Evolution of a Regulatory Framework in India

What is the issue?

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- Transparent regulators are a must for evolution of mature markets.
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- In India, political considerations have time and again forced distortions in regulatory frameworks.
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What is a Regulatory Regime?

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- Liberalisation of economies and unleashing of market forces gives birth to regulators and regulatory regimes.
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- Economists described this as the transition of a government's role from positive intervention to arm's length superintendence.
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- But the manner in which the regulatory system has been established and 'Regulatory obstructionism' to development of businesses is a debatable issue.
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- Lack of transparency and accountability of the regulators in India has been flagged by many economic observers.
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Currently how deos the regulatory framework in India look?

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- Over a period of time, a number of regulatory bodies, ranging from RBI, SEBI, IRDA, PFRDA to TRAI, electricity regulators, CCI, FDA have been set up in India.

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- There is a proposal to create a regulator for the aviation and rail traffic business as well and many more may follow.
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- These regulators have been empowered to set the policy agenda, outline regulations, punish non-compliance and garner resources to manage their affairs.
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- The policy direction pursued by every regulator has to support the development of the market of the allocated jurisdiction.
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- However, in Indian democracy, social and political populism has proven to often overtake the economic agenda.
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What are the issues concerning regulatory sector?

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- **Politicisation -** As economic agents inherently intend to maximise profits, market misconduct happens in every domain.
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- Whenever such incidences occur, they have to be dealt with pragmatically but due to political pressures, policy makers go overdrive and frame restrictive policies and denounce regulators.
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- The politicisation of such events has made the regulators in India overcautious & frightened in order to dodge any blame game.
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- **Performance -** In many cases, non-experts are selected to lead the regulatory bodies thereby affecting technical aspects.
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- Second, the review mechanism for the functioning of the regulatory bodies is not very robust.
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- In particular, it does not include the role of regulators in the development of the market.
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- **Upgrading -** The inventions and innovations in the sector and the society at large influence the direction of the market.

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- Hence, regulatory mechanisms need to update in consonance with the above mentioned changes without much delay.
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- If these issues aren’t addressed, the development of the mature and well regulated markets will take a serious beating.
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What are the larger questions doing the rounds?

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- A regulatory state was conceived as a fast and flexible alternative to the cumbersome and bureaucratic frames of the replaced era.
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- However, questions about the democratic governance and accountability of regulators are being raised around the world.
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- This is because substantial power to make laws has shifted from elected representatives to technocrats sitting in regulatory bodies.
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- The Government should consider appointing a high-level task force immediately to delve deep into these issues.
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Source: Businessline

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