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Deeper dimensions of scam

The current ethos which abets inefficiency and refuses to reward efficiency must be dismantled, says **Uttam Gupta**

THE JPC is nearing the end of its labour and is expected to present its final report on the multi-crore securities scam shortly. But its draft report, published recently in a section of the press, indicted practically all the top-level banking institutions and those who man them, besides a section of the brokers' community, bureaucracy and political leadership — to whom the citizens of the country innocently look forward to for good governance of public affairs.

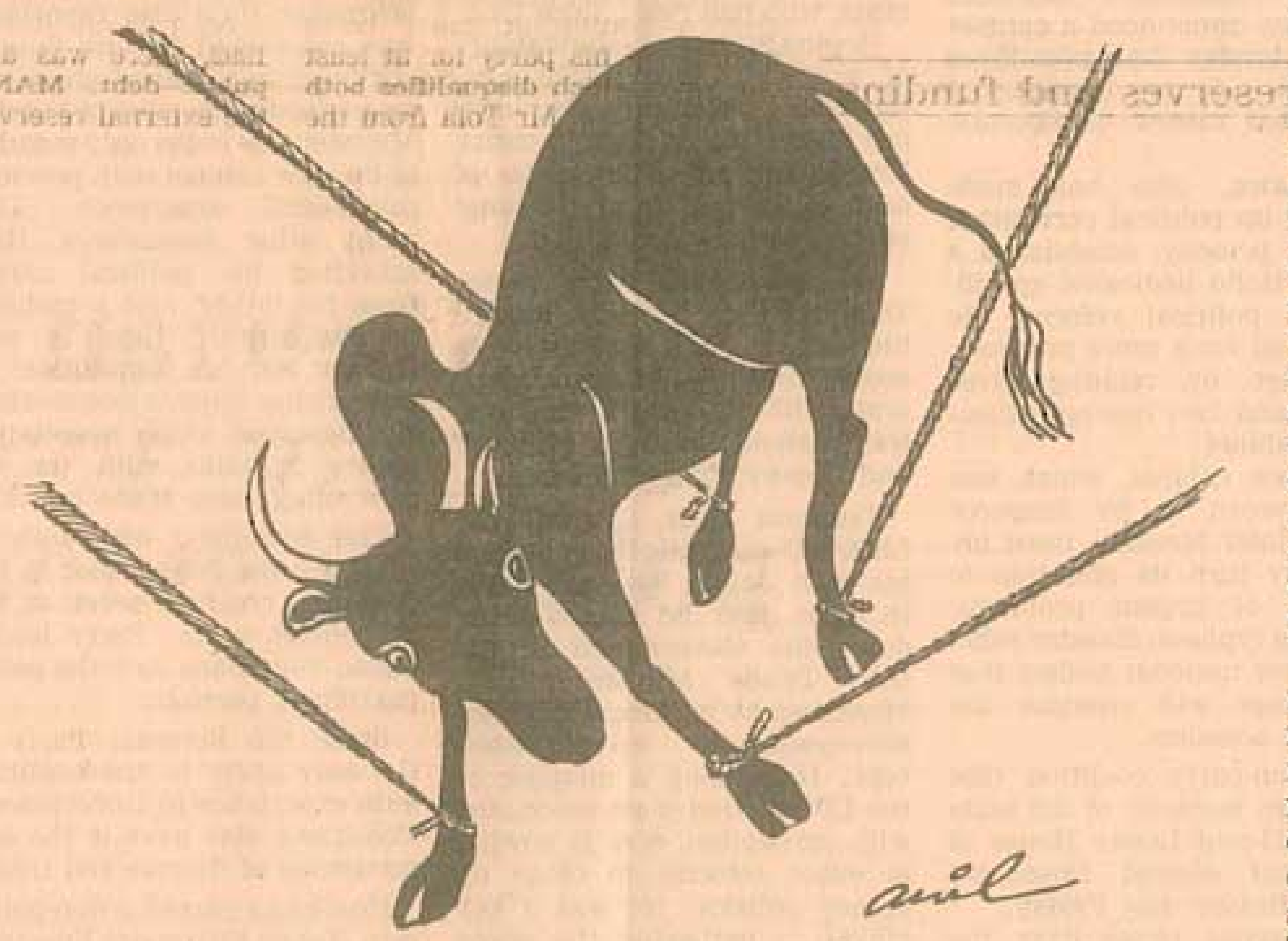
It has now come to be widely known that public funds have been swindled and misappropriated through a well-orchestrated gameplan, taking advantage of the loopholes in the portfolio investment scheme and the banks' securities transactions. While the process of investigations into various ramifications of the scam will take its own time, possibly resulting in the eventual prosecution of the guilty and recovery of the lost money, the JPC should at least throw further light on the modus operandi of the scamsters, the extent of their involvement and, possibly, the safeguards necessary to prevent the irregularities of this kind.

