

Market and Government: The Need for Greater Commitment to a Broader Sense of Community

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Introduction

In the last two centuries since Adam Smith enunciated the view that markets ensure economic efficiency, economists have investigated the market with great care and caution. Nothing they have discovered has shaken their belief that markets are, by and large, the most efficient ways to co-ordinate and maintain stability in an economy. Added to this argument, globalization has accentuated the vitality of markets. Markets are basically amoral and apolitical, they like strong decisive leadership, they generally do not cope well with uncertainty, nor do they like to be too much regulated. Historical data proves that markets can behave quite irrationally. Politicians do have the power to discipline markets (Lall Rajiv, 2013). But unfortunately they typically only exercise it when it is politically expected to do so. The relationship between markets and policies is very significant in the context that in 2050, India will be a capitalist economy with the bulk of the economy under private sector management. Over the past couple of decades, the Indian private sector has grown sustainably, in size and scope, our markets have become more globally interconnected, but our policies have become more fragmented. It seems that we are still struggling to craft and administer social and economic policy in this rapidly changing environment. Against this backdrop, one may argue that it is the policy maker's responsibility to build market confidence by finding the right balance between markets and regulating market forces. What can Government do about this? An attempt will be made in this paper to understand the historical and futuristic significance of democratic form of Government and its pattern of operation. How can decisive leadership correct market failure and improve economic efficiency in the context of uncertainty? These issues will be qualitatively examined in this paper.

Democratic Government and Leadership Style: An Overview

History is important because it has a legacy and also heritage in it. The best way to understand the nature, characteristics and working of the Government is to analyse the writings of the ancient Greek philosophers. Greece was a seat of democracy. Plato, a well known Greek Philosopher, believed that basic principle of democracy is the equal right of all to hold office and determine public policy. This is at first glance a delightful arrangement; it becomes disastrous because the people are not properly equipped by education to select the best rulers and the wisest courses. Plato complains that whereas in simple matters-like shoe-making-we think only a specially trained person will serve our purpose, in politics we presume that everyone who knows how to get votes knows how to administer a state.

When we are ill we call for trained physician, whose degree is a guarantee of specific preparation and technical competence. We do not ask for the handsome physician or the most eloquent one; when the whole state is ill should we not look for the service and guidance of the wisest and the best? In Plato's writings about the operation of the State, one can trace his strong argument for good leadership and governance practice. To quote Plato, "Like man, like state; governments vary as the characters of men vary... states are made out of the human natures which are in them; the state is what it is because its citizens are what they are". Therefore, we need not expect to have better states until we have better men. As Will Durant writes "Behind political problems lies the nature of man; to understand politics, we must, unfortunately understand psychology". It seems that for good governance, Plato advocated statesmanship. According to Plato, statesmanship is a science and an art.

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Statesman is the best and the just. A just man is a man in the just the right place, doing his best, and giving the full equivalent of what he receives. Greek philosophers had a strong conviction that a society of just men would be a highly harmonious and efficient group. As Plato aptly puts it "Justice is not mere strength, but harmonious strength". Aristotle fully supported the views of Plato. In Aristotle, the conception of human nature is perfectly sound. He said that everything ideal has a natural basis and everything natural an ideal development. For this, freedom is essential. Freedom is the goal of the state because the function of the state is to promote growth ultimately; growth depends on capacity finding freedom. Democracy is the most reasonable form of government for contributing for freedom and growth. Is there any defect in democracy? The defect is its tendency to put mediocrity into power. In fact, to rule wisely and just is politics. This deepens the democracy. In the context of India, deepening of democracy and inclusive growth should go hand in hand, especially to achieve quality in delivery of services at the grass root level.

