Evolution of a Regulatory Framework in India

What is the issue?

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

What is a Regulatory Regime?

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

Currently how does the regulatory framework in India look?
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.

There is a proposal to create a regulator for the aviation and rail traffic business as well and many more may follow.

These regulators have been empowered to set the policy agenda, outline regulations, punish non-compliance and garner resources to manage their affairs.

The policy direction pursued by every regulator has to support the development of the market of the allocated jurisdiction.

However, in Indian democracy, social and political populism has proven to often overtake the economic agenda.

What are the issues concerning regulatory sector?

- **Politicisation** - As economic agents inherently intend to maximise profits, market misconduct happens in every domain.
- 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.
- The politicisation of such events has made the regulators in India overcautious & frightened in order to dodge any blame game.

- **Performance** - In many cases, non-experts are selected to lead the regulatory bodies thereby affecting technical aspects.
- Second, the review mechanism for the functioning of the regulatory bodies is not very robust.
- In particular, it does not include the role of regulators in the development of the market.
- **Upgrading** - The inventions and innovations in the sector and the society at large influence the direction of the market.

- Hence, regulatory mechanisms need to update in consonance with the above mentioned changes without much delay.

- 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?**

- A regulatory state was conceived as a fast and flexible alternative to the cumbersome and bureaucratic frames of the replaced era.

- However, questions about the democratic governance and accountability of regulators are being raised around the world.

- This is because substantial power to make laws has shifted from elected representatives to technocrats sitting in regulatory bodies.

- The Government should consider appointing a high-level task force immediately to delve deep into these issues.

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**Source: Businessline**