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India must continue pursuing its economic reforms

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In the West, the pendulum of economic opinion has swung left. Gone are the certitudes of the Washington Consensus and its implicit trust in markets. The realisation that the origins of the ongoing financial crises lay in scandalous financial sector practices, pursued under the indulgent gaze of feckless government regulators, has led to calls for new and tighter regulation of markets. A fierce debate now rages over the appropriate role of the state in the economy.

From an Indian perspective, this weakening of faith in markets must seem ironic, coming as it has after nearly two decades of robust economic growth that followed the initiation of India's own market-oriented reforms in the early 1990s.

The "unbounding" of India, in Gurcharan Das's apposite phrasing, from the shackles of governmental restriction has delivered widespread progress. India has scored an impressive aggregate growth performance, with an average GDP growth rate higher than 7 per cent in the last decade, placing it among the fastest growing nations in the world.

Spurred by competitive pressures, both domestic and international, and now freer to become more efficient, Indian manufacturers offer products of better quality and greater variety. Global technological change, leveraged by an engaged diaspora and visionary domestic players who have, by all accounts, stayed a step ahead of the regulatory grasp of government, has resulted in a world-class IT sector in India.



Shoppers ride escalators in a shopping mall in Mumbai.

Alongside this fast pace of growth, the last decades have also seen impressive reductions in the numbers of the poor. Recent controversies on the measurement of poverty notwithstanding, quantitative assessments suggest that as many as 200 million people have left the ranks of the poor. Furthermore, if development, fundamentally, consists of the removal of "unfreedoms", as Professor Amartya Sen has often reminded us, India can count much developmental success since the reforms.

Consider, for instance, the miracle of the cellular phone, which the largely private providers of telecommunications services in India have placed in the hands of more than half a billion subscribers in just a little over a decade. From farmers in rural areas, who can check the reference prices of their outputs with their phones, and thus are less likely to be defrauded by intermediaries, to bank

customers, who receive instant transaction notifications via SMS, to migrant workers in urban areas who are able to make remittances to their rural families through mobile banking and payment services offered by domestic entrepreneurs, cell phone technology has created more economic freedom and redistributed economic power, often to the benefit of the poor. The manifestations of such innovation and progress are pervasive, with clearly recognisable improvements in the provision of a wide range of private and public services.

With rising incomes have come higher political and social expectations. Professors Jagdish Bhagwati and Arvind Panagariya have hypothesised that a consequence of the economic reforms has been the "revolution of rising expectations"- the inclination of the electorate to reward incumbent politicians who have delivered growth with re-election and to boot out the rest-as evidenced in the study of the 2009 parliamentary elections in India by Panagariya and economist Poonam Gupta. They found that 85 per cent of the incumbents in high-growth states were re-elected, compared to only 30 per cent in low-growth states. This suggests a strengthening of the mechanisms of democracy and holds out the promise of a virtuous political-economic cycle that will further propel India's ascent.

Vast numbers of Indians remain desperately poor. Education and health services are in need of dramatic improvement. Inefficiencies and corruption pervade most levels of government. The rapaciousness of the country's political and business elite remains in full evidence. And yet, for all of the challenges that still lie ahead, India has provided the world with a textbook example of the benefits of economic liberalisation.

As the winds of economic change circle the globe, India shouldn't let the West's example of the consequences of lax regulation of the financial sector make it go wobbly on the benefits of free markets, in general. And policymakers in the West needn't look much further than pre-reform India to understand the consequences of an economic system that submits itself too fully into the loving embrace of the state.

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