

## SPEAKING TOUR: LUCKNOW, JAIPUR, CHANDIGARH

A REPORT PREPARED FOR CUTS INTERNATIONAL AND THE U.S. EMBASSY, INDIA

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NOVEMBER 30, 2016

Thank you for the opportunity to participate in your joint project to assist several states in northern India to think about how to increase their competitiveness. My trip commenced November 13 in Washington, taking me to Delhi, Lucknow, Jaipur, and Chandigarh, and return from Delhi on November 22 to Washington. My co-travelers were Neha Tomar from CUTS and Douglas Fowler and Mandeep Kaur from the US Embassy. I enjoyed their guidance, support and friendship throughout. My role was to learn about the challenges facing Uttar Pradesh, Rajasthan, Haryana, and Punjab as they seek to become more competitive and to be the U.S. expert who could stimulate thinking by noting certain U.S. experience with competitiveness.

In this report, I begin by recapping the remarks I made (or was at least prepared to make) in the various meetings, focus groups, and the large conference in Jaipur. Not all of these thoughts were presented as set out below. I titled these remarks “Competitiveness: Some Observations from a Public Interest Advocate.” A slide set was prepared but used only once as the tour progressed. A second part will provide further observations that occurred to me during the visit. And a third part will offer a few suggestions for future similar projects.

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## I. A Summary of What I Came Prepared to Discuss

I usually began by asking whether the audience was aware of the recent election in the U.S. This brought a knowing chuckle, as at virtually every stop there were questions about what the election of Donald Trump would mean for international trade and other interests of India. I pointed out that many of the most important issues in the election campaign related to questions about competitiveness, covering such topics as trade (globalization), tax reform, intellectual property rights, infrastructure, industrial organization (“too big to fail” financial institutions and concentration of the economy), competition law, outsourcing, innovativeness, dysfunctional government, corruption, privatization, the proper amount of regulation over business, and the relation between states and the central government. All of these issues are involved in developing strategies regarding competitiveness.

I also stressed that one size does not fit all and that each nation and each state should be assumed to have its own special heritage and culture, including a political culture, which means that a variety of attitudes are also relevant: e.g., toward hierarchy, organization, competition, cooperation, trust, the family and civil society vis a vis government, individualism vs. collectivism, and working together versus chaos.

I noted that an overriding question in the recent election was whether the US had lost its way competitively and if so, what should be done about it. Similar issues must be dealt with in India.

I intended to talk about certain questions relating to what is meant by competitiveness itself and the relation between competitiveness and growth, but time kept this discussion to a minimum. What goals are most appropriate for a developing economy? Growth? (for whose benefit?), Efficiency (short term/long term conflict); Equality (for whose benefit? Justice? Fairness? During the

conference it emerged that CUTS was advocating competitiveness for three ends: growth, inclusiveness, and sustainability. At one point I asked whether these are consistent with one another. I said that the different ends require a balancing approach, which unavoidably includes politics.

With this background, I wanted to talk about three U.S. projects that throw light on approaches to competitiveness: Enterprise Zones, the Startup America Partnership, and the Harvard Business School report on competitiveness in the US in 2016.

In the 1980's, after Ronald Reagan was elected, many conservatives sought a way to encourage enterprise in decaying urban areas. They introduced the concept of Enterprise Zones in various states, which typically emphasized tax incentives and reduction of regulation to induce businesses to locate or more likely to relocate within the zone. The programs were not notably successful. The power of tax incentives to induce businesses to relocate proved to be overstated, and merely shifting businesses from one area to another would do little to create new jobs.

In 2011 a new approach to job creation was undertaken, reflecting surging interest in the role of innovation and entrepreneurship as an engine of the modern American economy. This was the "Startup America Partnership" launched by the White House in January, 2011, as a three-year public/private partnership between the White House and various foundations, venture capitalists, and companies. It included \$2 billion in Small Business Administration initiatives to match private sector investments in promising high growth companies in underserved communities and to match private capital raised by early stage seed funds as well as various efforts to connect mentors and entrepreneurs.

