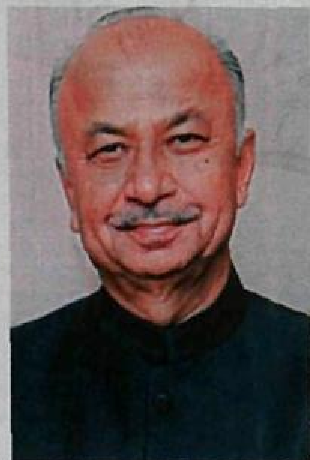
Democracy is not just about majority rule, it is also about the freedom enjoyed by those who hold a minority opinion today to win over their fellow citizens. Without that freedom, democracy cannot have any substance. It is no coincidence that countries which had incorporated socialism as the only political ideology of the state inevitably degenerated into one-party dictatorship. This can't be the goal of the most vibrant multiparty democracy in the world—India.

Your comments are welcome at feedback@livemint.com

INTERVIEW

Accelerating Power Development

For Union Minister of Power Shri Sushil Kumar Shinde, better access to electricity by 2012 is a dream that he is set to achieve by all means. Taking into account all possible negative points, the Minister concludes that "if we can cover the distance of a mere 1, 362 MW since the time of Independence, to 1,39,000 MW currently, the 2012 dream is a practical one." However, in all the ambitious plans, the Power Ministry hasn't overlooked the power deficit problem that takes place at peak hours and is quite focused on solving that issue as well. Excerpts from an interview:



Shri Sushil Kumar Shinde

Do you think infrastructure is the major hurdle in India's progress on the industrial front? How much of an influence does the power sector have in industrial growth?

I believe that today, the power factor is important not only for the urban section of society and for industrial development, but for other reasons as well. We should not underestimate the importance of power for the agricultural sector either. For a farmer, power is an integral part of their livelihood. Without power, they are severely handicapped.

> **"We are very optimistic and can say with conviction that during the 11th Five Year plan, we will be able to add 78, 000 MW of power."**

As the Union Minister of Power, what dreams do you have for the agricultural community of India?

India is mainly an agricultural country and hence, I feel that it is necessary to strengthen the position of our farmers. Keeping this in mind, my aim is to electrify rural India in accordance with the fast

time of Independence, to 1,39,000 MW currently, it is a practical dream and we can see it materializing. However, I will never overlook the power deficit problem that takes place at peak hours. We are quite focused on solving that issue as well.

What is your take. on private investment in the power sector? It does not seem to have proved fruitful so far, though expectations were very high. Have you identified any plans regarding the feasibility of the same?

We are slowly moving up the ladder when it comes to private investment in the power sector. The process might be slow, but we are getting positive results. The Electricity Act 2003 has completely opened up the power sector for private developers. The results are already showing with several private players entering the power sector.

Technically speaking, we have already formed an Inter Institutional Group (IIG). This entity mostly includes representatives of senior levels from the institutions of Finance and the Ministry of Power. The main objective of this body is to remove roadblocks and boost private investment in every

these, three projects have already been allotted to private companies, after bidding. These three projects alone account for Rs. 50,000 crore worth of investments by private companies in the power sector.

There appears to be a crisis in the supply of generating equipment. We have just one manufacturer, namely BHEL, and they are not being able to meet the requirement so far. How, do you reckon, this issue be tackled?

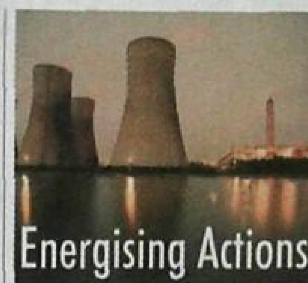
I would not like to pass any negative comments on BHEL. Till date, BHEL has been meeting demands, but all of a sudden, due to the unprecedented growth in demand, it is facing a problem keeping up with requirements. The time has come to find as many suppliers of equipment as possible. It is not fair to weigh down BHEL alone, which is our sole manufacturer. If required, we can also encourage foreign companies to set up base in India. I am sure this will definitely help tackle this major issue. Needless to say, the PSUs that have the requisite background and expertise in this field can also enter this segment as suppliers.

I would also like to state in this context that BHEL and NTPC have already started a joint venture in this regard.

The North Eastern region of India seems to have shown a lot of potential. Do you have any plans to work on generating power from these states?

The states in North East part of India are very rich in hydro-energy. However, their full potential has not been tapped. Nevertheless, now we are planning a long association with the North Eastern states. This will not only solve the power problem across the country, but will help in the over all development of these states.

