

What a waste

How India is throwing away the world's biggest economic opportunity

In the past 35 years, hundreds of millions of Chinese have found productive, if often exhausting, work in the country's growing cities. This extraordinary mobilisation of labour is the biggest economic event of the past half-century. The world has seen nothing on such scale before. Will it see anything like it again? The answer lies across the Himalayas in India.

India is an ancient civilisation but a youthful country. Its working-age population is rising by about 12m people a year, even as China's shrank last year by 3m. Within a decade India will have the biggest potential workforce in the world.

Optimists look forward to a bumper "demographic dividend", the result of more workers per dependant and more saving out of income. This combination accounted for perhaps a third of the East Asian miracle. India "has time on its side, literally," boasted one prominent politician, Kamal Nath, in a 2008 book entitled "India's Century".

Reasons to be cheerless

But although India's dreamers have faith in its youth, the country's youngsters have growing reason to doubt India. The economy raised aspirations that it has subsequently failed to meet. From 2005 to 2007 it grew by about 9% a year. In 2010 it even grew faster than China (if the two economies are measured consistently). But growth has since halved. India's impressive savings rate, the other side of the demographic dividend, has also slipped. Worryingly, a growing share of household saving is bypassing the financial system altogether, seeking refuge from inflation in gold, bricks and mortar.

The last time a Congress-led government liberalised the economy in earnest—in 1991—over 40% of today's Indians had yet to be born. Their anxieties must seem remote to India's elderly politicians. The average age of cabinet ministers is 65. The country has never had a prime minister born in independent India. One man who might buck that trend, Rahul Gandhi, is the son, grandson and great-grandson of former prime ministers. India is run by gerontocrats and epigones: grey hairs and groomed heirs. The apparent indifference of the police to the way young women in particular are treated has underlined the way that old India fails to protect new India.

The list of necessary reforms is familiar. It includes measures to streamline decision-making and curb corruption, fiscal discipline that would free the central bank to tame inflation, and banking reforms to recapture the saving now lost to the financial system. The government needs to rethink its approach to the acquisition of land, on which flawed legislation is pending, to ease investment. And it needs to unclog the energy sector: India's new power stations are worth little without enough domestic coal and gas to feed them.

Such reforms would benefit all Indians and all areas of the economy. But there is one particular industrial shift that should concentrate minds (see article). As China's workforce shrinks and its wages rise, up to 85m manufacturing jobs might migrate elsewhere, according to Justin Lin, a former chief economist at the World Bank and now at Peking University. Here surely is an opportunity for India's underemployed young hands. Why shouldn't those jobs come to India?

The answer is that, set alongside other fast-emerging Asian countries, India has too few of the right sort of firms or workers and too many of the wrong rules. There are certainly some impressive Indian manufacturers, especially in carmaking. But the likes of Bharat Forge and Mahindra & Mahindra prefer to employ sophisticated machinery rather than abundant labour. At the other end of the spectrum are innumerable tinpot workshops, employing handfuls of people and outdated methods. What India lacks is a *Mittelstand* of mid-sized, labour-hungry firms. Even during the boom years, it created many more jobs in construction than in

manufacturing. It is hard for India's young to raise their sights when they are carrying bricks on their heads.

To fill this "missing middle" the government should remove some of the bureaucratic bricks that now weigh on the heads of India's entrepreneurs. These include India's notorious labour laws which, on paper, prevent factories firing anyone without the state's permission. It is true that by hiring labour from third parties the country's employers have blunted the law's effect. But in so doing they have also blunted their own incentive to train their workers—and lead to more abuse.

And a lot of training is required. Many of India's young leave school ill-prepared even for rudimentary jobs. Standards are stagnant, even slipping. By their fifth year of schooling, only half of rural pupils can solve a calculation like 43 minus 24, according to the Annual Status of Education Report. Barely a quarter can read an English sentence like "What is the time?"

Anthem for foiled youth

A focus on capturing the manufacturing jobs fleeing China is not an excuse for industrial policy, let alone a return to a Licence Raj picking favoured factories. Most of the reforms that would help young factory workers would help the whole economy as well. Less bureaucracy, better schools and decent electricity would give a boost to India's services industry and to older workers too. But at the moment it is India's young who bear the brunt of their elders' complacency.

"Why are the youth angry?" the young Gandhi asked earlier this year. The real wonder is why they are not even angrier. In the rural districts the government has bought social peace with public works and subsidised food. In the cities the young have taken to the streets only sporadically. In 2011 they rallied to the banner of an eccentric anti-corruption campaigner. In December they expressed their outrage at the brutal gang-rape of a young woman whose aspirations mirrored their own. In India great hardship is often suffered in silence. However bad things get, someone nearby is enduring worse, and even the poor are acutely aware of how much they have to lose.

Social peace is no bad thing. But India could do with a sense of urgency about the reforms needed to generate jobs and rejuvenate politics. "India's century" is not an inevitability. It is a giant opportunity that India is in danger of squandering.

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