Startup America initially focused on delivering free or low-cost services to entrepreneurs to connect them with large corporations. After a regional summit meeting, in mid-2012 it changed direction to become a hub for strong, regional

communities of entrepreneurs, recognizing the value of developing communities of mentors, role models, and fellow entrepreneurs who can sustain and validate each other.

After three years, in February, 2014, one of the prime movers of Startup America, AOL founder Steve Case, reported on progress. Case said that the efforts had mobilized hundreds of volunteer leaders who promoted startup communities in a variety of states and cities, e.g. using Startup Job Fairs in Arizona; annual bus tours activating and inspiring the entire state of Maryland; and opening major new entrepreneurship buildings in Nashville, Dallas, and Washington, DC. The program also led to creation of a National Advisory Council on Innovation and Entrepreneurship and passage of a seminal piece of national legislation entitled the Jumpstarting Our Business Startups (JOBS) Act, which overturned many antiquated regulations governing how businesses can raise money and legalizing equity crowdfunding, i.e., the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the internet. Examples of crowdfunding platforms are Kickstarter, Indiegogo, and RocketHub and investment platforms like 1,000 Angels.

According to Case: Initial Public Offerings are up, more people are involved in startups than ever before, more regions are seeing significant momentum in their entrepreneurial ecosystems, and jobs are being created. More and more capital is flowing beyond Silicon Valley to the rest of the country that has historically been starved on needed investment.

It sounds good, but that information comes from an interested source. In fact, I've been able to find very little that objectively reports on the impact of the Startup America Partnership. In any event, entrepreneurial start-ups is only one aspect of growth policy, as is made clear in the September, 2016, Harvard Business School Report on the State of U.S. Competitiveness, titled "Problems Unsolved and a Nation Divided."

The Harvard study was written by a team led by famed business strategist Michael E. Porter. Porter wrote in The Competitive Advantage of Nations (1990) that nations are most competitive when they have thriving competition within the domestic economy. He also found that strict antitrust laws (a term I had to define for the audience), tough health and safety regulations, and heavy investment in training human resources are beneficial to competitiveness. He said the focus must be on specific industries and industry segments; a nation cannot be competitive in everything. Firms, not nations or their member states, compete in international markets.

We haven't yet defined competitiveness. Here is the definition used by the Harvard study: "A nation is competitive to the extent that firms operating there can compete successfully in domestic and international markets while also lifting the living standards of the average citizen." I noted that the "also lifting the living standards of the average citizen" language might be compared to CUTS concepts of "inclusiveness and sustainability."

Using its definition, the Harvard report found that U.S. competitiveness has been eroding since well before the Great Recession of 2008-9 and that the problems are structural, not cyclical. While large firms have been able to prosper, it stressed, small companies are struggling, startups are lagging, and small business is no longer the leading job generator.

Weaknesses in the U.S., said the report, include the corporate tax code, the Kindergarten-12<sup>th</sup> grade education system, transportation infrastructure, the healthcare system, and the U.S. political system. There is a pressing need, it concluded, for a national economic strategy, including strategies for cities and states. For example, in regard to states, it reports: "governors and mayors are overhauling their education systems, upgrading training institutions, founding business accelerators and innovation districts, tackling high local costs of doing

business, improving local infrastructure, and taking other steps.” “Those that are most successful have a clear strategy, not isolated initiatives.” The stress is on building the commons by cross-sector collaboration among leaders in government, business, nonprofits, educational institutions, labor organizations, and other partners.

Unlike Porter’s 1990 book, the 2016 report does not focus on the contribution of domestic, local competition to a country’s competitiveness, but the logic of his 1990 book still holds. Competitiveness requires vigorous aggressive competition in open markets with fairness and efficiency protected by the enforcement of competition laws.

India has a relatively new national competition law enforced by a commission in Delhi. There are no state equivalents. It may therefore be useful to discuss how states within the U.S. have passed their own state competition laws, and how the states and federal authorities share enforcement responsibility.

