Economic Reforms 2.0: Recommendations for a New Economic Agenda for India

Nilanjan Ghosh & Partha Pratim Pal

ABSTRACT

The last 25 years since India began embarking on economic reforms provide various lessons for current economic policy-makers as they look ahead to future challenges that face the country and seek to combat such difficulties. This report provides broad recommendations for setting the agenda for India’s ‘economic reforms 2.0’. It builds on the presentations and discussions made during the conference, ‘25 years of Economic Reforms in India: Retrospect and Prospects’, organised by Observer Research Foundation-Kolkata and the Indian Institute of Management Calcutta in October 2016. The report does not propose to present an exhaustive list of reforms, but rather an indicative menu of strategies that were agreed upon during the conference.

Observer Research Foundation (ORF) is a public policy think-tank that aims to influence formulation of policies for building a strong and prosperous India. ORF pursues these goals by providing informed and productive inputs, in-depth research and stimulating discussions. The Foundation is supported in its mission by a cross-section of India’s leading public figures, academics and business leaders.
FOREWORD

The year 1991 was a watershed for the Indian economy, as massive reforms were instituted to respond to the prevailing economic circumstances. The desperate conditions under which the reforms were taken have been aptly described by Shri Jairam Ramesh in his book, To the Brink and Back. Indeed, India’s balance of payments (BOP) problems started in 1985 and by the end of 1990, the country was in a serious economic crisis. Foreign exchange reserves in June 1991 were barely sufficient to carry out essential imports for two weeks; and the economy was weeks away from defaulting on its external debt payment obligations. It was during this time that P. V. Narsimha Rao took over as prime minister in June, and roped in Manmohan Singh as finance minister. What followed was a series of large-scale reforms in various domains of the economy, or what is known as structural adjustment, which provoked outcry from a public outraged by the government’s move to pledge the country’s gold reserves against its debts. Dissenting voices emerged not only from those outside the government and the Left, but also from within the Congress party and the incumbent. The challenge was bigger because it was a minority government.

Therefore, an immediate important endeavour was the engagement with various stakeholders. A host of multistakeholder conferences took place throughout the country, one of which was organised at the Indian Institute of Management (IIM) Calcutta campus at Joka, West Bengal, with the Observer Research Foundation (ORF). There were various luminaries present in that meeting, including the architects of reforms (like Dr. Manmohan Singh, Mr. P. Chidambaram, Prof. P.N. Dhar, and Mr. R.K. Mishra as Founder-Chairman of ORF), prominent figures from the leftist academia (such as Mr. Jyoti Basu, Prof. Ashok Mitra, Prof. Ashim Dasgupta, and Mr. Gurudas Dasgupta), academics (Prof. Amit Bhaduri and Prof. S.L. Rao), and industrialists as well. The series of workshops eventually led economists like Prof. PN Dhar, Prof. Narsimhan, Prof. R.N. Malhotra, and Dr. I.G. Patel, to write what would become the seminal agenda paper on economic reforms.

The year 2016 marked not only a quarter-of-a-century of India’s economic reforms, but also 25 years since the event organised by ORF and IIM. In our capacities as Directors of IIM Calcutta and ORF Kolkata, we felt that it was time for the two institutions to again come together and commemorate these milestones in a conference, which we called, ‘25 Years of Economic Reforms in India: Retrospect and Prospects’.

With the valuable ideas shared at the conference, and with secondary research and astute analysis, Dr. Nilanjan Ghosh, Senior Fellow at ORF Kolkata, and Prof. Parthapratim Pal, Professor of Economics, IIM Calcutta, wrote this paper. It is time that India looks ahead to the next 25 years.

We thank all the speakers who participated at the conference, and the authors of this report who have given the ideas an economic rationale. We hope that the recommendations in this report will contribute to current policy discourse, and
serve as a beacon for the path for India’s growth and sustainable development in the years to come.

Saibal Chattopadhyay  
Director, IIM Calcutta  

Ashok Dhar  
Director, ORF Kolkata
CONFERENCE SPEAKERS

Keynote Speaker

P. Chidambaram, Former Minister of Finance, Government of India

Panelists

Abhijit Sen, Former member, Planning Commission of India
Anil Razdan, Former Secretary Power, Government of India
Ashish Kumar Chauhan, MD & CEO, Bombay Stock Exchange
Debashis Sen, IAS, Additional Chief Secretary, Urban Development Department, Government of West Bengal
Ila Patnaik, Professor, NIPFP, Delhi
J. Mauskar, Former Special Secretary, Ministry of Environment & Forest
Jayanta Bandyopadhyay, Former Professor, Indian Institute of Management, Calcutta
M. R. Madhavan, President, PRS Legislative Research
Ma-Zhanwu, Consul-General, People’s Republic of China, Kolkata
Ranjan Das, Professor (Retd.), IIM Calcutta
Rathin Roy, Director, National Institute of Public Finance and Policy (NIPFP), Delhi
Saumitra Chaudhuri, Former member of the Planning Commission of India
Shiv Siddhant Kaul, MD, NICCO Engineering Services Ltd
Sudip Chaudhuri, Professor, Indian Institute of Management, Calcutta
Y. K. Alagh, Former Union Minister of Government of India

