

GETTING INDIA BACK ON TRACK: AN ACTION AGENDA FOR REFORM

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The Indian economy has stalled after years of sustained growth that enabled the country to take an unprecedented role on the world stage. The global economic slowdown is partly to blame, but New Delhi must correct a slew of misguided, obsolete policies. The 2014 national elections will be a critical step toward India's economic resuscitation. There are a number of ways the next government can help get India back on track, including by implementing reforms in the short term that will foster a lasting, comprehensive transformation.

Key Themes

- India's transition away from a statist economy, although well under way, remains unfinished. The country's economic growth has slowed as a result.
- From energy policy to healthcare to foreign affairs, India is too often held back by, among other things, ineffective resource allocation mechanisms, weak state institutions, and poor capacity for instrumentally rational public policies.
- Addressing these challenges demands the discipline imposed by markets within a framework of effective, neutral, and transparent regulatory institutions.
- These policy changes will require varied—and sometimes technically complex—reforms, increasingly at the state level.
- If India does not take corrective action soon, it will fail to deliver on both its promises to its growing population and its potential for global success.

Recommendations for the Next Indian Government

Recognize the imperative of growth. India must return to high rates of economic growth over a long period of time to correct its current developmental deficiencies. Policymakers should aim to sustain India's economic transformation over the secular period as they implement the next generation of reforms, which generally pertain to liberalizing factor markets (in contrast to a previous wave's focus on product markets).

Increase reliance on markets for efficient allocation. Policymakers should examine their long-standing assumption that state intervention is the best possible instrument for making allocation decisions in the economy. Wherever possible, private goods should be produced and distributed principally through market mechanisms. State resources should be utilized mainly for producing collective goods or those private goods that are hard to produce through the market because of misaligned incentives.

Rebuild state capacity. Reforms should increase the state's currently rather weak capacity to do what only governments can do—build institutions for effective rule-making, administration, and adjudication.

Shift the locus of reform from the center to the states. Decisions about economic and social policy in the future should be made at the lowest possible levels of competent authority, meaning India's states.

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