

Ways to crank up the economy

The new government needs to lift the numerous obstacles to running a business — and closing it down

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For three decades, the contribution of the manufacturing sector to India's GDP has stagnated at about 15 per cent. Rigid labour laws and misplaced concessions have stymied organised manufacturing. Between 2005 and 2010, only three million new jobs were added for the 60 million joining the workforce.

To make matters worse, in recent years, the linear, non-coordinated approach of many government agencies and their lack of accountability has delayed several projects and led to higher cost of logistics, under-investment, lower productivity, non-delivery of public goods, bad loans and lower velocity of money — all feeding into a negative spiral.

Accelerating growth will require enhancing regulatory, physical and factor productivity and reducing friction costs. The new government has a task on its hands.

Energising the economy

An issue that the policymakers need to address urgently is the capital stuck in sick entities. But it's a tough job. To give a little perspective here, Lehman's liquidation started just three days after it declared bankruptcy; in India, just closing a business can take 10 years.

Introducing a bankruptcy law facilitating quick redeployment of assets, abrogating criminal liabilities on failed business's managers and retraining human resources is imperative.

Policymakers should also aggressively prosecute fiduciary abuse by controlling shareholders, government and NGOs. To bring in this fast-moving machinery, the judicial capacity needs to be enhanced first.

Some steps in this direction include cancelling court holidays (designed for British judges), running shifts, attracting talent with

economic incentives, giving teeth to perjury laws and upgrading the Evidence Act to make it relevant in the electronic era.

Land and labour reforms

The countries that have grown faster are those which provided clear property titles and protection of private property. The estimated amount of "dead capital" in untitled assets is over \$9.3 trillion globally, nearly 40 times all the foreign aid received globally since 1945.

Evidently, with their already accumulated property secured, the world's poor would be much less so. Conclusive titling will not only help formalise informal activity, it can also boost agricultural productivity.

India should expedite 100 per cent mapping of land titles. The land ownership registry should be made comprehensive proof of ownership. The Government should simplify land acquisition laws, retaining the provision in the new law of paying a premium to market price for forced acquisition for public purpose.

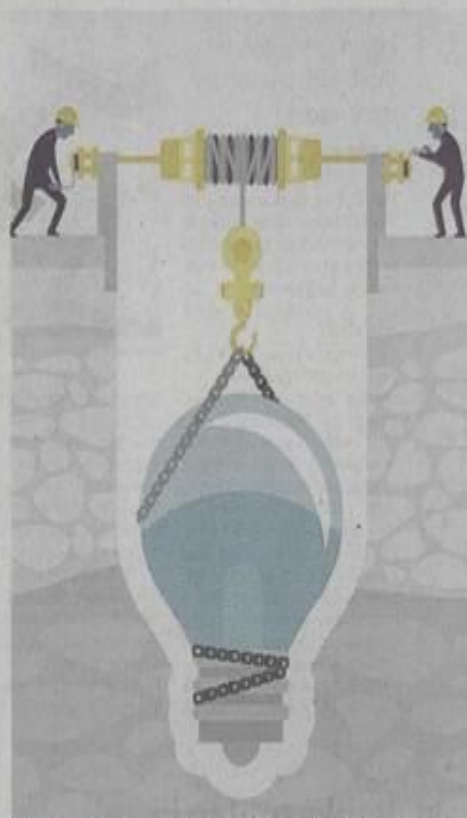
To truly realise the demographic dividend, the labour sector also needs to be freed from the legal quagmire, thanks to its antiquated regulations.

A new law should be brought in to ensure that the companies laying off labour pay for vocational training for one-twelfth the number of months worked.

To enhance labour productivity, the Government should develop and popularise a Wikipedia-type, crowd-sourced e-learning platform from kindergarten to doctoral studies.

India houses 17 per cent of the global population and has only 2.6 per cent of the global land-mass. If it needs to find space for all the million-plus people, it would need to be roughly as large as Russia (five times bigger than India).

So, the Government needs to deliver planned urban capacity. It



Digging up ideas The government must encourage and incentivise entrepreneurship. www.wanacshutterstock.com

needs to invest in public transport, waste recycling and disposal, security, crisis management capacity and plan for recharging ground water via precipitation.

It should automatically convert agricultural to urban land by surrender of 50 per cent of the land to housing and fund the aforementioned amenities.

Illegal squatters should be provided subsidised housing at the end of metro lines, opportunities for vocational skill training and placement help for two years.

Encouraging entrepreneurs

Reforming product markets be-

fore fixing factor markets (where factors of production such as labour, capital and resources are bought and sold) has led to higher inflation and an unsustainable fiscal deficit.

The only sustainable alternative is to allow markets to determine prices and distribute state resources through open auctions. The Government can protect a weaker section through direct transfers using Aadhaar.

For agriculture in particular, transport and inventory costs suggest serious market dysfunction.

In particular, the focus should

be on agricultural, pharmaceutical, communication, IT, mobile electronics and energy industries where we have already demonstrated prowess.

Also, allow super normal payoffs for entrepreneurial successes so that the inherent risk of failure is compensated for. Innovation derived outsized returns lead to higher median income for all in spite of the rise in inequality. India should learn from the semi-conductor industry cluster development in South Korea and Taiwan. Invest heavily in diffusion of latest insight and technology by promoting innovation.

The Government should promote 100 per cent FDI for all imported products (including arms) and services (education). Security concerns don't hold water when 70 per cent of the defence requirements are imported.

Concerns over FDI in retail are misplaced too, as the small retailer will always have an advantage in proximity, credit, more apposite merchandising and concomitant lower inventory costs whereas the larger formats will address the affluent with a wider choice and retail experience.

Restricting FDI will only impede domestic manufacturers integrating into global supply chains and benefiting from scale.

There is nothing pre-ordained about India's economic rise that it will capitalise on its economic potential without appropriate policies being put in place.

Unreformed factor markets will result in jobless growth and even in high unemployment and labour shortage. This would worsen income disparity.

Ultimately, there is really no reason why a country that makes the cheapest and highest quality medicines and is the software and services factory to the world cannot manufacture goods at a competitive cost.

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