Session Chairs

Anup K. Sinha, Professor (Retd.) of Economics, IIM Calcutta
Ashok Dhar, Director, ORF Kolkata
Nilanjan Ghosh, Senior Fellow, ORF Kolkata
Parthapratim Pal, Professor of Economics, IIM Calcutta
TK Arun, Senior Editor – Opinion, The Economic Times
INTRODUCTION

The year 2016 marked 25 years of economic liberalisation in India. The circumstances that led to the historic initiatives leading to the economic reforms from 1991 are well-documented. The liberalisation was a strong signal to the global community on the massive reforms: ending the licence-permit raj by diminishing government interventions; and promoting private investment and business, thus creating a different engine for economic growth. Such drastic steps were also compelled by a balance of payment (BOP) crisis which took root in 1985. By the end of 1990, India was in a serious economic crisis, and its foreign exchange reserves by June 1991 were barely sufficient for essential imports for two weeks. The economy was only weeks away from defaulting on its external debt payment obligations. It was at this time that P. V. Narsimha Rao became prime minister in June; the PM would then name Manmohan Singh as finance minister.

The immediate response was to secure an emergency loan of $2.2 billion from the International Monetary Fund (IMF) by pledging 67 tonnes of India’s gold reserves as collateral. A series of large-scale reforms then began under the IMF’s structural adjustment programme (SAP). As the paradigm shifted towards market forces, dissenting voices grew, coming not only from those outside the government and the ideologues of the Left, but also from within the ruling Congress party itself and the government. The challenge was bigger because it was a minority government. Eventually, a process of consensus-building followed through stakeholder dialogues, including one such event in 1991 organised by the Observer Research Foundation and Indian Institute of Management Calcutta. A host of similar consultations then resulted in an agenda for economic reforms.

A quarter of a century has since passed, and the economy has witnessed various generations of reforms in different spheres of economic endeavour; some succeeded, while others did not. The emergence of Information and Communication Technologies (ICT) has revolutionised the global economic order and has played a major role in the advent of India in the global political-economic scenario. There have been revolutions in domains as varied as finance and banking, infrastructure, trade, education, and social services. However, various threats to economic growth also emerged, including environmental issues. Yet, the Indian economy has shown resilience, especially in the face of regional or global crises such as that which hobbled the South-East Asian region and the more recent global slowdown. Indeed, India is now one of the fastest growing economies in the world and an emerging global economic force to reckon with. It is an opportune time to look back to the last quarter of a century, and to find a path towards a brighter future in the next 25 years. With this in mind, the Kolkata chapter of the Observer Research Foundation and the Indian Institute of Management Calcutta regrouped after 25 years to organise the conference, ‘25 Years of Economic Reforms in India: Retrospect and Prospects’.

This paper summarises the discussions during the conference and presents specific recommendations for charting the new path for India, in the context of emerging global and domestic challenges.
The recommendations are grouped as follows:

A. Macro-economic Reforms
B. Social Sector Reforms
C. Product Market Reforms
D. Factor Market Reforms
E. Natural Resources, Environment, and Climate Change
F. Judicial, Legislative, and Electoral Reforms
G. Financial Sector Reforms

A. MACRO-ECONOMIC REFORMS

1. Control Current Account Deficit

'Current account balance' is the sum of the balance of trade (goods and services exports less imports), net income from abroad, and net current transfers. It is an important indicator of the health of an economy: a positive balance means the nation is a net lender; a negative balance (current account deficit, CAD) indicates being a net borrower. The biggest component of current account balance is trade balance.

A chronic CAD is generally a sign that the economy is unhealthy. It becomes unmanageable if policy-makers attempt to bridge the high CAD through borrowing, and the situation becomes more critical with the burden of high interest payments. Especially during times of financial uncertainty, an economy with high CAD is placed under severe investor scrutiny. Further, the currency of such nation may become the subject of speculative attack during uncertain times, and the central bank might have to use foreign exchange reserves to buy domestic currency, thus leading to depletion of forex reserves. During the South-East Asian crisis of 1997, the countries attempted to finance their massive current account deficits by attracting capital flows (hot money). However, when confidence fell, the hot money flows dried up, leading to a rapid devaluation of currency and an even bigger crisis of confidence. These circumstances often lead to desperate measures like raising interest rates, unless the country can manage to finance CAD through increased
flow of less volatile foreign investments like FDI, and at least in the short term, there would be less adjustment problems.

At the same time, a high CAD is also reflective of the fact that exports are less competitive than imports, and this acts as a disincentive for the growth of the export sector. This has been a chronic problem for many European Union (EU) nations that could not devalue their currency to make exports competitive. This was one of the prime reasons for the region’s economic slowdown.

India has been having a CAD over the last 40 years (Fig. 1). During the post-liberalisation phase, there have been only two years when the nation recorded a positive balance, and there were years when the CAD reached as high as four to five percent of GDP. At the ORF-IIM conference, former Finance Minister P. Chidambaram cautioned that the CAD should not exceed three percent of GDP.