In this regard, a Memorandum of Understanding (MoU) has already been signed with Arunachal Pradesh and different PSUs, namely, NEEPCO,



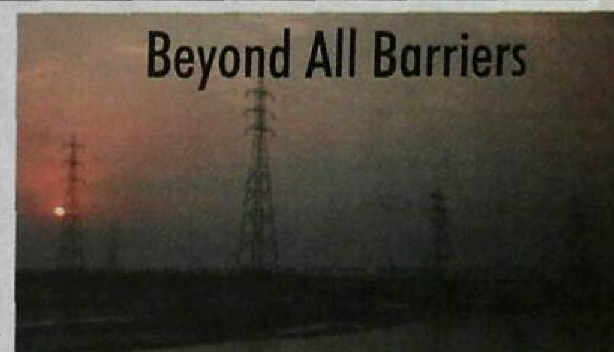
Energising Actions

Established in 1975, National Thermal Power Corporation (NTPC) is a premier Public Sector Enterprise. It is India's largest power utility with an installed capacity of 28,644 MW through 26 power stations including stations operated under Joint Venture Companies. NTPC has emerged as an integrated Power Major with presence in Hydro Power, Coal Mining, Oil & Gas Exploration, Power Distribution & Trading and also plans to enter into Nuclear Power Development. NTPC plans to become a 50,000 MW Company by 2012 and 75,000 MW plus Company by 2017.The Company contributed 29.25% of the total electricity generated in the country during 2006-07 with 20.71% share of the total installed capacity of the nation including capacity and generation of Joint Venture Companies.

For a balanced portfolio, NTPC Hydro Ltd was incorporated as a subsidiary company to take up small hydro projects. A lot of thrust is being given to hydro development for a balanced portfolio and a long-term sustainability. Some of its hydro projects include – 1920 MW under implementation at Koldam (800 MW), Loharinag Pala (600 MW) and Tapovan Vishnugad (520 MW). Presently, a few other projects planned for implementation are Lata Tapovan (171 MW), Uttarakhand and Ramman III (120 MW), West Bengal. Further, NTPC has signed MoU with Arunachal Pradesh for implementation of two Hydro Projects-Etalin (4000 MW) and Attunli (500 MW).

Not only that, responding to the concerns regarding climatic changes and pollution, the corporation has created a green wealth of more than 18.2 Million trees till March 2007. As a result, studies conducted through National Remote Sensing Agency, Hyderbad at Ramagundam, Farakka, Korba, Vindhyachal, Rihand and Singrauli reveal significant environmental gains in the vicinity areas because of sound environment management practices. Now, all plants are designed keeping in view futuristic norms for Suspended Particulate Matter (SPM) emissions.

NTPC Limited has initiated the concept of electrification of remote villages by setting up Distributed Generation projects and demonstrating a sustainable business model leading to integrated growth of villages for achieving the goal of "Electricity for all". The small power generation units set up in remote villages with the help of NTPC have transformed the social and economic outlook of people in those backward areas. Encouraged by its success, eight Distributed Generation Projects have already been commissioned in the States of UP, Chhattisgarh and Rajasthan.



Beyond All Barriers

Power Grid Corporation of India Limited (POWERGRID), the Central Transmission Utility of India, was established in 1989 with the mission of "Establishment and Operation of Regional and National Power Grids to facilitate transfer of electric power within and across regions with Reliability, Security and Economy, on sound commercial principles".

During FY 2006-07, Powergrid achieved a turnover of Rs. 4082 crore and a net profit of Rs 1229 crore. The Gross Asset base of the company has grown to Rs 29015 crore in FY 2006-07.

Powergrid has the distinction of being the first power utility and second company in the world to be certified with PAS 99:2006, integrating the requirements of ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:1999.

For optimum utilization of the available natural resources in the country, a National Grid is being developed by Powergrid in a phased manner, integrating five electrical regions, matching with generation capacity addition and growth in power

led to implementation of transmission towers with reduced right-of-way requirement, use of high temperature endurance conductor, remote controlled substations, application of FACTS, compact substation layout, design and implementation of 765 kV AC system and +800 kV, 6000 MW HVDC systems.

Powergrid is playing a strategic role in the growth of the Indian Power Sector. With over a decade of excellent business operations, Powergrid has developed strong expertise in various

To meet future demand, Government of India has envisaged a generation capacity addition of about 78,000 MW during XI Plan period (FY 2007-12). Powergrid, being the CTU, has the responsibility to develop a requisite transmission system under the Central Sector, matching with generation projects, for which an investment of more than Rs. 55,000 cr. has been planned during this period.

