From “socialism” with restricted entry to “Marketism” without exit: The Chakravyuha Challenge

Supreet Johal Bhatia
Lecture, Management Department, IMS Unison University, Dehradun, Uttarakhand, India
&
Monika Dahiya
Lecture, Management Department, IMS Unison University, Dehradun, Uttarakhand, India

ABSTRACT
India has made great efforts for overcoming the barriers to the entry of firms, talent, and technology into the economy. But hardly any effort is made for a smooth exit. Therefore, the country has now moved from ‘socialism with limited entry to “marketism” without exit’. Delayed and critical exit has substantial fiscal, economic, and political costs associated that are not just effecting the public sector and manufacturing but the private sector and agriculture too. A number of solutions to facilitate exit are possible. The government’s initiatives including the new bankruptcy law, rehabilitation of stalled projects, proposed changes to the Prevention of Corruption Act as well as the broader JAM agenda hold the promise of facilitating exit, and providing a significant boost to long-run efficiency and growth. The objective of this review paper is to study the various problems associated with the Exit Policy in Indian Economy.

KEYWORDS: Chakravyuha, Fiscal, Economic, Political, Interest, Institution, Ideology.

I. INTRODUCTION
The economic survey 2015-16 relates the Indian economy with Chakravyuha from epic Mahabharata, as one could enter into but cannot exit. Chakravyuha is a war formation mentioned in the Mahabharata. In the battle, the warrior Abhimanyu, who knew how to penetrate the formation, but not how to exit it, was trapped and killed, same is the situation being faced by Indian firms today. India has undertaken many reforms since 1980s to transform the Indian economy from socialist to market economy, however most of the efforts of the government have been for eliminating impediments towards free entry however no attention has been given to improve the exit procedure of unviable Indian firms. India entered into a different paradigm of economic policy in 1991, adopting liberalization, privatization and globalization (LPG) was a big move for the economy. Before LPG era the economy existed in quota-era, license-era and inspector raj era. These terms characterize and testimony that entering and doing business in Indian economy was highly complicated during that phase. 1991 was a period of phenomenal changes in the Indian economy. The foreign players were allowed to come and invest in India, a lot of avenues were provided to people to enter the Indian economy. Many acts were modified so that people can set up their own organizations and can operate in the Indian economy. So we have done a lot for the smooth and easy entry of players in the Indian market. However when the firms compete in such an open market, they tend to get defeated as open market is a competitive market and the firms are bound to fail, therefore it is important for such firms to exit from the market. But the matter of fact is that in India we do not have a proper channel of exit for such firms. Even Joseph Schumpeter recognized the vital role of exit, via “the gale of creative destruction,” in the efficient workings of a market economy, the “process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.” Indian economy today is at a cross road where we need to create such a situation so that anybody who is willing to enter must also have a choice to exit at a fast pace. As per the economic survey 2015-16, exit problem is not only associated with public sector rather it is all pervasive. Therefore it is not just a problem of public sector in-fact it is associated with private sector as well. For public sector it is more prevalent in traditional sectors such as the sector of aviation,
infrastructure, fertilizer, energy and so on and in private sector it is prevalent in telecomm, real estate, aviation etc.

This paper re-examines the various problems and costs associated with the exit barrier; as focused in the economic survey 2015-16.

II. OBJECTIVE AND RESEARCH METHODOLOGY
The MAIN OBJECTIVE of this Review paper is; To study the various problems associated with the Exit Policy in Indian Economy.

The study is descriptive in nature containing actual, accurate and systematic secondary data collected from various General and Specific sources. The paper is a review paper and the main source used to collect the statistical facts and figures is Economic Survey Report 2015-16.

III. THREE MAJOR COSTS OF DELAYED EXIT
Not allowing exit or impeded exit actually creates a huge trouble for the country itself. There are basically three substantive problems (cost) it will yield to, i.e., economic cost, fiscal cost and political cost.

Economic Cost:
The first problem associated with exit policy is the economic problem. When a firm becomes incapable of producing something that it envisioned or where the firm has stopped its productivity and is not in a position to pay back the loans borrowed from the banks, it would result into misutilization of the funds allocated. In an effective economy every penny should be productive and should be yielding profit and if not it is a trouble to the economy and a major problem to banking sector as they have lend the money and rise in NPAs. (Refer Figure 1) In a capital scarce country such as India, misallocation of resources can have significant costs. Twenty-nine state-owned banks wrote off a total of Rs 1.14 lakh crore of bad debts between financial years 2013 and 2015, much more than they had done in the preceding nine years. The latest example that goes with economic cost is Kingfisher Airlines. Kingfisher was declared to be the top NPA of the country on July 17, 2014 as it failed to repay loans of over 4,000 crore, mostly borrowed from state-owned banks.