However, it must also be noted that India has been running huge merchandise trade deficits with South-East Asia and China. In fact, India’s merchandise trade deficit with most nations with which it has a free trade agreement (FTA), has not only persisted but has increased over time (Fig. 2).

**Fig. 2: India’s trade deficit with FTA nations**

![Graphs showing India's trade deficit with FTA nations](source: Ministry of Commerce, Government of India)
2. **Find the balance between growth and inflation.**

It is axiomatic that growth will bring about inflationary pressures. However, the Reserve Bank of India should work towards understanding the trade-off between the two and work to find the right balance. The interest rate is an important instrument to play with this trade-off. While growth is an efficiency concern, inflation—which creates a negative impact on economic well-being and more severely on the purchasing power of the poor—is an important equity concern. They need to be understood through their interplays as well as with other variables, and addressed accordingly.

3. **Increase tax revenues by broadening the tax base.**

Reliance on non-tax revenues for government might not be a sustainable solution. Therefore, the tax base should be broadened for increasing tax revenues. The principles and vehicles of tax should ideally follow the canons of taxation. The *Economic Survey 2016* has reported that India’s tax-to-GDP ratio is 16.6 percent, which is much lower than the emerging market economy average of 21 percent and the OECD average of 34 percent. Therefore, the widening of the tax base should be an option for policy-makers in order to sustain growth and ensure distributional equity.

4. **Remove Statutory Liquidity Ratio (SLR) for banks.**

Statutory Liquidity Ratio (SLR) is the reserve requirement to be maintained by commercial banks in India in the form of gold, cash, or approved securities before providing credit to customers. It is determined by the Reserve Bank of India and is mandated to serve a three-fold purpose: to control the expansion of bank credit; to ensure the solvency of commercial banks; and create a process for the commercial banks to invest in government securities like government bonds. In that sense, SLR is a risk management instrument used by the government through the RBI, to ensure the portfolio safety of banks. However, this is also a process where the government plays a role in reducing the excess liquidity from the system. It is important for banks to move towards self-regulated risk management. In that sense, banks should be sensitised to adhere to Basel III norms.  

5. **Set up a separate Debt Management Office.**

An independent Debt Management Agency—the creation of which has been announced by the government—needs to be effective and strong. This would help make the government face the market forces and bring in more efficiency in managing the risk arising from the markets.
B. SOCIAL SECTOR REFORMS

The widely held view is that liberalisation catapults an economy towards a high-growth trajectory, which in turn results in reforms in the social sector. However, the social challenges of the new economic order are different. While the emphasis on human development variables should continue, these challenges must be dealt with in the framework of a comprehensive reforms agenda.

1. **Reduce wealth and income inequality; raise the minimum wage.**

India's economic liberalisation has not reduced income inequality, but has further accentuated it instead (Fig. 3).

![Fig. 3: Inequality in India](image)

As of November 2016, 58.4 percent of the country's wealth is concentrated in the hands of the top one percent of all income-groups; the top 10 percent owns 80.7 percent of the wealth. More importantly, as can be seen in Schedule 1B, in terms of the share of the richest one percent, India ranks second only to Russia. India's Gini coefficient increased to 51 by 2013, from 45 in 1990. This can be attributed to the rising inequality between urban and rural areas as well as within urban areas.

Such inequality increases social tensions, and places more pressure on the State. It is thus an imperative to reduce income and wealth inequality. It is in this context that the minimum wage should be increased. This is an important step from the perspective of social well-being, and can be an important instrument towards reducing the economic chasm between the rich and the poor.

2. **Promote gender equality.**

Gender inequalities in India have had a negative impact on the country's sex ratio, women's health over their lifetimes, their educational attainment, professional careers, and economic conditions. Such inequality exists in the form of income gaps,
as well as lack of credit access due to absence of collateral. The prejudice against women also cover other areas like property rights, occupational hazards, health, education, and political opportunities.

With the women labour-force hobbled by inequities, the country’s critical productive resource base is impaired, resulting in serious losses to the economy and society. These issues are covered in the global Sustainable Development Goals (SDGs), where Goal 5 is dedicated to achieving “gender equality and empower all women and girls”. The goal states, “Gender equality is not only a fundamental human right, but a necessary foundation for a peaceful, prosperous and sustainable world. Providing women and girls with equal access to education, health care, decent work, and representation in political and economic decision-making processes will fuel sustainable economies and benefit societies and humanity at large.”³

India ranked 130th among 188 nations in the Gender Inequality Index of 2014. Of greater concern is that India has the worst score among all the nations of South Asia (Table 1). Policies and programmes in this direction thus have to be a critical component of the social sector reform agenda.

<table>
<thead>
<tr>
<th>Country</th>
<th>Value</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhutan</td>
<td>0.457</td>
<td>97</td>
</tr>
<tr>
<td>Nepal</td>
<td>0.489</td>
<td>108</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.503</td>
<td>111</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.536</td>
<td>121</td>
</tr>
<tr>
<td>India</td>
<td>0.563</td>
<td>130</td>
</tr>
</tbody>
</table>

Source: UN Development Programme (http://hdr.undp.org/en/composite/GII)

### 3. Manage migration from rural India.

India must deal with the large mass of people moving from the rural areas to urban centres in pursuit of better employment prospects. Though jobs might be available, migrants face various difficulties like securing decent housing, which leave them no choice but to remain in ghettos. The State needs to create the necessary infrastructure to address this yawning gap.

