

Incrementalism versus Transformative Change

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OPINION | Incrementalism versus Transformative Change

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At a show at Niti Aayog recently, Narendra Modi pleaded for big bang reforms. He said:

"No country can afford any longer to develop in isolation. Every country has to benchmark its activities to global standards, or else fall behind".

"The younger generation in our own country is thinking and aspiring so differently, that government can no longer afford to remain rooted in the past".

"If India is to meet the challenge of change, mere incremental progress is not enough. A metamorphosis is needed."

"My vision for India is rapid transformation, not gradual evolution". "The transformation of India cannot happen without a transformation of governance".

"We have to change laws, eliminate unnecessary procedures, speed up processes and adopt technology. We cannot march through the twenty first century with the administrative systems of the nineteenth century."

In that same meeting, the Singapore deputy prime minister Tharman Shanmugaratnam said:

"Reforms agenda is largely unfinished and pace of reforms have to be stepped up. You are on a good batting wicket but you can't keep on scoring singles."

On the same day, Raghuram Rajan said:

"Observers may be impatient, but my belief is that steady and irreversible reform and mini bangs like yesterday's (Thursday) rather than big bang is the need of the hour".

How should we think about these questions? I feel there are eight useful ideas in thinking about transformative change versus incremental change.

1. *We are blessed when incrementalism will suffice.* It is nice to be in a place where incremental reforms can get to a good destination. Incremental reforms are much easier and safer. E.g. it's possible to get to a pretty good National Pension System (NPS) through incremental work at Pension Fund Regulatory and Development Authority (PFRDA).

2. *Incrementalism does not always suffice.* Many times, we do not have the luxury of doing incremental reforms, as there is no incremental way to get to a good destination. No amount of incremental reform could have brought about the Goods & Services Tax (GST). There is no way out, but to bite the bullet and do the big difficult change, which is the GST. Similarly, there was no way out but to do the big NPS reform which the National Democratic Alliance (NDA) did in December 2002, which was transformative change and not incremental change. These were big changes which had to be done. Singles vs. fours vs. sixes seem to be slower or faster ways to chase the same target, but the problem in public policy is fundamentally different. We have to obtain qualitative change, many times.

3. *Planning is required for government but not for society.* Social engineering, as in central planning for the lives of citizens, seems pretty abhorrent. We should not do central planning about how citizens and the private sector will pursue life, liberty and happiness. E.g. financial regulators should not specify details of products, processes and players: this is high-modernist fantasy which all too often gets us to grief. But when it comes to government, there is a need to plan the organisation, processes and checks and balances. Like any large organisation, there is a need to plan the contours of government, envision the organisation diagram, objectives, powers, processes, accountability, etc. There will be discrete jumps in going from one organisation structure to another, which will often constitute transformative change and not incremental change.

4. *Make pawn moves within a full strategy.* It is important to have a full picture, an internally coherent plan, and then build towards this incrementally. We must have a conceptual framework within which we push pawn moves.

5. *Those who only see the pawn move will often make the wrong pawn moves.* Incremental change is only useful when it fits in the larger picture. Else, it's largely a waste of time. As an example, amending the RBI Act to add in inflation targeting and the Monetary Policy Committee (MPC) was part of a full picture of macro/finance reforms. The recent batch of corporate bond market reform, which is extolled as a mini-bang, will not matter.

6. *A big barrier to big bang reforms in India is State capacity.* As an example, the staff quality in the GST project is the binding constraint. To be able to get deeper change, we need to grow capacity of the kind required for deeper change, and we should prioritize areas for work based on the availability of technical skills.

7. *What does it take, to achieve deeper change?* It takes a lifetime of work in India to understand what transformative change is required, and to be part of the policy process towards this kind of work. People who haven't put in this kind of intensity see a hill they can't climb.

8. *The cop out.* Transformative change is harder. It is often easier to duck, by claiming credit for minor things, or claiming that major things were infeasible. However, in India, the fact is that at numerous points in history, we have achieved big transformative change. There are people here in India who know how it's done.

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