Figure 1: MOVEMENT OF NON-PERFORMING ASSETS (NPAS) OF SCHEDULED COMMERCIALBANKS

<table>
<thead>
<tr>
<th>BANK</th>
<th>GROSS NPA As on March 31 (2014)</th>
<th>Addition during the Year</th>
<th>Reduction during the Year</th>
<th>Write-off during the Year</th>
<th>NET NPA As on March 31(2015)</th>
<th>As on March 31(2014)</th>
<th>As on March 31( 2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank Of India &amp; Its Associates</td>
<td>798165</td>
<td>452507</td>
<td>269871</td>
<td>245716</td>
<td>735085</td>
<td>418151</td>
<td>372777</td>
</tr>
<tr>
<td>Private Sector Banks</td>
<td>245424</td>
<td>266799</td>
<td>99824</td>
<td>71337</td>
<td>341062</td>
<td>88615</td>
<td>141283</td>
</tr>
<tr>
<td>Nationalised Banks</td>
<td>1474474</td>
<td>1326109</td>
<td>486914</td>
<td>264074</td>
<td>2049595</td>
<td>888076</td>
<td>1229305</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>115650</td>
<td>40971</td>
<td>29545</td>
<td>19368</td>
<td>107708</td>
<td>31607</td>
<td>17567</td>
</tr>
</tbody>
</table>

Source: RBI’s Data Warehouse
Fiscal Cost
The second major problem enclosed with the exit policy is fiscal problem. Fiscal problem arises when a firm is sick and is not yielding result and in such a case the government instead of making efforts for the exit of such firm, supporting it explicitly (Bailouts) or implicitly (free power, reduced tariff, interest subvention, government subsidies). By providing fiscal benefits to sick firms, the government instead of letting them exit, making them dependant entirely. This creates a vicious cycle playing havoc for the economy of the country. Granting high subsidies means the government will have to arrange for high borrowings and that will result into high fiscal deficit ultimately landing to high interest cost, in the year 2015-16, the country faced a fiscal deficit of 3.9% of GDP. In addition to that the government also provides tax benefit to such firms i.e. a double whammy of low tax and high subsidies. On the other hand if efficient firms were allowed to take their place it would have been a win-win situation. As per union budget 2016, this financial year India is expected to spend around Rs 2.31 lakh crore as major subsidies for food, fertilizer and petroleum.

Political Cost
The third major problem associated is the political problem. Looking at the entire scenario of Indian economy it is generally the NPAs of the big enterprises that trouble the banks and it is not easy to shut these enterprises (a big example is Kingfisher airlines) because these institutes are the lively hood resources for the many and therefore government keeps on providing some kind of waivers to them, otherwise, it may send a very bad and negative message to the people who want to invest in our country. On the other hand the people of the country believe that government is always pro-rich or pro-capitalist. Therefore it comes with a huge political cost as well. As far as political costs are concerned, this comes when “sick” private sector firms are seemingly supported by the government—giving the impression that governments favour large corporates, “which politically limits the ability to undertake measures that will benefit the economy but might be seen as further benefitting business”.

Figure 2 and 3 provide more detail, and some basic price and quantity facts about the 3 major fertilizers i.e. urea, Diammonium Phosphate (DAP), and Muriate of Potash (MOP).

Figure 2: BASIC FERTILISER QUANTITY FACTS (2014-15)

<table>
<thead>
<tr>
<th></th>
<th>PRODUCTION</th>
<th>CONSUMPTION</th>
<th>IMPORTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume (‗000MT)</td>
<td>Value (₹ Crore)</td>
<td>Volume (‗000MT)</td>
</tr>
<tr>
<td>DAP</td>
<td>3445</td>
<td>12471</td>
<td>7626</td>
</tr>
<tr>
<td>MOP</td>
<td>-</td>
<td>-</td>
<td>2853</td>
</tr>
<tr>
<td>Urea</td>
<td>22593</td>
<td>43830</td>
<td>30610</td>
</tr>
</tbody>
</table>

Source: Fertiliser Association of India (FAI)

Figure 3: BASIC FERTILISER PRICE FACTS (2014-15)