### 4. Create a new social order for non-conflicting growth of capital

A bottom-up strategy should be developed, taking into account the interests of the country’s majority population. Such strategy must strive for non-conflicting growth of capital, as enough evidence exists that social conflicts disrupt growth.
C. PRODUCT MARKET REFORMS

Industry and Bureaucratic Reforms

Following the reforms of 1991, the New Industrial Policy came into force. Industries were relatively freed from the clutches of licences and controls. There was a clear departure from the neo-Keynesian thinking of dominant public sector role in the economy, and steadily public sector role is being reduced. While foreign investments are being encouraged, MRTP Act was abolished to encourage entrepreneurial zeal. Despite this, the performance of the industrial sector has been disappointing. The disappointing part is that industry has not grown to the extent of generating employment either. The service sector, which has been main engine of economic growth, has been capital-intensive, thereby resulting in “jobless growth”.

1. Use the FTAs strategically.

Trade liberalisation has been the hallmark of the country’s reform process. In the new millennium, India has reduced tariffs substantially and has signed a host of free trade agreements (FTAs). There are as many as six FTAs with East and Southeast Asian nations who are responsible for the bulk of Indian trade. In all these six cases, the trade deficit increased after the FTAs came into effect as the demand for imported commodities grew as tariffs and non-tariff barriers were decreased or eliminated. This is true for palm oil in the Malaysia-India FTA case, when zero tariff regimes for edible oils eventually changed the pattern of edible oil consumption in India. Today, around 48 percent of Indian edible oil consumption consists of palm oil. With the dominance of the imported palm oil (from Malaysia) and soya oils in the consumption basket, processing margins of the domestic edible oils industry diminished substantially, thereby posing a threat to the very existence of the domestic oil processing industry. A similar case is made for the telecommunications industry, where the WTO 1997 ITA agreement is claimed to be a lost opportunity for R&D, indigenous manufacturing, and human resource development. While some local telecom manufacturing firms closed down, foreign companies including those from Korea and China prospered with access to the vast Indian market. The automobile industry and the electronic goods sector are also not exceptions, with the southeast and East Asian economies dominating the scenario.

However, while the domestic industry has been negatively affected by FTAs, these agreements have in fact helped the consumers. For example, the reason for increasing consumption of imported palm oil is precisely because of lower prices. Larger volumes of cheap imports increase ‘consumer surplus’ and consumers’ choice, as is also prevalent in the case of electronic goods.

Two issues can thus be inferred: first, FTA or any form of trade liberalisation is counterproductive for domestic industry unless the agreement brings in cheap raw materials or intermediate goods for the domestic industry; and second, import substitution through domestic industry may be detrimental for consumer well-being in the present scenario, due to the inherent inefficiency crippling Indian
industry. FTAs or any form tariff reduction or trade promotion mechanism should rather be used for cheaper inputs that can make the domestic industry more competitive, and can help consumer well-being.

2. **Insert a 'sunset clause' in legislative measures.**

A law should come with a sunset clause, implying a life-span for that piece of legislation. Laws are drafted to address issues that are relevant at the time. However, its relevance might or might not remain in the long run, and the need for its continuity should be examined as it gets phased out over time.

3. **Encourage new-generation entrepreneurs by creating opportunities.**

Large corporate houses like Infosys or WIPRO are called “children of liberalisation”. They created the path which was taken by other entrepreneurs subsequently. However, this space has shrunk in recent years. New-age entrepreneurs thus need to be encouraged through a package of incentives from the policy core, and creating greater opportunities through the rationalisation of bureaucratic norms, adequate sops, more effective and strong but “soft-touch” regulatory standards so as not to create unnecessary hurdles for entrepreneurship promotion.

**Agricultural Reforms**

There is no doubt that the role of Indian agriculture in the macro-economy has been diminishing, when viewed through the prism of the sector’s share in GDP. The share has progressively declined below 15 percent, while around 57 percent of the workforce is engaged in the sector. This bears ample testimony of the sector’s low productivity, in spite of its clear importance in India’s economic and social fabric. To begin with, a majority of India’s families depend on rural incomes. Second, the majority of India’s poor (some 770 million people or about 70 percent) are found in rural areas. And third, India’s food security depends on producing cereal crops. To do so, a productive, competitive, diversified and sustainable agricultural sector needs to emerge fast. However, over the last 25 years there has hardly been any major technological or institutional breakthrough to bring about this change in Indian agriculture. The challenges therefore remain at all levels, from technological to institutional: raising agricultural productivity per unit of land; reducing rural poverty through a socially inclusive strategy that comprises both agriculture as well as non-farm employment; ensuring that agricultural growth responds to food security needs; sustaining the environment and future agricultural productivity; and efficiency in agricultural marketing.

