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FACTOR MARKET LIBERALISATION IN INDIA THE CHALLENGE REMAINS

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Abstract: *The mere cursory look on the initiation and implementation of economic reforms in the Rapid-Growth Asian (RGA) countries (like China, South Korea and Taiwan) reveals a message that the economic reforms at the product market level would lead to the grand opening of factor market. This transition unfortunately has not happened so far in India which witness only sweeping changes in product market. There is a conception that the story of India's ascent to economic stardom in the wake of the economic reforms that were launched in 1991 was the story of the rise of India's product market reforms. The unsuccessful attempt of India in building up the strong fundamental framework for the implementation of product market reforms has conveys to the world nations that this country has achieved only partial success so far. Why the Factor Market Reforms is not able to pass its litmus test in India is the question attempted to answer in this paper.*

Key Words: Land, Labour, New Economic Reforms

1.1 THEME BACKGROUND

When India opened its floodgates in year of 1991 due to its payment crisis, it was hugely expected India would unleash its unutilized and hidden potential, fire all cylinders, buoyancy would get in and catapult to the place its deserves. But the results are mixed when we look back after 25 years of new economic reform measures implementation in Indian Economy. Though any reforms at the macro-economic level in India naturally depends on its political approval first and the consensual backup second, the then Government in 1991 due to its explicit (even says tactical) propaganda of the "no-options left" message across the spectrum, implemented a set of crucial reforms needed at that juncture. Then the governments succeeded at the centre had toed the same line and implemented various first generation and second generation economic reforms either fully or partially. There were efforts by some governments to take these economic reforms into township and at the rural areas. It harvested some gains and also sown some strong suspicion about the intention of economic reforms.

In this 25th year of New Economic Reforms, the neutral assessment is need of the hour to find out where still the challenges remained intact? and what sort of actions and policy measures are vital not only to understand the challenges fully but also to overcome it quickly. This paper is an attempt in that direction. In addition, this author held a strong view that the sound and consistent factor market liberalization is inevitable for the equitable distribution of the fruits of liberalization across the section. This paper is also an attempt to showcase how the factors called India's parliamentary democratic system and country's evolving regulatory environment is stands in the way of initiating the much needed factor market reforms and the reforms being implemented now in India is just product market reforms rather than anything beyond that.

2. THEME DISCUSSION

The reforms that were introduced in 1991 focused primarily on product markets. They opened up the country to international competition through the abolition of import controls and lowering of tariffs. Capacity restrictions on domestic producers were removed; more players were allowed to enter and compete in product service markets. Some, like airlines and telephone services, were no longer reserved for government-owned companies. The results of opening up to the world have been greater trade orientation and therefore rapid growth of trade, better products in the market, greater consumer choice, low inflation for manufactured products, more foreign investment, and of course faster economic growth.

What went mostly unreformed in 1991 and later were the four factor markets. This was not for lack of trying, because governments have constantly obsessed about policy issues relating to land and labour. Both are tightly connected with the political system of this country.

2.1 Land market reforms

The rules governing land, in both town and country, are complex, opaque and prone to misuse, and therefore create plenty of room for rampant cronyism and corruption (**T.N.Ninan, 2015**). Land title records suffer from poor record-keeping, are mostly not digitized and therefore often unclear or contestable, and capable of being manipulated. Rules about who can buy and who can sell, on what terms, what purposes the land can be used for, how much one can build on a piece of land, what taxes will apply-all these and more are subjects of complex rules that have created the opposite of transparent market and come in the way of proper price discovery. Rules and laws have been changed and then changed again in cities, states and the country as whole, often creating fresh points of contention. The fiercest legislative and political dispute of 2014 and 2015 has involved new rules for the land market that were introduced in 2013.

2.2 Labour reforms

When it comes to labour, the information have argued for a quarter century that the country' laws are most restrictive and counterproductive in the world (**T.N. Ninan, 2015**). This archaic law prevents downsizing or closure when a business takes a downturn, or becomes unviable, discourage employers from hiring. Once again, the effect is the opposite of what is intended, because employment in large factories is retarded. It is not just the tight constraints and lack of flexibility that the laws impose on employers; there is also multiplicity (forty-four separate Central laws, plus state laws), with each law having its own compliance requirements and visits by labour inspectors who need to be kept happy.

2.3 Capital market reforms

From the perspective of reform, the market for capital has moved towards greater efficiency. Interest rates are market-determined, no longer controlled by fiat; and there is easier access to international capital. Also, the private sector has been allowed entry into banking, insurance and asset management. But in a financial system dominated by banking rather than bond and equity markets, it is a constraint that 70 per cent of the banking system is still with government-owned banks, whose lending decisions are sometimes influenced by political cronyism, and whose risk-assessment capabilities are poor. In this situation, an effective bond market would serve two purposes- improve long-term funding for infrastructural projects and allow corporate borrowers to access debt directly and more cheaply from the money market, bypassing banks. But there has been no hope so far of a true corporate bond market.

2.4 Entrepreneurship reforms

As for entrepreneurship, the fourth factor of production, India has always been rich in its entrepreneurial gene pool, and there has been a widely reported flowering of young entrepreneurs trying their hand at start-up operations-including in contemporary high-tech areas such as chip design. But getting permission to start the project takes more than five months in India (World Bank, 2012) which disappoints the entrepreneurial section. Cumbersome and often pointless laws, rules and procedures are widely recognized as being among the most frustrating in any country.

CONCLUSION

As should be obvious, reforming complicated factor markets is far more difficult than freeing product markets. It involves many more stakeholders and therefore time-consuming. If it happens even after these obstacles, the result would be substantial productivity growth across the system.

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