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Board reforms bullet train: Politics can derail reforms, but the price of inaction is uncertain and inequitable growth

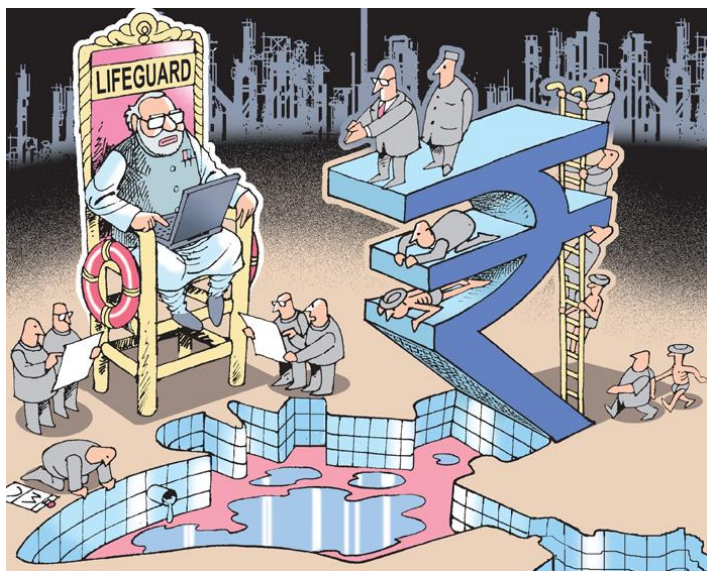
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Prime Minister Narendra Modi has formed an economic advisory council. It will suggest reforms and policies to revive economic growth and to put India back on the path to prosperity. A stormy debate has also broken out on whether the Indian economy has tanked. But let us begin at the core question – how do people and families prosper?

To put it simply, by earning enough to live a good life. We rarely want money for its own sake, but to improve our lifestyle, and take care of our family's health, holidays and hobbies. What ensures that we earn adequately? Many factors contribute, but it boils down to quality education and skills.

Armed with good education, when we begin to earn we hope that prices of goods and services don't rise too fast so that our money can buy plenty. But, what if we don't have enough money to give our children the best education, buy that car or a house that we desire? We take a loan against our future earnings. And then when we buy our dream house, we pray that we meet the best public servant in the local registration office.



But, do we have enough free time to spend in our homes if travelling 10 km to the workplace takes an hour? When we get stuck in that horrendous traffic, we call up or WhatsApp our loved ones using our smartphones. And finally when we reach home, what if electricity suddenly goes off or taps run dry? We wonder why such basic utilities can't be taken for granted.

With so little time at hand, we get some household help mostly for cleaning, cooking and childcare. What if these employees demand permanent jobs? Of course, none of us will agree. In today's fast-paced world, we don't know where we will move tomorrow. But, many politicians

still don't like the idea of giving firms a choice when to let go of their labour. With so much stress or otherwise, either we or someone in the family falls sick and then we hope for good quality affordable healthcare.

This portrayal of a middle-class urban Indian's life is of course simplistic and exaggerated, but perhaps not that far off from reality. Good quality education and healthcare, sufficient availability and choice of

food, consumer goods and other comforts, reliable infrastructure including local transport and utilities, decent public services and an efficient financial sector allow us to prosper.

Barring food, consumer goods and communication services, many other services are in short supply across the country. As a result, their prices have risen rapidly in recent years making it difficult for majority of Indians to afford them. But why are these services in shortage and who supplies them?

These services are largely supplied by domestic producers either in the private or public sector. These are what economists call non-tradables where domestic supply can't be augmented easily and rapidly via imports. That also means they face little international competition as manufacturers of consumer goods do, although technology has begun to ease the delivery and reach of services such as education. These are also the services where government interference in the market mechanism remains high.

In the last three years, a number of economic reforms have been initiated. Some of them will benefit the economy over the long run such as the new bankruptcy law and GST. The GST experience shows us that reforms take years to implement and even after that they can be bogged down with last mile problems. The demonetisation experience shows that disruptions to people and businesses can be severe if reforms are implemented in haste.

It remains to be seen how much lasting benefit demonetisation will bring, but surely early bold steps to recapitalise banks followed by reforms to bank ownership would be hugely beneficial. While bullet trains will have some positive spillovers, those will be far less than the impact of revamping local road transport which hampers job accessibility of millions of commuters daily.

And who suffers the most because of the lack of good quality education and healthcare, unavailability of credit, unreliable power and water supply, and overcrowded public transport? India's millions of low income and poor families. The rest of us can afford to buy at least some of daily essentials such as water and electricity at a higher price via alternative suppliers and let our daily routine continue uninterrupted.

The plight of the poor seems unfair and so we appease them by raising minimum daily wages. The poor need good education, not necessarily formal, but vocational, and in the meantime – without a doubt – additional income support via government transfers. Surely though an excessively high wage floor will only hasten the process of automation of low skilled jobs, which is underway anyway in all spheres of the economy.

Drastic reforms to any existing system are difficult to implement. It's painstakingly tedious work and easier said than done. Given these constraints however, we should not be surprised if India's economic growth remains volatile and benefits a relatively small section of our population.

The PM and his economic advisers have a long and difficult road ahead in the push towards prosperity. And this is where we truly need a high-speed reform train and one that does not derail.

Link - <https://blogs.timesofindia.indiatimes.com/toi-edit-page/board-reforms-bullet-train-politics-can-derail-reforms-but-the-price-of-inaction-is-uncertain-and-inequitable-growth/>