Antitrust as protector of competition at state level, relying on the combination of central government and state laws. In the U.S., each state has passed its own version of the federal antitrust laws. For the most part they say the same thing and the states tend to follow federal precedents in interpreting the laws. Within the state there is usually an Office of the Attorney General that houses an antitrust division. In many states this is quite small, so the states frequently coordinate their work and may share resources on a given case that affects multiple states. The National Association of Attorneys General created an antitrust task force, which coordinates with the two federal antitrust agencies (i.e., the Department of Justice Antitrust Division and the Federal Trade Commission) and also coordinates actions among the states. Often the states will focus on the local effects of corporate actions, but sometimes they will team up in coalitions of the willing. Relation with the federal agencies is usually, but not always, cordial. States are not always aligned with each other. Increasingly there are partisan disagreements, with Democrat-

controlled states more enforcement oriented and Republican-controlled states more business-oriented. This unfortunately undermines the ability of the states to provide the most effective multi-state enforcement.

Most usually the states are concerned with local anticompetitive impacts of their own laws and regulations. Sometimes they will join with the federal authorities to try to stop a large merger based on what they project to be the local effects. This tends to give the states some say in the remedies that might be imposed or settled upon. The states also play an important role in competition advocacy, that is, reviewing pending legislation or regulation and advising other parts of state government how to avoid or minimize the anticompetitive effects. This is very important because about 30% of the jobs in the US are subject to state regulation, which often creates unnecessary barriers to entry or favorable advantages to a portion of an industry, practices that are not good for small competitors, new entrants, or innovation, and hence raise prices for consumers as well as obstacles to growth.

In this regard, note that China has taken up the idea of competition advocacy by creating a “fair competition review system” in which each government body (and entity with a public policy mandate) is required to conduct a self-review when formulating new business-related rules or policies, in order to check whether they may give rise to anti-competitive effects. Will self-policing be sufficient in view of what we know about regulatory capture?

From what I gather, the northern states of India do not do much in the way of coordinating with each other or with other states, so let me mention that in the U.S. we have a National Governors’ Association that also provides coordination of state policies, e.g. through its issuance of best practices guidance. It has a staff in Washington that looks out for the interests of the states. On the international front, the European Union created a European Competition Network for coordinating between the Brussels central authority and the state competition authorities. I also

want to mention the International Competition Network, which is made up of about 130 countries with markets and competition laws. Everything about the ICN is voluntary. It brings law enforcement agencies together so that the civil servants can meet and know their peers, so that common problems and various solutions may be discussed, and best practice guides can be drafted. The best practices are often useful to member states as they reform their own laws and procedures.

India might benefit from states working together, voluntarily, to improve their coordination and better distribute information about what works and doesn't work.

Competitive federalism, in my view, should also be cooperative federalism. The states have much to learn from one another. But let me end with a warning to avoid a regulatory race to the bottom. A classic case in the U.S. is the variation in regulatory requirements for incorporation and the protections for corporations, that has led so many companies to incorporate in New Jersey or Delaware, assuring that the most favorable laws prevail for big corporations. States today compete to subsidize businesses with tax advantages, infrastructure improvements, and guaranteed profits, most notably, perhaps, in constructing sports stadiums for professional teams or in inducing a company to open a factory.

My advice would be to learn from a book by two Yale Management School professors called *Co-opetition*: for the states to cooperate to build a bigger pie, i.e. so that they can all become more competitive within the nation and the globe, but to compete to become the best they can be in the areas where they have particular comparative advantages.

## II. Thoughts that Occurred to Me as I Listened to Focus Group and Conference Presentations and Discussions

### A. Best Practices

I was surprised to learn in several meetings that the states tend not to cooperate with one another to share information or generate best practice guidelines. This could be especially helpful for a topic such as Ease of Doing Business or Dealing with Anticompetitive Laws and Regulations. It could be tested out on a regional basis in northern India, starting with the top state officials for the relevant topic, but perhaps later also having peer to peer communications at lower levels.