Government is also about systems and procedures. Any promise of performance of governance has to descend from grand abstractions to specifics, so that voters know what an offer is. The point of increasing accountability of the Government is always to increase the quality and responsibility of governance. It is a known fact that governance precedes the Government. To simplify, all these involve the issues pertaining to leadership and principles. Are our leaders telling us the truth? Does a particular candidate have the unique capacity to rise to the demands of the office he or she seeks? About the qualities of a leader, David Hawkins opines that "pride, nobility of life - all such things are considered inspirational, giving life significance." But what actually inspire us in the physical world are things that symbolise concepts with powerful meaning for us. Mahatma Gandhi understood this well. He single handedly overcame the British Empire, which was then the greatest force in the World. Gandhi strongly believed that human rights aren't granted by any earthly power, but are ingrained in the nature of man himself

because they are inherent in his creation. Violence is force, but since Gandhi was aligned with power instead of force, he forbade all causes of violence in his cause. Many political systems (including democracy) and social movements begin and sustain with true power. The true power originates from the mind; whereas force is rooted in the material world (Hawkins David, 2013). Since democracy is associated with power, it is eventually being acknowledged universally as the superior form of Government. And the true power of democracy arises from the 'principles' upon which it is founded. A leader with greater commitment with principles can make a difference to the lives of teeming millions. His action should be very 'decisive'. Now let us understand the link between decisive leadership and market sensitivity.

Market and Decisive Leadership: Establishing the Direct Link

It is clearly understood that nowhere around the world do markets and their participants have patience for politics. In fact, the relationship between markets and politics is an uneasy one-mutual trust and confidence - which are hard to build but easy to lose-are critical to the effective functioning of a market-oriented democracy like India. It is also an established fact that the burden of managing this relationship lies with politicians, not with the market. It is the sole responsibility of the policy makers to build confidence by finding the right balance between nurturing and regulating market forces. Unfortunately, we are where we are today because we have not done a good job either of nurturing and regulating market forces. But one thing is certain that markets like strong decisive leadership with policy execution accuracy. One good example for this is the leadership style exhibited by Raghuram Rajan, the Governor of Reserve Bank of India. Central Bank Governors seldom indulge in plain talk. In fact, plain talk and decisive action have become trademarks of Raghuram Rajan. He is clearly no prisoner to any established tradition. He is most probably the first Governor of the Reserve Bank who holds one-on-one discussions with general manager-level officers. Rajan is also keen to alter the

demographic structure of the central bank, by inducting younger officers. This is indeed a big deal in the central bank, typically characterized by bureaucracy and lack of decisive decision making ability. Amid the hype on his first day in office, Rajan made it clear that he would not hesitate to take tough decisions. To quote Raghuram Rajan, "Some of the decisive actions I take will not be popular. The Governorship of the Central Bank is not meant to win votes or facebook likes". What followed was a policy rate hike later in the month, which changed the policy rate trajectory and took the market off guard. This is a good example of decisive leadership. Rajan has indeed been able to manage rising expectations quite brilliantly. He has also had initial success. Exchange rate volatility was arrested. He managed to stay ahead of the curve (his predecessor D Subbrao had faced constant criticism for being behind the curve) in managing inflation. To act quickly and decisively is becoming Rajan's true style of functioning. Rajan was quick to move ahead of the curve in his fight against inflation. Inflation is still high at both the wholesale and the retail level mainly due to high food prices, though non-food manufacturing inflation has softened significantly indicating the diminishing pricing power of the industrial sector. Most importantly, supply side issues are dominating inflation numbers, where monetary policy has a limited role to play. As Kunal Kundu argues "With the Government not doing its bit and leaving the RBI to fight a lone battle, monetary conditions are tight as inflation rages and inflationary expectations remain stubbornly high." So, the consensus is that despite his efforts, Rajan's fight against inflation may turn out to be futile, if the Government fails to remove the supply side bottlenecks. We should understand that an effective monetary policy rule requires an effective fiscal policy rule. Unfortunately, effective fiscal policy rule is not in place. This is because decisive leadership is absent in the case of Government. Ultimately, the effectiveness of any policy framework depends on its consistent

achievement of targets and its sensitivity towards market operation. If this is not happening, how can we think about Government's commitment to a broader sense of community?

Now it is clear that decisive leadership has a critical role to play in articulating policy and its implementation. A decisive leader should help those with genuine difficulty while being firm with those who are trying to milk the system. This style of leadership is the need of the hour. Further, decisive leadership should craft the policies that balance markets, restore confidence in its operation and contribute for sustained growth. This is something worth thinking.

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