



# India Takes On Bureaucratic Red Tape With Series of Changes

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NEW DELHI—India’s premier Thursday took steps to rein in the authority of federal labor inspectors—part of a series of measures aimed at taming a government bureaucracy seen as thwarting economic growth.

Prime Minister Narendra Modi said rules would be changed to randomly assign inspections and set time limits for report-filing to give inspectors less discretion. He also said that in some cases businesses would be able to self-regulate or hire third-party auditors.

“These steps may seem small, but they will amount to big changes,” Mr. Modi said.

The moves are aimed at reducing the burden that businesspeople and economists say is imposed on companies, especially smaller ones, by heavy-handed, arbitrary or corrupt enforcement of regulations. Indians refer to the system of bureaucratic scrutiny as the “inspector raj.”

Entrepreneurs and industry leaders say the wide discretionary powers of labor inspectors and India’s complex and outdated jumble of labor laws are among the biggest impediments to one of Mr. Modi’s top priorities—expanding Indian manufacturing and exports.

China and other Asian countries have grown rapidly on the strength of labor-intensive industries. But Indian manufacturing has remained stagnant at roughly 15% of national economic output. India ranks 134th out of 189 countries on the World Bank’s rankings for “ease of doing business.”

Boosting manufacturing is the cornerstone of Mr. Modi’s economic program. But it is so far unclear if Mr. Modi is inclined to enact the kind of bold economic overhauls that experts say are necessary to refit the Indian system.

These include politically sensitive changes to India’s labor laws, which are backed by powerful unions, including those associated with his own political party. So far, Mr. Modi has seemed intent on not alienating workers.

In his speech Thursday, Mr. Modi said: “We need to look at labor issues from the laborer’s point of view, not the employer’s.”

For now, Mr. Modi appears focused on trimming red tape and streamlining government bureaucracy, while also curbing opportunities for corruption.

In a series of directives, he has instructed officials to find ways to scrap obsolete laws, allow electronic submission of documents, restrict official forms to a single page, move clearances quickly and reduce reporting requirements.

Some dismiss these steps as bureaucratic tinkering, but others say they will add up.

“They will certainly contribute to reducing the cost of doing business, particularly for small and medium enterprises,” said Subir Gokarn, director of research for Brookings India who specializes in economics and development. “Transaction costs to comply with regulations are extremely high, so in this case, the nitty-gritty matters.”

But, Mr. Gokarn said, to be “truly effective,” these steps have to work in tandem with broader policy shifts. “A combination of the two would be very significant,” he said.

On Thursday, Mr. Modi said that inspections will now be assigned through a randomized, computer-based system. Inspectors will be required to upload reports within 72 hours to avoid tampering and harassment. This will “spur economic activity,” Mr. Modi said.

Mr. Modi also said his government had opted for a “technology-aided solution” to make it easier for industries to comply with rules and to reduce inspections and paperwork. He announced an online portal that will allow manufacturers to register factories and submit documents electronically.

Critics say, however, that when it comes to administration, Mr. Modi’s powers are limited under India’s federal system, in which state governments, led by powerful chief ministers, wield enormous authority. A large number of labor inspections and paperwork are overseen by state authorities, for instance, and can’t be changed unilaterally by Mr. Modi.

“Ninety percent of people have never seen a central-government official in their lives,” said Swaminathan Aiyar, an Indian economist and research fellow at the Cato Institute in Washington. “If you have to open a small shop or a factory, you go to the state. Modi can’t help you.”

Still, economists say, Mr. Modi’s moves to streamline the central administration are likely to have some impact.

In labor laws, Mr. Modi has so far gone after the low-hanging fruit. Earlier this year, his government approved modest changes, including allowing women to work night shifts, easing rules for hiring apprentices and increasing the hours of overtime for workers.

Analysts point to another strategy: pushing overhauls through state governments. The western state of Rajasthan, governed since December by Mr. Modi’s Bharatiya Janata Party, has in recent months made changes to labor laws to make it easier for small companies to fire workers and impose a time limit on raising disputes—a move that could spread to other states in a case of what some call “reform by stealth.”