## B. Competition Legislation in India

While we did not hear much about the relatively new national competition law in Delhi, this may have been a symptom of several relevant problems. First, competition law is apparently not having much impact. Second, the states do not have similar local competition laws and hence are likely deficient in the kind of 'competition culture' that would tend to make passage and enforcement of state-level antitrust laws successful. In the abstract, I would recommend passage of state competition laws because they can contribute importantly to increased competitiveness of the state and the firms within the state.

However, in view of what I have experienced (and I do not claim much expertise on the Indian situation), I think it would be more advantageous for the national competition commission to establish local offices in each state with the missions of (a) enforcement against local anticompetitive practices; (b) competition advocacy as the states develop legislative and regulatory initiatives; and (c) outreach to the public to develop more of a competition culture. If local experience with the national law is favorable, becomes reasonably well-known within the government and the public, and a level of local expertise is developed which could provide for both state enforcement and private counselling, perhaps it would then be timely to promote state legislation.

### C. State Government

An unfavorable impression was made on me by our visit to the Labour Department of Punjab. The offices were surprisingly shabby, the employees for the most part unimpressive at best, their knowledge (or what they were willing to share with us) was minimal, with basic data apparently lacking. (The commissioner himself was more pleasant and forthcoming than any of his employees, especially including the lower level office head we initially met.) My point is that if state government is going to play a more active leadership role in streamlining the economy and undertaking strategies to improve competitiveness, the state itself is going to have to make a more stately impression in terms of facilities, personnel, and an attitude of facilitation rather than regulation.

The state itself, if it were to strategize appropriately, could have a large influence on the structure of industries through its civilian and defense procurement policies and procedures.

### D. Listening to Businesspeople

We were struck in the two meetings with groups of businesspeople at how little they were prepared to talk about policy issues, but seemingly wanted to display their high regard for government EODB policies. In our last meeting, however, with the head of the regional PHD (Chamber of Commerce) by himself, we were told that this is not surprising as the businessmen (all men) need to get the government's approval time after time and don't feel they can say anything negative in public.

### E. Law and Order

Corruption is well-recognized as a huge problem, as demonstrated by the way so many dramatically inconvenienced people justified the national government's sudden demonetisation policy, which formed a kind of backdrop for our tour. It was good that P.M. Modi was finally acting to stop corruption, we were often told, but the execution was terrible. From an economic point of view, the vast extent of bribery and corruption in the nation would seem to undermine competitiveness by adding to the cost of doing business, making entry and hence innovation more difficult, creating a suffusive air of cynicism, and undermining state revenues—all of which is likely to reduce demand for goods and services and their production.

The report from InvestPunjab was impressive as an example of single-window reform, but itself raises questions about what is going on behind the single window and how much power (without any mentioned checks and balances) may be given to an individual within a framework that has apparently hitherto been ripe for bribery.

One should note that putting applications for licenses on-line can save time, but by itself may not represent real improvement.

The establishment of “law and order” going beyond bribery should probably be the number one priority for improving competitiveness. Investors, foreign or local, need to feel assured that they will be operating on a legally protected level playing field. An important step would be to reform the transfer of land so that titles are transparent and guaranteed. To the extent the informal economy can be formalized (e.g., by more people having checking accounts and credit/debit cards and a reduction in the proportion of transactions involving cash), competitiveness should improve.

#### F. Education and Skill Development

I sensed a general recognition of the importance of stronger educational systems and better transmission belts from school to work. I did not hear much detailed explanation of how this can be achieved. My suggestions would be (1) to study the German apprenticeship programs that are known to be successful and (2) consider use of higher education to anchor clusters of industries in underdeveloped areas, and (3) stress the relatively underutilized economic asset of woman power.

The country of Israel has a lot to teach. Read Senor and Singer's Start-Up Nation and study the experiment of the government's placing a start-up Ben-Gurion University in the desert region to provide excellent education while at the same time having a mission to develop the region.

