Education, labour and agriculture reforms will usher in individual freedom

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The big gainers from these individual freedom reforms will be the youth, factories, farmers, MSMEs, and wages (Illustration by C R Sasikumar)

It's unfair to simultaneously regret and defend the status quo in education, agriculture and labour markets. Change is a form of hope.

India's agriculture laws were neither pro-farmer nor pro-consumer but pro-middleman. India's labour laws were neither pro-labour nor pro-employer but pro-labour inspectors. India's education laws were not pro-student or pro-employability but pro-UGC, AICTE and block education officers. Yet, why didn't we change them for decades?

A wonderful new biography of Dadabhai Naoroji by Dinyar Patel has three lessons for reforming dysfunctional regimes. First, any change needs evidence: Naoroji's drain theory used government data to prove India's exploitation. Second, any change must be balanced: Naoroji was too moderate for the radicals and too radical for the moderates. Finally, any change requires openness because you can't simultaneously regret and defend the status quo: Naoroji became more radical well into his eighties because he embraced new ideas instead of retreating into the safety of his old convictions.

I make the case that our labour market status quoists chose vested interests over individual freedom, our education, labour and agriculture reforms are deeply connected, and change is a form of hope.

Delivering the equality and justice dream of our Constitution needs individual economic freedom. But vested interests create a minority rule in agriculture (only 6 per cent of farmer benefit from MSP and 45 per cent of our labour force only produces 15 per cent of our GDP), minority rule in employment (only 22,500 of 6.3 crore enterprises have a paid-up capital of more than Rs 10 crore and only 10 per cent of our workers have social security) and minority rule in education (only 15 per cent of our kids who start Class 1 finish Class 12 and only 10 per cent of Indians have a college degree). Policy change is difficult because effectiveness needs the right balance of conviction with listening. If you don't listen, seek out hearing aids and surround yourself with cognitive diversity, you make avoidable mistakes. But if you don't have convictions, you become a perfectly oiled weather vane who doesn't get anything done. The great sentinel Tagore's advice to Gandhiji — "Ekla cholo re" or walk alone — was hardly anti-listening but suggested courage on the difficult path of the greatest good for the greatest number. It would be unfair to deny that 10 per cent of India's farmers, workers and educators would be adversely affected by the recent reforms. But it would be insane to allow this organised vocal minority — economist Mancur Olson called them distributional coalitions — to continue their punishment of 90 per cent of India's farmers, workers and youth. A vote cannot be a veto because nobody cuts the tree they are sitting on.

The three reforms in education, agriculture and labour laws are related because employed poverty is a bigger challenge than unemployment, farmers are not self-employed but self-exploiting, our employers are mostly dwarfs not babies, our labour is handicapped without capital, our capital is handicapped without labour, unemployability is a bigger problem than unemployment, helping farmers involves having less of them, our government school teachers have no fear of falling or hope of rising, and our universities are over-regulated and under-supervised. India is still poor because the Avadi resolution of 1955 sabotaged individual freedom in entrepreneurship and factor markets. Purity is the enemy of progress and individually NEP, four labour codes, and three farm bills balance extreme positions while creating a new chance for India's land, labour and capital to work together and raise "total factor productivity" (sadly India lost magnificent economist Isher Ahluwalia last week whose early work on the Solow residual thought hard about productivity).

The big gainers from these individual freedom reforms will be the youth, factories, farmers, MSMEs, and wages: Youth because an employment contract that is marriage without divorce doesn't lead to fewer marriages, but fewer registered marriages; factories because nobody could comply with 100 per cent of our labour laws without violating 10 per cent of them. The criminalisation of politics and politicisation of trade unions is a poisonous combination and China factory refugees hesitate with laws that make them ATM machines for labour inspectors. Farmers will get a larger share of retail prices and the farm to non-farm labour transition is easier to factories than services. MSMEs don't have the margins to manufacture their own employees and labour laws are inimical to scale. Finally, the only sustainable and scalable minimum wage programme is higher human capital and formal non-farm job creation.

Change is a form of hope especially as the COVID-19 pandemic destroys fiscal space. The Indian welfare state doesn't lack ambition but resources. Historian Ramachandra Guha reminds us that India has remarkably created the world's largest democracy on the infertile soil of the world's most hierarchical society. A new national goal should be our grandchildren living in the world's largest economy — Chinese and American demographics suggest we get there at $15,000 per capita income. India has a unique chance to create mass prosperity because structural opportunities (a new world of work, organisations and education), global opportunities (capital glut that overvalues growth, China fatigue, toxic politics in ageing countries) and domestic opportunities (young population, productivity frontier distance, and lower corruption) combine to create a potent policy window. Our choices must reflect our hopes rather than our fears.

The recent reform is substantial but must be followed by civil service, banking, compliance, decentralisation, and urban reform. Over the next decade, they will combine to raise manufacturing employment from 11 per cent to 18 per cent of workers, reduce farmers from 45 per cent to 15 per cent of workers, raise women's labour force participation from 25 per cent to 50 per cent, and raise India's per capita income from $2,500 to $10,000.

India's old economic path often cited John Maynard Keynes' 1923 comment, "In the long run, we are all dead", allowed vested interests to control our land and labour markets, and blunted individual economic freedom. Our new path involves changing our minds, taking risks that expand individual choice for our workers and farmers, and citing Keynes' 1942 comment that, "In the long run, almost anything is possible".