The scam has often been described the result of the system failure. But if one goes deeper, it is but a manifestation of the deeper malaise afflicting our society — the desire to make a quick buck. Our planners, policy makers and administrators would, therefore, do well to take serious note of this fundamental malaise that has gripped not only individuals but also our institutions.

Earlier, this tendency to make a quick buck was symptomatic of the typical behaviour of the private sector, which under a highly regulated regime would take full advantage of the licensing and other regulations to make unintended and quick profits. Now, this kind of behaviour is reflective of the working of the government-owned or government-controlled organisations. Whether it is the banks or financial institutions or public sector enterprises, they have all fallen prey to the extremely shortsighted and destructive philosophy of doing something that produces immediate and extraordinary results.

Large-scale involvement of banks in dubious security deals, blatant flouting of RBI guidelines, virtual monopolization by a handful of brokers investment transaction of the banks and absence of any monitoring or surveillance mechanism, now an established fact, all point towards the palpable enthusiasm of the banks to show a healthy picture about their financial performance.

The public sector enterprises, too, have not lagged behind or else, how could one explain their parking of huge surplus funds (own or mobilised through bonds) under the portfolio management scheme (PMS) with the banks and in securities other than those approved by the government



or, for that matter, investment transactions with the foreign banks.

This phenomenon has got added legitimacy, particularly in respect of banks and the PSEs, whose intrinsic health has been eroded by a combination of factors which rest on prolonged neglect of efficiency and economic meritocracy consideration on the one hand, and frequent political and bureaucratic interference on the other. Indiscriminate expansion of branch network, excessive deployment of manpower, poor quality of portfolio management accompanied by ill-conceived and ad hoc intervention through loan melas and waiver schemes have all combined to bring a majority of our banks to a state of financial bankruptcy. In the case of PSEs too, utter lack of regard for efficiency and proper management has ensured that most of them have been making heavy losses despite frequent hikes in administered prices that the government has so generously allowed from time to time. Under such circumstances, the banks and PSEs have been too eager to make a quick buck and the opportunities offered by the security-stock market ring-operated by a handful of players acting in collusion provided a convenient hunting ground to them.

Ironically, even the custodians of the country's macro-economic policy have not been able to resist such temptations. It is a known fact that the stock market reached dizzy heights at a time when the economic liberalisation process was in full swing. And, the finance minister not only visualised a strong linkage between the two, but also, took full credit of the strong trends in the stock market.

Quite naturally, when the tables were turned and the scam broke out, attempts were being made to dissociate or delink the process of economic liberalisation from the scam and its various ramifications. So much so, it is now even being stated that the job of the finance ministry is only to formulate policy and that it cannot be held accountable for the omissions and commissions of the banks or financial institutions or what happens in the stock market.

A variety of actions are being recommended — by the JPC and other concerned departments and institutions — to deal with the specific consequences of the scam. All this may lead to some action, including against individuals or institutions or perhaps, identification and recovery of the misappropriated funds to some extent or some improvement and strengthening of the supervisory and monitoring systems. But, that would be no guarantee that such a scam does not recur, unless the very driving force leading to such possibilities is attacked.

Getting over the syndrome is not going to be an easy proposition. And, the chances are remote unless we make a break from the past by putting a heavy discount on inefficiency, mismanagement and maladministration. Unfortunately, this aspect has not received the requisite attention. Let us remember that having taken the first important step of liberalisation and delicensing of industries, we cannot afford to sit complacent as the government's writ still continues to run on practically all crucial aspects of the economy, whether it is the essential services or other infrastructural services.

We know the government cannot remove all these controls at one go; nor would a sudden changeover to a free market economy be in the public interest. The least we could do is to dismantle the current ethos which encourages and abets inefficiency and refuses to reward efficiency. Towards this end, a system of rewards and penalties needs to be introduced at all levels.

If corruption breeds inefficiency, the reverse is also true. The popular perception about corruption is that it is unavoidable. But we forget that in a developing country like India, the malady can jeopardise the very process of growth — rather, it has done so. The mounting losses of the public sector, the rampant evasion of taxes, the prevalence of the inspector raj, the framing of negative policies and even compromises on national security can all be traced to a large extent to the well-entrenched vested interests. It is time the people and political leaders recast their value systems, so that both corruption and inefficiency are treated with equal disapproval.