#### G. Questions about Growth as a [the] Goal

The theme of the project seemed to be CUTS' presentation that competitiveness is about growth, inclusivity, and sustainability. Some folks raised questions about whether the three are necessarily consistent and mutually achievable. I agree with this skepticism. I believe there should have been more searching discussion about what is meant by competitiveness. How much growth is really desired, and whose growth? What is meant by inclusiveness, and on what bases would discrimination be permitted? How should compromises be fashioned between high-growth potential and high pollution potential? If we are talking primarily about job creation, does this prefer short-term above long-term achievements?

What kinds of Foreign Direct Investment are desirable? Is it enough to create jobs or must there also be a longer-range plan for eventually having Indian control over technology and profits? And what about exports? Can sufficient credit be made available to generate sales abroad?

## H. Culture and Economics

My impression, albeit no doubt superficial, is that northern India is characterized by incredible diversity and a sense of chaos—of atoms pursuing their own lives—rather than working-togetherness. The large role of the family and splitting of inherited assets among the children seems to limit India to smallish family businesses and farms. It is what might be called (following Francis Fukuyama's book, Trust) a low trust culture, meaning that people trust one another within a family, perhaps within a caste to a lesser extent, but family businesses do not tend to grow into large professionally-managed firms that have sufficient scale, scope, and endurance over time to play seriously on the world scene.

This gets to a fundamental challenge: if scale, scope, and durability are important to competitiveness, can the northern states create a legal, economic, political, and cultural climate that promotes greater industrial concentration, yet constraining concentration so that it is competition rather than regulation which plays the guiding role? Do the people really want bigger businesses? Growth may mean new jobs, but, like competition, trade, and investment, it usually entails the destruction of jobs. If the culture is one that prefers security to innovation, change, and growth, then how would a state go about developing a culture more open and inviting to competitiveness?

If there is an answer, it probably involves an overall strategy that takes all aspects of public life into account, with an enduring vision that can be fulfilled over a substantial period of time.

## III. A Few Thoughts About the Project Itself

The trip was useful from my perspective, in that it educated me on the challenges facing the northern states of India and some of the attitudes of officials, businesspersons, and educators toward increasing competitiveness. I hope and believe that my presentations provided them some concepts and perhaps alternatives to think about, without being preachy. It would have been preferable, from the point of view of educating me, to start with the workshops (focus groups) and end with the conference. On the other hand, I came to see my role more as a stimulator and excuse for meetings rather than having my personal education as a main objective (which was how I originally understood the situation).

Some conversations with CUTS and the Embassy via phone/skype prior to my travels and additional lead time to prepare on my part would have been useful. A meeting (more than our first night casual dinner) with CUTS and the Embassy to share more thoughts about the entire project prior to outside meetings would have also been helpful. I will be happy to converse with your next speaker about my experiences.

The meeting with government, i.e. the Punjab Labor Department, was not particularly useful. I did not feel that the officials we met were well-prepared for the nature of the meeting or were substantively helpful, although seeing up close what the State is working with was a truly informative experience. The meetings with the business people tended to be undercut by their fear of saying something in public that might be taken as critical of the government. The exception to this was the very informative meeting, one-on-one, with Dr. Praveen Rathee, the regional director of PHD.

I recommend adding an element of control with respect to your invited speakers by having a moderator ask them questions and engage in more spontaneous conversation rather than rely almost entirely on talking heads.

Finally, I should note that even though nearly all speakers were using English, I failed to understand them all consistently. It may be my fault and there may be nothing to be done about it, but there should be an awareness that a language barrier can be a built-in hurdle.

I end by highlighting that the interactions with Douglas Fowler and Mandeep Kaur were very supportive of the mission and that Neha Tomar's guidance and care-taking were crucial to the success of my visit. Doug mentioned that perhaps CUTS did not have to be in all the meetings. I would personally disagree with that.

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Nov. 30, 2016  
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