

# ISA S Brief

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## **The Lokpal Bill: An opportunity for the Government and the Economy**

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The Lok Sabha (Lower House of Parliament) passed the Lokpal Bill on 27 December 2011, marking an end to the drama that gripped the media, the public and political parties for over four months in India.<sup>2</sup> The Bill, to create a Lokpal (ombudsman) structure to oversee complaints of corruption against public officials, has been over four decades in the making; and it is widely acknowledged that the recent spate of scams that have engulfed the Government galvanised civil society, led by the activist Anna Hazare, to launch mass protests against the rampant corruption in public service.

Yet in getting the Bill passed through Lok Sabha, the Government seems to have regained some initiative that it had lost in the earlier months. First, it demonstrated a willingness to legislate on this contentious issue, notwithstanding the concerns of several of its own partymen who are facing investigation. It was also able to demonstrate that the opposition is divided, and that its own support base remains secure.

Second, by allowing the constitutional amendment that would give constitutional status to the Lokpal to fail, it avoided the trap of establishing a constitutional authority that could oversee Parliament - a lesson learnt from the recent reports of the Comptroller and Auditor General, a constitutional authority that has, in recent times, embarrassed the Government.

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<sup>2</sup> The Bill can become law only after it is passed by the Upper House of Parliament (Rajya Sabha) as well.

In short, the Bill has been passed, and yet the new structure would lack much of the teeth that civil society has been asking for. Among these is the accountability of the Central Bureau of Investigation to the Lokpal - a demand resoundingly rejected by the Prime Minister, Dr Manmohan Singh. There are also several clauses that the opposition has been protesting against, which appear to reduce the effectiveness of the new structure. Government has also been quick to perceive that the civil society activism is weakening, with much smaller crowds at the Anna Hazare fast in Mumbai, as compared to the earlier mass presence in Delhi.

Most importantly, the ability of the ruling UPA (United Progressive Alliance) coalition to close ranks and to implement a political strategy, and to demonstrate the weaknesses of the opposition parties, is itself a strong signal that the UPA story is far from over.

Ruling Congress strategists have positioned the party well in the forthcoming state elections also. In UP (Uttar Pradesh), the Congress has 22 seats in the Assembly, and is sure to increase its tally substantially, and this will enable it to claim a massive victory for Rahul Gandhi's leadership of the election campaign. The clever alignment of the Jat votes in western UP by bringing in Mr Ajit Singh's party into the UPA is likely to give it strong results in western UP. The Mayawati government, suffering from anti-incumbency, is also fraught with the problem of certain caste blocs moving away from it. The Samajwadi Party of Mulayam Singh is set to increase its tally substantially. While Mayawati's party may well emerge as the largest party, and perhaps have a majority, the tally of seats for the other parties would be significant - there may even be a possibility of a coalition of parties forming the next UP Government. In Uttarakhand, BJP (Bharatiya Janata Party) has a thin majority, which may get eroded during this election. In Punjab as well, Congress appears to have an advantage. The first quarter of the year is likely to bring cheer to the Congress ranks from these states.

For the Congress, the advantage of these political activities has been to turn public attention away from the pressing problems of the economy. Inflation is still high, but food inflation is coming down, partly due to good harvests, and also due to the base effect of last year's figures. Monetary tightening is starting to have an impact on consumer behaviour and on liquidity. Government borrowings have sucked out considerable liquidity from the economy. Banks are wary of fresh exposures, as they are facing growing lists of nonperforming assets, especially in the infrastructure sector. Indecision over issues of production and allocation of coal, disputes on gas availability, hold-ups in land acquisition and environmental clearances have slowed down infrastructure activity considerably, and are putting pressure on bank exposures. New capital is hard to find, and there are only a few corporates that are sitting on cash balances.

The political developments have pushed these concerns to the back burner for the moment: yet these concerns are likely to persist and to re-emerge before the budget of 2012. On the positive side, Government is on a surer footing, and they have managed to push through quite

a few pieces of legislation in the current session of Parliament. It is unlikely that there would be a repeat of the political events of 2011, and Government should be able to focus more on governance. There are signs that inflationary pressures may be weakening, though it would not be anywhere near the numbers that the government is expecting. Overheating of demand and consumption is likely to come down, and capacity utilisation is increasing. The stock markets, after considerable volatility is, starting to settle down, and investors can clearly identify several good picks with strong and sound fundamentals. The growth rate of seven per cent appears achievable for the next year, and growth of skilled employment continues to be good.

There is an opportunity available for the Government to grow on these positives. The budget gives an opportunity to focus on infrastructure funding and constraints, on incentives for exports, and further liberalisation in the financial markets to open up further instruments for trading. These are fairly simple options, unlikely to cause a storm, but of considerable practical value. The energy picture can change rapidly, if several power stations, almost ready to start generation, are given access to fuel, either local or imported.

After a dismal 2011, there is a chance for the UPA to redeem itself in 2012.

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