

THE HINDU Business Line

Why India @ 71 still lacks economic freedom

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Now, why would you spoil the party?

I'm not saying we don't have any cause for cheer on our Independence Day. I only meant that as a nation, we have underperformed relative to our potential owing to inadequate economic freedom.

What is this economic freedom you speak of?

It's a concept much favoured by those who abide by the libertarian political philosophy, which places an emphasis on freedom of choice and individual rights, and is characterised by an aversion to state power and authority.

Tell me more.

In its broadest sense, economic freedom relates primarily to the freedom of choice that individuals in a society enjoy in acquiring – and using – economic goods and resources. Those who argue in favour of it believe that individuals know their needs best, and that, therefore, the foundation for a fulfilling existence is a life directed by one's own philosophies and a sense of self, rather than those imposed by a government or an authority.

Now, why does that sound familiar?

It echoes in some measure the spirit of the “invisible hand” that economist Adam Smith spoke of. Smith used it to convey the notion that individuals' efforts to pursue their own interest may often prove more beneficial to society than if their actions were directly intended to that effect.

And you say we lack economic freedom?

To get an answer to that, we'd have to determine what are the markers of economic freedom. As generally accepted, the cornerstones of economic freedom are personal choice, voluntary exchange, freedom to compete and security of privately owned property. Institutions and policies are said to be consistent with economic freedom when they allow voluntary exchange and protect individuals and their property.

And how does India fare on those counts?

Well, libertarian institutions and think-tanks such as the Heritage Foundation, Cato Institute and Fraser Institute have devised indices of economic freedoms, based on their own parameters, but

inspired by the big principles as enunciated above. Broadly speaking, these indices measure the extent to which policies and institutions of countries are supportive of economic freedoms. For instance, the Heritage Foundation's Index of Economic Freedom ranks countries annually on the basis of scores under four broad heads: rule of law, government size, regulatory efficiency, and market openness. On the ranking of 180 countries, India comes in at 130, one rung above Pakistan. On other such rankings too, India fares abysmally poorly.

Don't such rankings come with biases?

They often do: for instance, excessive deregulation of environmental laws would be rewarded with higher rankings on the economic freedom index, but it would prove ecologically disastrous. Yet, the bigger concern in India is that policy is still bound in red tape, which constricts economic freedom. As the recent wave of protectionist tariffs suggests, we are a long way from attaining economic freedom.

Does economic freedom translate into material gains?

Good point. The Fraser Institute has established that countries with more economic freedoms have higher per-capita incomes; tend to grow more rapidly; have higher life expectancy; and generally perform better on most human development indices as well. Even the poor in economically freer countries are better off than in other countries. In more general terms, greater economic freedom is associated with more political rights and civil liberties.

Bottomline?

Over 72 years, we may have come a long way, but we've underperformed, and still have miles to go in attaining economic freedom.