1. **Encourage the formation of cooperatives.**

In 2002, the central government amended the Indian Companies Act, 1956, to provide for producer companies on the basis of the recommendations of the Alagh
Committee. From a structural perspective, a farmer producer company (FPC) is a hybrid between cooperative societies and private limited companies. Theoretically, therefore, while the FPCs are, structurally, cooperatives, operationally they are supposed to adopt the efficient business practices of professional companies. From these perspectives, the market linkage and profitability of the farm will increase. This can happen if there is a cooperative movement following the structural design of FPCs.

2. **Integrate the agricultural market.**

One of the most critical drawbacks of agricultural product markets is that they are fragmented. Two major reasons for that are state-specific APMC laws, and lack of information dissemination across markets. The fragmented nature of the agricultural markets leads to inefficiencies in agricultural marketing process. Although some states have lately been repealing the state-specific APMC laws, a lot more needs to be done. Further, one needs to conceptualise national-level agricultural markets.

3. **Rationalise the supply chain.**

Indian agriculture’s supply chain is elongated due to extensive intermediation, information asymmetries, and other forms of market imperfections that increase the transaction costs. The supply-chain rationalisation is possible through better information dissemination, especially in relation to prices.

4. **Promote good land and water programmes to increase the real returns to agriculture.**

Raising productivity per unit of land should be the engine of agricultural growth as virtually all cultivable land is already farmed. Water resources are also limited and water for irrigation must contend with increasing industrial and urban needs, without compromising with the ecosystemic needs. Measures to increase productivity need to be explored, including increasing yields, diversification to higher-value crops, and developing efficient value chains to reduce marketing costs. This means that good land and water programmes should be promoted.

D. **FACTOR MARKET REFORMS**

Participants in the ORF-IIM conference emphasised that the economic reforms of 1991 concentrated primarily on the product markets, giving little attention to factor market reforms. The factor markets include land, labour, energy, capital, and access to credit. As these inputs are critical factors of production, there needs to be a unified policy across the nation.
Labour Market Reforms

Despite a phenomenal growth record in the post-1991 era, figures for employment in the organised sector and per-worker productivity reveal a dismal picture. With employment growing at a substantially slower pace as compared to GDP, the “jobless growth” hypothesis has often been discussed in various forums. At the same time, concentration of employment in the unorganised/informal sector has been hypothesised to be increasing in the wake of the liberalisation and the consequent working of the “jobless growth” postulate.

1. Rationalise labour regulation.

Labour market regulation is too complicated in the face of the extremely complex labyrinth of state and central labour market regulations, which number nearly 250. This results in an over-regulated labour market with large compliance costs. Uniform labour law across states is one of the ways to rationalise the over-regulated labour market.

2. Devise labour laws to protect labour interests.

A high compliance cost in the over-regulated labour market has either deterred entrepreneurship, or has led to “casualisation” of the workforce. Casualisation of the workforce is an outcome of circumventing law, whose costs of compliance seem very high. Rather, the hiring of casual or contract labour is an increasing tendency in the organised sector. Labour regulations should be fair to both employers and employees, allowing firms sufficient flexibility with their production decisions without compromising on basic protections for workers.

3. Raise the minimum wage as per market norms.

Work conditions have been deteriorating gradually with employers shifting more towards casual or contractual labour, lowering productivity. Therefore, wages, which are a reflection of labour productivity, have not been increasing. With laws being circumvented through the avenue of “casualisation”, workers are exploited in both organised and unorganised sectors in spite of existing legislation providing social security to workers. It is clear that legislation is inadequate in the face of current challenges to a liberalised India. Further, despite advances in the area of women’s empowerment, employment discrimination against women workers has increased substantially in the reform period. Therefore, minimum wages of labour should be increased and adequate legislation to protect employees’ interests should be devised. At the same time, the implementation of these laws, including addressing gender concerns, is an imperative.
Land Reforms

1. **Strengthen property rights over land.**

The formalisation of land titles has been part of India’s state policy since independence. However, informal institutional mechanisms creating land rights are still predominant in many parts of the country. This creates complications in transactions, benefit sharing, and transfer of titles. Even in cases of large schemes of infrastructure development, vague entitlements create problems of rehabilitation and compensation. Therefore, property rights need to be defined properly, and a law should be able to bring informal institutional mechanisms (that might be efficient) in the formal framework.

2. **Upgrade information management systems.**

Unless the information management systems and technologies are improved, the problems of delineation of entitlements will persist. Upgrading the systems will only help in better definition of rights, and in disintermediation of the transaction process.

3. **Enforce a new policy for land acquisition for land-use change.**

Conflicts between community and government have often characterised land acquisition by the government. There needs to be a better policy mechanism in place for land acquisition so that the transfer is conflict-free. This will require a bottom-up approach.

4. **Acquire land at fair market prices.**

One of the reasons for conflicts has been the acquisition of land at prices below those prevailing in the market. This practice should be discontinued. Efficiency in transaction can be achieved only when market signals are followed.