Recently, the Company entered the capital market with an IPO of 573.9 million equity shares. The growing economy of India.

A study carried out clearly states that there is a direct connection between social reformation and electrification of the rural sector. Therefore, our primary objective is to execute our rural electrification plan, making the access to power across villages easier by the year 2012. About Rs 5000 crore has already been released for rural electrification in the last Plan by the UPA Government and Rs 38,000 crore has been earmarked for the 11th Plan.

If our economy has to continue to flourish, the power sector will have to keep pace with the double-digit economic growth.

We have very meticulously prepared a well-thought out plan to generate a capacity of about 1,00,000 MW during the 10th and 11th Five Year plan. The estimated cost will be Rs 4 lakh crore. So far, we have added 21, 000 MW for the 10th Five Year plan, but we are very optimistic and can say with conviction that during the 11th Five Year plan, we will be able to add 78,000 MW of power.

Would it be right to say your expectations might be a bit high? Can the Union Ministry deliver what it has promised?

I know it sounds daunting but I don't think it is overambitious. Taking into account all possible negative points, we have concluded that if we can cover the distance of a mere 1, 362 MW since the possible way. To a certain extent, we feel that results are already showing. Our efforts should soon prove fruitful.

> **"The Electricity Act 2003 has completely opened up the power sector for private developers."**

Would you like to mention any special private sector project that you have undertaken to ensure additional power generation?

It is worth mentioning that 16 private sector projects have already achieved successful financial closure. At an investment of Rs 29,242 crore, we have already generated somewhere around 7,320 MW capacity from these projects and many more such projects are already in the pipeline. There are seven more projects with an investment of around Rs 27, 604 crore, which is expected to generate a capacity of 9, 357 MW and is awaiting early financial closure.

Taking into consideration the massive capacity that we need to add, we have taken an initiative. These Ultra Mega Power Projects (UMPP) of 4000 MW each, costing Rs 16,000 crore each, are coming up at nine locations. Out of NTPC and NHPC for development of small hydro power projects.

What do you have to say on matters regarding distribution, transmission and wastage that are being caused by the inefficient grid system?

I am very aware of the fact that the transmission network as a whole has to buck up to meet the increasing demand of capacity addition; and this has to happen not only in quantitative terms, but also qualitatively. We have already done our R & D on this matter and have concluded that we need to have an Integrated National Grid. This will help keep pace with the power demands by making optimum use of existing power, by striking a balance between the power surplus and the power deficit areas.

As for the distribution segment, we are already developing strategic plan as it is distribution that, matters the most to our individual consumers. Therefore, it becomes a necessity for us to take care of consumer satisfaction, as it is directly related to the generation of revenue. Accelerated Power Development and Reforms Programme (APDRP) is already in place with an outlay of Rs.40, 000 (10th Five Year Plan). We will continue this APDRP plan in the 11th Five Year Plan, keeping in mind the satisfaction of our consumers.

demand. Presently, National Grid, with an inter-regional power transmission capacity of more than 17,000 MW has been established, which is envisaged to be enhanced to over 37,000 MW by 2012. Four major power regions of the country, namely North-Eastern, Eastern, Western and Northern are now operating as one synchronous grid with the total generating capacity of over 97,000 MW - one of the largest grids in the world. This is facilitating the free flow of power from surplus to deficit regions, bringing about the much-needed growth in the economy.

Powergrid continues to give a major thrust to Research and Development activities and seamless integration of new technologies. R&D efforts have facets of the power transmission business and is offering consultancy services to various power utilities in India and abroad. It is geared up to become a global transmission entity by seizing business opportunities available in international markets.

Powergrid has been successful in facilitating private investment in the transmission sector. The first public-private Joint Venture (JV) project, at JV cost of about Rs. 1600 cr. was completed successfully. Powergrid has established three more JVs with private power producers and many more are in the pipeline. Actions are also underway for implementation of one of the projects through 100% private participation.

issue closed with responses from both domestic and global investors that surpassed the most optimistic expectations. Overall, the issue was oversubscribed by 64 times. This tremendous response shows the growth potential of the Corporation and the faith of people/ investors in the Indian Power Sector in general and Corporation in particular. Post-issue, holding of Government of India in Powergrid has reduced to 86.36%. Powergrid has received the prestigious MoU excellence award 6 years in a row for being among the top 10 PSEs.

For 2006-2007 Powergrid is the only Public Sector Utility in the power sector and connected industries to have been chosen for the award.