

## Unshackling the Indian economy will be a tall order



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‘Unshackling India’ by Ajay Chibber and Salman Anees Soz is comprehensive in its coverage of reforms and negotiates finely the path between the usual binaries in our development discourse

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*Unshackling India* (HarperCollins India), an ambitious new volume on economic reforms by Ajay Chibber and Salman Anees Soz, is remarkably comprehensive in its coverage. It impressively navigates a finely-balanced path between the usual binaries in development discourse: Dirigisme versus libertarianism, state failure versus market failure, growth versus distribution, public enterprise reform versus privatization, and so forth. Also, before getting into the details of reforms in specific factor markets and sectors, the authors lay out what they consider foundational—changing the role of the state and human development. I entirely agree with them that a dysfunctional state and the snail’s pace of human development are indeed the two key constraints that have held India back.

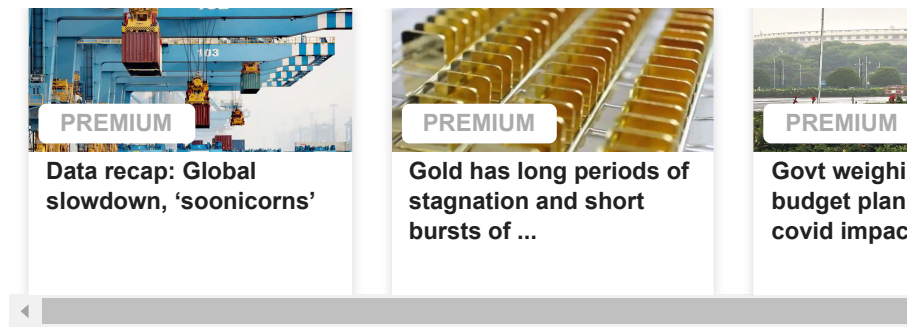
In the chapters on government and public enterprises, as in others, the authors first summarize the main findings of a vast body of research on the subject, often along with relevant research on other countries. Based on that, they then present their own detailed reform agenda. The overarching message is simple. The state in India is not too large, relative to the size of the country, but it spreads itself thin in doing too many things. It lacks the capacity to do all these things well, so we end up with poor governance and delivery of essential public services. The first plank of reforming the state is therefore to reduce its

scope. Just do the few things a developing-country government must. The second plank is to strengthen state capability to do those things well, whether it be delivery of public services such as education, healthcare, infrastructure development, law-and-order and defence, or regulation to protect the environment and ensure that markets remain contestable, or macroeconomic management.

Another key message is decentralization down to the local government, the level at which citizens encounter the state and at which many public services should be delivered. This will require major reform, even constitutional amendments, to empower local governments politically, enable them to mobilize adequate resources and build their capabilities. On the subject of public enterprises, the authors focus on privatization. But they also carefully sequence which enterprises should be privatized when.

The second foundational intervention they propose is rapid human development. Summarizing India's abysmal record on learning outcomes and the appalling quality of health services, underlined by the collapse of our healthcare system in the second covid wave, the authors emphasize that no country can aspire to be a major global player without a skilful and healthy workforce. And none of that is possible without a sound foundation of basic education and high quality basic healthcare. The real commanding heights of an economy are not steel mills, power plants and heavy industries, as early planning models assumed, but education and healthcare. This theme runs through the book.

The authors then nutshell the literature, draw lessons and present their reform proposals for all factor markets and major sectors. In their tour de horizon, some proposals are inevitably more compelling than others. Let me select a couple which struck me as the most important.



In agriculture, apart from other proposals like replacing product support with more income support, PM-Kisan and MNREGA, and incentivizing crop diversification away from water-guzzlers like rice, wheat and sugarcane, the authors focus on the emergence of farmers producer cooperatives, as shown by Amul in the case of dairy. This is a major institutional development that's gaining traction in several states. Perhaps it is the only way of making agriculture viable when farmland is mainly owned as tiny plots by millions of farmers.

In the case of industry and trade, the authors propose that instead of raising protectionist tariff barriers, which are self-defeating, the government should pursue a light-touch industrial policy, which played a major role in the rise of the East Asian miracle economies, including China. This approach has already helped Indian firms penetrate global markets in sectors like automobiles, auto parts, engineering goods, electronics and pharmaceuticals. Such support could also be extended to defence equipment, green technology, etc, to ride the fourth industrial revolution driven by digitization, artificial intelligence and robotics. In this context, they feel the recently-introduced Production -Linked Incentive (PLI) scheme has great potential.

I could pick many examples. However, there is perhaps an internal inconsistency in the authors' approach. Reforms are also interventions requiring state capability and they suggest reform measures for everything from government and privatization to education, health, raising women's labour force participation, social safety nets, labour, land, the financial sector, agriculture, industry and trade, services, climate change, emerging technologies and even disaster management. Yet, their foundational proposal is to reduce the scope of our capacity-constrained state.

In that light, it would be better to focus on a few key reforms, strengthen state capacity to do those reforms well, and leave the rest to the invisible hand of the market.

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