5. **Broaden the roles of land banks.**

The latest report of the National Institution for Transforming India (NITI) Aayog task force on agricultural development stated that opening farmland for 'liberalized leasing' through government-run 'Land Banks' can be a ‘win-win reform’ in the Indian farm sector. It will ease the exit of those farmers who find farming unattractive or non-viable and economically strengthen those farmers who want to stay and raise the scale of operational holdings. Further, government-run land banks should help industries by speeding up the land acquisition process.
Energy Market Reforms

Energy plays a critical role in economic growth and human well-being. The energy policy of India is largely defined by the country’s expanding energy deficit and increased focus on developing alternative sources of energy, particularly nuclear, solar and wind. Acknowledging the role played by traditional sources of energy in economic growth, existing policy documents have stressed on energy security, product standards enhancement, engendering competition and customer service, and ensuring oil security by prioritising the strategic and defence considerations. NITI Aayog is set to unveil the new National Energy Policy soon, replacing the prevailing Integrated Energy Policy with a focus on air quality, renewable energy, natural gas, universal electrification, and clean cooking fuel. While the role of renewable energy will no doubt be an important source especially from the perspective of environmental sustainability, it seems unlikely that they will replace the traditional sources of energy soon. Therefore, though renewable energy should be encouraged by all means, the existing sector is in need of some important reforms.

1. Follow market-based approach in all transactions in the ecosystem.

The entry of private companies in downstream marketing depends on regulatory risk that arises from the risk of re-regulation, with the apprehension of governmental intervention due to international price rise or Rupee depreciation. An assurance, that de-regulation is for real and any intervention will be based on a principle of “level playing field” between PSUs and Private/MNCs, can give confidence to marketing companies. Again, service differentiation, bundled value proposition, and better offerings from private companies will enhance competitiveness.

Further, a free and fair market can be developed by giving access to all market players to infrastructure and market freedom, including pricing. Moreover, allowing the “independents” and “jobbers” in the retail market (as is practised in the rest of the world) can enhance competition and increase operational efficiency. While the pricing reforms should entail changes in the pricing formulae, and should be based on market fundamentals, real price competition can be triggered by these “independents” by unleashing latent entrepreneurial energy.

2. Pursue access to transmission and distribution infrastructure on a “common carrier” principle.

Captive infrastructure developed by and for a specific organisation creates unfavourable condition for competition. In the US, these transmission and distribution infrastructure are used as “common carriers”. With different players attempting to develop the same infrastructure, the social capital expenditure increases, as also the social cost of operations and maintenance. This also leads to unnecessary duplication and lower capacity utilisation of existing infrastructure.
3. **Re-calibrate taxation and subsidies.**

Subsidies must be targeted towards the weaker sections of society. Since SKO/LPG is proposed to be sold at market prices by PSUs, it is possible to induct private players into the marketing of Superior Kerosene Oil (SKO) and Liquefied Petroleum Gas (LPG) along with direct transfer of cash subsidy to consumers. This will bring in operational efficiency and better customer service, without any increase in government’s burden.

4. **Curb transmission and distribution losses.**

The extent of transmission and distribution losses in India is huge. More critically, over the last 40 years, the percentage of loss has only increased.

![Fig. 4: Electric power transmission and distribution losses in India (% of output)](source: The World Bank)

As evident from Fig. 4, the T&D losses in India have varied between 15 and 28 percent of the total output over the period from 1971 to 2013—much higher than the US or EU nations, where it is consistently below 10 percent at much higher levels of output. Therefore, better grid management and smart metering is needed to minimise the T&D losses. Grid modernisation by the government is of utmost importance, as well as strategic restructuring including privatisation of discoms. This should simultaneously entail urgent action on reducing the non-performing assets (NPAs) in the power sector.

5. **Appoint a powerful, autonomous, and knowledgeable regulator.**

There is a huge “transaction cost” involved in the lengthy approval process of the development plans of the energy projects. So far, development plan for a very small proportion of the discoveries of energy sources received approval. It becomes important therefore to adopt an integrated field development plan that is dynamic and looks at the life cycle of the development of a block. Again, controls through annual work programme and budget and its amendments on merits can
significantly shorten the discovery-to-delivery cycle. A powerful, autonomous yet accountable, and knowledgeable regulator bringing in global best practices is needed to quicken the discovery-to-delivery process.

6. Set up a national policy to decide on revenue-sharing vis-a-vis a production-sharing contract.

A more practical approach to incentivise exploration needs to be adopted, rather than resorting to an easy mathematical formula for benefit-sharing that might not be too lucrative to promote exploration. Therefore, a policy to rationalise which mode will prove more effective is required in the context of the currently low rate of success in energy exploration.

E. NATURAL RESOURCES, ENVIRONMENT, AND CLIMATE CHANGE

The 1991 reforms agenda did not include concerns about natural resources and environment. The situation has changed substantially since, and it is increasingly being realised that the core developmental activity is contingent upon the resources and the ecosystem services provided by nature. Yet, often, conservation and environmental priorities are still viewed as “anti-development”. However, the expansion of knowledge and scientific understanding at the interface of nature, economy, and society since the 1980s and ‘90s started changing this perception in the developed world. The extensive development of science in this domain also led to the understanding of the bidirectional causality between ecosystem and the economy. Following the Club of Rome’s prediction of “apocalypse” in their The Limits to Growth thesis, the human response to the “approaching doomsday” has been characterised by extensive research, gradual knowledge accrual through global assessments, and conventions. The Earth Summit of 1992 adopted the Brundtland Commission Report’s definition of “sustainable development”, and opened the Convention of Biological Diversity (CBD) for signature. The millennium development goals (MDGs), eventually succeeded by the sustainable development goals (SDGs) inherently acknowledged the important role of ecosystem and urged humanity to take “take urgent action to combat climate change and its impacts”. It has become even more imperative to take urgent actions after the COP at Paris in 2015. As far as setting the Agenda 2.0 is concerned, therefore, environment and natural resources are important, as well as the actions on global climate change.