<table>
<thead>
<tr>
<th></th>
<th>Domestic Subsidised Price (₹/50kg)</th>
<th>International price</th>
<th>Subsidy (₹/50kg)</th>
<th>Import restriction</th>
<th>% of volume that is under movement control</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DAP</td>
<td>MOP</td>
<td>Urea</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>-----</td>
<td>-----</td>
<td>------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td>1200</td>
<td>800</td>
<td>270</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount</td>
<td>1810</td>
<td>1300</td>
<td>970</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Penalty</td>
<td>618</td>
<td>465</td>
<td>807</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source</td>
<td>None</td>
<td>None</td>
<td>Canalised*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate</td>
<td>20%</td>
<td>20%</td>
<td>50%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Ideology
The second major reason is the Indian Economic Ideology. The Indian economic ideology is a mixture of two tinges, the one part is capitalist tinge and the second one is socialist tinge. These two tinges create Economic Ethical Dilemma. It confuses and makes the decision making process really difficult. On one side as per the socialist ideology the government should be supporting such organizations that are in trouble. In India we have SICA (Sick Industrial Companies Act) and under that we have BIFR (Board of Industrial and Financial Reconstruction). Its objective is to determine sickness of industrial companies and to assist in reviving those that may be viable and shutting down the others. But the hard fact is that it has actually not fasten the process of recovery rather supported the failure. In the year 2014, 91 companies were referred to BIFR for turnaround, as compared to that, it was only 57 in 2008 (Refer Figure 5). A number of sick companies now in India are using the Board for Industrial and Financial Reconstruction (BIFR) as an escape route to delay legal action by banks for debt recovery even as their loan restructuring under the corporate debt restructuring (CDR) cell and other such mechanisms fail. As per the Sick Industrial Companies (Special Provisions) Act (SICA), it is forbidden for the lending banks to take any action once the company is referred to the board. So these legislations have actually helped in sustaining the failure. They have sustained the non exit problem in India.

![Figure 5: NO. OF COMPANIES REFERED TO BIFR](image)

Source: Economic Survey Report 2015

Interest:
The last but most common reason for delayed exit is Interest. In any organization or company many people have many interests embodied in that and these interests do not let the companies to be shut down and move towards an exit. An example of interest groups blocking reform comes from introducing JAM for MGNREGA expenditure. It is acknowledged that MGNREGA, despite its benefits as a well-targeted social insurance mechanism and for rural development, suffers from significant leakage. To reduce leakages and payment delays, Andhra Pradesh introduced direct benefit transfers, so that salaries would be paid directly to workers, with biometric Smartcards to reduce the scope of siphoning of funds via registering ghost workers.

V. SUGGESTION AND CONCLUSION
The Exit problem is one of the major economic problems in India though it has been realized recently. The problem is not only associated with public sector but it is pervasive in both public as well as private sector. As mentioned, the major costs that the country is bearing because of this problem is economic cost, political cost and fiscal cost and the major cause of this problem is the three I’s – Institution, Ideology and Interest.

Now there are two major ways to tackle this problem. The first is to make the procedure of exit fast; efforts should be made to close a failing organization as soon as possible. Proper provisions and legislation should be designed to recover amount due and thereafter immediate exit should be made. A faster route to exit is of course the answer to this problem.

The other way is actually helping a failing firm in reviving and not letting it travel on to the brink of exit.
Analyzing the various sectors: Fertilizer sector, as already discussed gets approximately 0.80% of GDP as subsidy and that subsidy is not effective at all, which means the subsidy being provided (Approx. 72,000 Crore) is actually leading to over production of cereals that is not getting utilized. We are in short of oil seeds; palm seeds; pulses etc but we are doing overproduction of cereals. Therefore it is important to introduce transparency in the policies so that that the subsidy not yielding outcome can be calculated and subtracted from the total amount, that further will make the sector prosper and the exit will not be required. It will enhance the profit.

Similarly in Aviation Sector most of the companies operating are not making very hefty profit, even Railway is facing similar problem. The major problem for this sector is the faulty policies that are being adopted. Around 50% of the policies implemented by the government are about 25 years old or even more than that. All these policies are obsolete. Efforts must be made to change these policies, which is possible by allowing the process of decision making by public private partnership. The Government has to focus on the outcome of the policies not on the outlays before allotting budget. Now when the focus will be on outcome the government will introduce schemes and policies like JAM (Jandhan, Aadhar, Mobile Banking), which will help in infusing effectiveness.

Most important thing in any organization is that how its management is being done. The kind of administration and management system we are having in India is again obsolete; we work in a hierarchical way not in an innovative way, which is a major cause of failure of even giant organizations. Therefore we need to infuse more and more privatization and should also introduce legislations like debt recovery, bankruptcy law, rehabilitation of stalled projects, changes to the Prevention of Corruption Act etc. Only then the Chakravyuha of the present age can be solved.

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