Enter Stage Right

Free market reforms can alleviate poverty for millions in India

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Beep! Beep! The sounds of a countless number of simultaneous honks mingled with the many rickshaws and motorcycles that were stuck in the center of the road. Indeed, there seemed to be no traffic law that was enforced. A quick glance across the street revealed tens of vendor shops selling food, clothing, and cheap accessories. This is just a quick peek into an ordinary Indian street when I visited India several years ago. Like many developing countries, India enjoys the advantages of an abundant labor force and a strong entrepreneurial spirit, leading to huge potential in human capital. However, India also suffers from rampant corruption, widespread poverty, and dismal living standards.

First, the Indian government should hack through the jungle of regulations and thicket of red tape for three reasons. First although well-intended, many of the regulations are too costly or serve no purpose. A report by Political & Economic Risk Consultancy Ltd. found that India has the worst bureaucracy in Asia. India's massive bureaucracy was cited as the biggest complaint by business executives. Second, excessive regulations reduce legal certainty for foreign investors. If you want to invest in India, you would not be sure if your company will be find guilty of violating of one of the thousands of onerous regulations. For example, two stores that have enhanced the standard of living for millions of Americans - Walmart and IKEA - struggled just to begin to operate in India. The 2017 World Bank "Ease of Doing Business" report ranked India 130 out of 190 countries. Third, the regulatory climate induces corruption by incentivizing companies to bribe regulators, politicians, or judges to ignore violations. As one business owner said, "Right now it's not possible to do business in India without greasing palms, without paying bribes." This puts law-abiding businesses at a heavy disadvantage. Corruption is a serious problem in India. In 2003, only 15% of the government's anti-poverty funds reached the poor. A survey by the firm KPMG found that corruption has directly inhibited the growth of 45% of Indian companies.

How can the Indian government cleanup its regulatory mess? It could either streamline its federal regulations, appoint an independent commission to evaluate regulations, or implement structural reform to make passage of new restrictions on business harder. Doing any of these will increase the benefit businesses, increase investment, enable employment, push-down prices, and cut corruption.

Second, the Indian government should increase investment in infrastructure. An estimated 40% of villages don't have proper roads connecting them. Although the poverty rate remains high, it has been steadily reducing the past decade or so. According to the World Bank, one of the main reasons for this is investment in infrastructure, noting that the benefits were many: "Rural electrification in India has caused changes in consumption and earnings, with increases in the labor supply of both men and women, and promoted girls' schooling by reallocating their time to tasks more conducive to school attendance."

Finally, the Indian government should privatize its State Owned Enterprises. The Indian government owns the railway system, public telecommunication systems, and tens of other services. (see here for a full list) Unsurprisingly, the area of India with most corruption is the government-owned railway system. Quasi-politicians-employees distribute bribes (that is, the taxpayers money) to fellow employees based off on seniority, rather than merit. That is a recipe of inefficiency. The Indian government should sell off each of these. This will give them revenue to reduce debt and pay for the infrastructure. Privatization will undoubtedly accelerate India's economy. An OECD report reviewed the research on privatization and found "overwhelming support for the notion that privatization brings about a significant increase in the profitability, real output and efficiency of privatized companies." The Journal of Economic Literature concluded that privatization "appears to improve performance measured in many different ways, in many different countries." Finally, the CATO Institute issued an extensive report in June 2016 that found privatization: Promotes Efficiency and Innovation, Increases Labor Productivity, Improves Capital Investment, Reduces Prices, Increases Government Transparency, Increases Exports and Foreign Investment, and Reduces Debt, among other advantages. It is easy to see all of these advantages would contribute to an increase in long-term growth for India's economy.

Although India has huge potential, it still suffers from many serious and widespread problems. The statistics are heartbreaking: an estimated 363 million live in poverty, 3000 children die from hunger *every day*, 70% don't have access to proper toilets, and 35%don't have a nearby water source. Reducing red tape and regulation, investing in infrastructure, and privatization are just three of the policies that would ameliorate these problems by increasing long-term growth. There are many more ideas that would undoubtedly help, but these three simple ones will go a far. All in all, a restoration of free market policies would go miles for India. The Heritage Foundation's Index of Economic Freedom has consistently found that countries with more Economic Freedom enjoy higher GDP per capita incomes, cleaner environments, and less poverty. Restoration of free market policies is necessary for the good of millions of people.