1. Pursue mitigation priorities.

India’s Intended Nationally Determined Contributions (INDC) that have now been adopted as the Nationally Determined Contributions (NDC) talk of conditional mitigation and adaptation, depending on fund flow from external sources. However, the global climate change as a “global common” is prone to have an impact not only on the developed world, but also on livelihoods of the Indian poor, as well as
the growth potential of the nation. Therefore, there is an urgent need for proactive persuasion of mitigation and adaptation priorities.

2. **Design better disaster management systems.**

India’s disaster management systems are failing to adhere to global best practices. The needs will become even more pressing as threats of high-intensity climatic events increase over time with global climate change. The biggest lacuna exists in the form of lack of advanced early warning systems; these need to be improved substantially.

3. **Improve legal framework for forest management.**

Forest governance system is based on archaic British-era regulations. These need to be changed urgently to reflect the challenges of the current situation. For example, the forest department is understaffed and is beset by corruption, which has led to the mismanagement of the environment.

4. **Enforce rules and regulations.**

In many cases, while the rules and regulations might exist, there are problems of enforcement. This, at times, happens because of leniency, inefficiency and corruption, and even plain ignorance. The compliance rate for existing rules and regulations must be improved.

5. **Set up a new institutional framework for water governance.**

The second major reform is awaited in the water sector, as the quality and quantity of India’s water resources is a big concern. India’s water management system takes a fragmented approach, where hydrologists look at surface water and geologists are concerned with groundwater. This incoherent approach makes no acknowledgement of the broader eco-hydrological cycle and the water balance equation. Reductionists engineering paradigm brought by the British engineers during the colonial regime still dominates the water management thinking in India. As such, there is already a proposal from the Committee chaired by Mihir Shah to dissolve the Central Water Commission (CWC) and the Central Ground Water Board (CWGB), and create the National Water Commission (NWC) to holistically look at water governance including the concerns of critical aquatic ecosystem. This is a step in the right direction towards creation of a holistic approach in water management practices. Institutional mechanisms through a trans-disciplinary knowledge base will be of utmost importance.
F. JUDICIAL, LEGISLATIVE, AND ELECTORAL REFORMS

Judicial, legislative and electoral reforms were not part of the economic reforms agenda 1.0. However, the inextricable linkage of the economic forces with political and judicial forces makes it mandatory to bring about changes in the judicial, legislative and electoral process.

Judicial Reforms

1. Increase the institutional capacity of the lower courts.

The verdicts of lower courts are too frequently challenged in higher courts. This reveals a low level of reliance on lower courts. In the US, the Supreme Court only concerns itself with policy matters. In the same vein, for an effective judicial process to prevail in India, the Supreme Court may consider cases related to policy and the Constitution. The institutional capacity of the lower courts should be substantially increased.

2. Enforce speedy trial and judgment.

The courts should provide judgments in a time-bound manner. “Justice delayed is justice denied” is not empty rhetoric—it also imposes costs over transactions, thereby hampering well-being and growth prospects. Personnel and other resources in the judicial system should be enhanced, and used more effectively.

Legislative Reforms

1. Avoid short-cuts in policy-making.

An important point in this context was raised in the conference in the context of passing bills in the lower house of the parliament as Money Bills for speedy implementation. A Money Bill contains provisions for taxes, appropriation of funds, among others. While such bills can be introduced and passed only in the Lok Sabha (lower house), there is no provision for the Rajya Sabha (upper house) to make amendments to such bills. The Rajya Sabha can merely suggest changes, the acceptance of which is not mandatory.

For instance, the Aadhaar bill (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) of 2016 was passed as money bill and now its Constitutional validity is being challenged in the Supreme Court, which may take time to pass judgment. Meanwhile, several mechanisms are already being developed on the basis of the Aadhar. If the verdict turns out that the passage of the Bill is unconstitutional, there has to be a complete reversal of the processes already laid down, which by itself entails a huge transaction cost. Such short-cuts should be avoided.
2. **Allow specialist researchers to aid legislators.**

In developed countries, lawmakers are assisted by qualified researchers and the laws are scientifically studied before they are passed. In India, legislators are guided by bureaucrats, not researchers. Even the engagement of legislators with the general public is limited, and the laws passed might not reflect the opinion of the people. This issue has been exacerbated after the Anti Defection Law of 1985, due to which the MPs did not go against the party guidelines.

**Electoral Reforms**

1. **Institute structural change in policies on election funding.**

Often, highly qualified candidates cannot contest elections due to lack of funds. Complementary funding sources should be created for these candidates in elections, and the ceiling on funding should be rationalised.

