

Economic Reforms - Past & Future

What is issue?

The crisis caused by the novel corona virus pandemic has led to a debate about fresh thinking and new reforms to manage the economy

What are the gains of previous economic reforms?

- Growing foreign exchange reserves after reforms of 1991
- Sustained manufacturing contribution in GDP
- Increased share in global exports (from a mere 0.6% in the early 1990s to 1.8%)
- Robust information and communication technology software exports
- Sustained economic growth in the range of 6%-8%

What are the shortcomings of the earlier reforms?

- More focussed on the technical nature of the economy than the system, process and people
- Not enough recognition to human capital, technology readiness, labour productivity, disposable income, capital expenditure, process innovation in setting up businesses, and institutional capacity
- Lack of quality education, low skilled manpower and inadequacies in basic health care have resulted in low HRC
- As per the Global Human Capital Report, 2017, the HRC rank for India is 103
- Low per capita GDP in India (at \$2,104) against the world average leaves little room for the majority of households to purchase consumer durables affecting demand
- Low R &D expenditure at 0.8% of GDP results in lower capacity for innovation in technologies and reduced technology readiness
- Lack of HRC and low technology readiness have impacted labour productivity
- Lack of capital expenditure and institutional capacity leads to more cost in setting up enterprises

How to address these shortcomings?

- A systemic approach to address structural issues like HRC, skills, research and development (R&D), land management and institutional capacity is needed
- Focus should be on quality of business services, technology readiness, labour productivity and per capita income
- Investment in human capital and technology can be enhanced to an outlay of 8% of GDP
- Efforts for technology readiness is very essential to stay competitive with the blooming of Industry 4.0
- Enhance the per capita income for workers through higher skills and enhancing minimum wages
- Issues of increased cost of labour can be compensated by higher productivity, tax-benefits in the initial period of wage reforms especially for MSMEs
- Using insights from the work of Nobel laureate (1993) Douglass C. North , it is necessary to build the capacity of public institutions to create a good environment for business and industry

Source: The Hindu

