



Economic liberalization still has a long way to go in our country

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The Prime Minister is well placed to deploy political capital on shifting our policy focus from entitlements to job generation

1991 will always be remembered as a red-letter year in India's economic history. Paving the way for much-needed reforms in the form of liberalization, privatization and globalization, the Indian economy geared up for a transformative change. But how often does one question the timing of these reforms? More specifically, why were they delayed? What was holding back India's power brokers at the time from a complete revamp of the country's economic system?

This is not just important in the process of unlearning India's costly decisions of the past, but has consequences for the future well-being of the economy. In a CATO Institute research paper published in 2016, noted economist Swaminathan Aiyar wrote that India's 20-year delay in going for economic reforms had been a humanitarian nightmare. He posits that India's poverty ratio did not improve at all between independence in 1947 and 1983; the proportion of the country's poor, as defined, remained a bit under 60%. Meanwhile, the population virtually doubled, meaning that the absolute number of poor people doubled.

The unprecedented economic rise of China in the late 1970s and 1980s, coupled with the double-digit growth of the Four Asian Tiger economies—Hong Kong, Singapore, South Korea and Taiwan—until the turn of the millennium were successful Asian examples that placed India's slow-paced growth trajectory in sharp relief.

Fast-forward to today, and one can see that many of the pro-market reforms instituted over the years are yet to take off effectively. The source of these ills has unquestionably been populist politics that often defies free-market logic. For instance, the Mahatma Gandhi Employment Guarantee Act of 2005 (MGNREGA) provides the "right to work" for any adult member to do unskilled manual work for a guaranteed 100 days in a year. However, it hinders the adoption of technology or mechanized labour that would raise overall productivity. Moreover, this social security scheme is far from sustainable for its intended beneficiaries, as the MGNREGA wage is much lower than the minimum wage in 34 of the country's 35 states and Union territories. Other entitlements such as the Right To Education Act of 2009 have led to the unfair treatment of privately-run schools, which require endless compliances and licences that severely affects their profitability.

Let's take the case of the United States, where President Donald Trump has earned a reputation for his pro-business attitude. In the first three years of his presidency, Trump oversaw the creation of 6.6 million jobs, mainly on account of bringing back offshore manufacturing jobs to the US. Further, domestic businesses and multinational corporations—with the promulgation of the Tax Cuts and Jobs Act 2017—saw a standardized corporate tax rate of 21%, which meant significant cuts of taxes on corporate profits, investment incomes, and so on.

The key takeaway for India is the need for strong market-driven reforms that would boost economic growth and wages, thereby avoiding the temptation to take a socialist path to recovery.

This will be a test for Prime Minister Narendra Modi, who led the ruling Bharatiya Janata Party (BJP) to a narrow victory in the recently-concluded Bihar elections, a state where populist policies are the name of the game. Riding on his high political capital, Modi and BJP are firmly in the driver's seat of economic policies for the state over the coming years. We hope that real governance solutions are devised, instead of the state's exchequer of funds being used for wasteful schemes. For instance, Bihar has struggled with the maintenance of land records, due to poor implementation. The digitization of those records would be a welcome move that puts Bihari landholders, both big and small, squarely at the centre of policymaking, particularly if the exercise results in reduced bureaucracy and provisions for easy access to data.

Such reforms—of “minimum government and maximum governance”—aren't new to the Prime Minister's lexicon. When he swept to power back in 2014, his government was expected to initiate pro-market reforms and governance enhancements such as simplification of the country's tax system, transparency of processes, etc. Aadhaar, for instance, provided an opportunity to plug a decades-old problem of leakages in social security schemes. Sanjeev Sanyal, principal economic advisor in the ministry of finance, even called Modi “the first genuinely post-socialist political leader of India”. Today, Modi must re-focus his government's attention away from the “entitlements-based” approach of the past to a clear jobs-driven agenda. It is also worth noting that India's cherished expectations of a demographic dividend, thanks to a youth bulge, are rapidly losing steam. One expert has projected 2035 as the year after which the median age of the country's population will start to rise.

Noted economist and former chief economic advisor Arvind Virmani had predicted years earlier that Modi's experience in Gujarat as its chief minister (from 2001 to 2014) would compel him to improve governance measures in the bureaucracy-driven nation before introducing big-bang reforms. What the Prime Minister has been able to demonstrate is an ability to sidestep political risk, especially when the stakes are high. Given Modi's popular mandate and political capital, his leadership offers India its best prospects for change at the current moment.