**G. FINANCIAL SECTOR REFORMS**

Financial sector reforms did not come up strongly in this ORF-IIM conference. However, no economic reform agenda is complete without a discussion of financial sector reforms. Since there was not much mention of the reforms that should be undertaken in this sector, this element has been made to feature last in this recommendations paper. The most comprehensive statements on financial sector reforms have come from two highly important committee reports from the Ministry of Finance, Government of India: Report of the High Powered Expert Committee on Making Mumbai an International Financial Centre (2007) and the Report of the Financial Sector Legislative Reforms Commission (2011).

The 2007 report discussed the lack of innovation in India’s financial markets, and proposed a regulatory architecture that can promote the bonds-currency-derivatives nexus. Meanwhile, the FSLRC report drafted The Draft Indian Financial Code to replace most of the existing statutes. The draft code has significant recommendations on consumer protection, micro-prudential regulation, capital controls, reducing systemic risks, public debt management, development and distribution, among others. The most important recommendation of the FSLRC is the call for the change in the regulatory architecture of the financial world. The draft Code seeks a clear departure from the current sector-wise regulation to a system where the RBI regulates the banking and payments system and a Unified Financial Agency subsumes existing regulators like Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA), Pension Fund Regulatory and Development Authority (PFRDA), and Forward Markets Commission (FMC), to regulate the rest of the financial markets. In practice, the FMC has ceased to exist since 2015, and has been merged with the SEBI. Regulatory convergence under a strong, independent, and accountable regulator has been argued, and this is where the next phase of reforms should take place.
CONCLUSION

There is no doubt that the Indian economy recorded plenty of achievements over the last 25 years. If the size of an economy provides the first impression of a country’s political and economic strength, then India has indeed grown since 1991. The nominal GDP that stood at INR 5,86,212 crore in 1991, was pegged at INR 1,35,76,086 crore in 2016, representing a 22-fold increase. In dollar terms, India’s GDP crossed the $2-trillion mark in 2015-16. Currently, the country is ranked ninth in the world in terms of nominal GDP. India is projected to be the second largest economy in the world by 2050. Further, once rebuked for its “Hindu rate of growth”, a term used to refer to low rate of economic growth, India has emerged as the second fastest growing economy in the world, behind China until 2015. Especially, between 2005 and 2008, the economy clocked the nine-percent mark annually, when the hypothesis of “overheated economy” came to the fore. With the NDA government revising the GDP growth figures and China slowing down, India is now being billed as the fastest growing major economy in the world, with a growth rate of 7.6 percent in 2015-16.

“No power on earth can stop an idea whose time has come,” stated then Finance Minister Manmohan Singh while presenting the Union Budget in July 1991, quoting novelist Victor Hugo. But, the economy can no longer bank on the ideas of 1991, but needs to move forward. Moreover, different times have brought to the fore an evolving set of challenges.

It must be noted that while economic growth is important and needs to be treated as the necessary condition for economic well-being, it is not sufficient for human well-being. Unfortunately, even today, the policy core suffers from the dogma of “growth-fetishism”, and looks at well-being through a reductionist lens, like in 1991. The paradigm must now change, as evidence is mounting that economic growth is not a panacea. Rather it can emerge with its own negative externalities of wealth concentration in a few hands, corruption under crony capitalism, and environmental pollution for over-reliance on unclean technology. The concerns of equity and sustainability therefore are important.

This set of recommendations has been prepared with the idea of not merely growth promotion of the economy. The ORF-IIM conference was designed with the objective of floating new ideas for reforms not merely in the traditional ways that Indian policy-makers have thought of so far. The objective is to think of reforming those sectors as well that have not been touched upon actively, and promote a holistic mode of development thinking. The inextricable linkages between the priorities presented in this recommendations paper need to be acknowledged, in order to promote human well-being from a spatial and temporal scale. ORF

(The authors thank Mr. Ashok Dhar, Prof. Anup Sinha, and Mr. T.K. Arun for their comments on a previous draft of this paper, and Ms. Jayati Chakraborty for research assistance.)
ABOUT THE AUTHORS

Nilanjan Ghosh is Senior Fellow, Observer Research Foundation, and Senior Economic Adviser, World Wide Wide for Nature, New Delhi, India. He can be reached at nilanjanghosh@orfonline.org.

Parthapratim Pal is Professor of Economics at the Indian Institute of Management Calcutta. He can be reached at parthapal@iimcal.ac.in.

ENDNOTES:

1. Basel III (or the Third Basel Accord) is a voluntary regulatory framework of risk management for banks that hinges on bank capital adequacy, market risk in relation to liquidity, and also stress testing. This accord was devised in an attempt to plug in the loopholes that loomed large in financial regulation as revealed by the financial crisis of 2007-08. In the process of reducing and managing risks, Basel III mandates strengthening bank capital requirements by increasing bank liquidity and diminishing excess leverage by the banks.


3. Free Trade Agreements (FTAs) are arrangements between two or more countries or trading blocs which come together and agree to reduce or eliminate customs tariffs and non tariff barriers. FTAs normally cover trade in goods (such as agricultural or industrial products) or trade in services (such as banking, construction, trading etc.). FTAs can also cover other areas such as intellectual property rights (IPRs), investment, government procurement and competition policy, etc.