

Can Indian Economic Growth be Sustained without Major Economic Reforms?

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Tremendous growth in Indian economy in last 3 decades has created 300% increase in per capita income, moderately lower unemployment, a significant size of foreign reserves, increase in real wages in some sectors and unprecedented real estate price increase. Even if the current real GDP growth is debatably at around 5 %, more challenges lie ahead for policy makers as well as for other economic decision makers. In fact, faster are these changes made, better it is for the economic strength. In 2013, Trade and budget deficits are skyrocketing and an immediate solution is not seen in the recently presented union government budget. Added to that the hovering pressure of drought in coming months, economic policy mistakes and lack of political will to make permanent solutions can reduce the GDP growth further. The long run sustainability of Indian economic miracle depends heavily upon the country's flexibility in accepting challenges ahead. So, the question is what are these main challenges? Or in which areas are the economic reforms needed most? We should deal with these questions in detail.

The Saga of Corruption: While the corrupt practices in Indian polity and economy are not new, their intensity has increased and the call for action has begun more vociferously; thanks to the movement of Anna Hazare and his friends such as Dr. Subramanian Swamy. It is credible that they are asking hard questions profusely, but the major problem is unless we offer a more practical and better substitutable system these calls will fall on the deaf ears as they already have. Consider the major cases in recent times, The Adarsh colony malpractices, 2G scam, Commonwealth Games rent seeking, helicopter purchase scam are all cases of unsolved mysteries where culprits are walking freely on the street. Why are we not able to proceed faster in taking the proven guilty parties to prison?

There is another inherited danger in this inefficiency. First, these practices give a bad name for the country's foreign investment attraction ability. More importantly, these unfinished and sometimes unjustified cases may serve as the precedents for other power holders, leading to a process which makes the corrupt practices breed on themselves. There lies the next important challenge of expediting the cases in Indian legal system.

Revamp of the Indian Legal Structure: There is no other more urgent need for economic reform than the revamping of Indian legal system. This also does not mean that we need new laws, indeed, it is the problem of abundance rather than shortage of laws. Newer and more laws need a higher bureaucracy, thing that creates more not less corruption. If laws cannot be implemented, it makes no sense in having more of them. On the contrary, we need to get rid of the old laws that have been poorly managed and are so outdated that there is no reason for their existence. Take a case of the law that requires individual shop owners to keep store open no more than 10 hours a day. With so much unemployment in Indian youth, jobs should be created, at least on part-time basis, by allowing shopkeepers to stay open as many as 12-15 hours a day.

The current pathetic situation in Indian court system is so worrisome that the need to change it is very urgent. Consider that the number of high court judges in India is 11 per one million population, one of the lowest in the world. In countries like USA that number is 110. The number of already pending cases in Indian high courts is so astronomical that the high court in New Delhi would take 466 years to clear its backlog! (USA Today February 12, 2009). These problems of Delhi High Court which hears civil, criminal and constitutional cases is more the standard than the exception. Unless we come up with a system which is more efficient, swift and organized any attempt to take the help of Indian laws is not going to be successful to uproot the corruption. This brings us to the new areas of urgent need of increased private or public investment.

Education, Lower Taxes, Infrastructure and Freer Trade:

There is an immediate need for changes in these major sectors of the economy. Education has gotten wide impact of private sector, but the quality control is lacking. We need a cohesive organization of degree granting institutions that have similar requirements to fulfill. Supply of smart, knowledgeable professors is short, and policies have to be adopted to attract not only foreign professors but also train the brilliant ones at home. This by no means to imply that all private educational institutions are bad, in fact some of them are doing a very valuable service and need to be promoted.

Second, the tax burden has increased in absolute and relative sense over the period of times. Businesses are feeling the heat of badly managed and sometimes erroneously collected taxes. Lowering tax rates (and a better implementation of the existing ones) could be a way to go.

Recently a new finding was released that informed us that 3 lakh crores rupees worth infrastructure projects are stalled in the bureaucratic web for approval. This is too big an

amount to be ignored. Increase in projects for roads, utilities, water transport, and other infrastructural needs would bring the economic growth much faster than any other action. It needs to be pointed out that there has been an improvement in road construction in last 30-40 years. However, with much more increase in the number of vehicles, the relative improvement in transportation is still not that impressive. In fact, all major metropolis witness tremendous traffic jams, poor maintenance of available roads and total miss management of vehicular traffic. There is therefore greater need of private as well as public investment in infrastructure. Utilities such as electricity and water supply create another major headache for planners. At least the telephone availability has improved greatly, thanks to the mobile phone technology, but water and electricity supply will be severely limited if we do not plan early and in a big way.

Lastly the need for increasing exports and imports is more relevant now than any time in the past. Indian exports, even if little more visible than before, are still only 1.8% of the total world exports, the amount that is desperately low for the population of 16% of the world. Economic growth without international trade is mostly impossible as seen by most of the closed economies such as North Korea, Cuba and Iran. On the contrary, trade has been an engine of economic growth for numerous economies of the world as seen in Singapore, Hong Kong, Malaysia, Taiwan and many others.

It goes without saying that India's economic reformers should move very fast in grabbing the world share of the trade. There are two main ways to do that: Commodity diversification (inventing newer products in which the country has comparative advantage) and regional diversification (finding newer areas and countries to trade with) India's record on these counts is not bad, but we need to progress much more. In short, a quick set of actions in terms of economic reforms is a pre-condition of moving ahead for another round of double digit growth rate. Get on with the program, and see better results fast, or do nothing on these policies and we will certainly be in danger of continuing with the staggered growth and in a real danger of going back to 1970s when even Hindu rate of growth was considered to be an impressive achievement! The ball is in policy makers' court!!!

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