

PRO-BUSINESS POLICY VITAL FOR INDIA TO BECOME A \$5 TRILLION ECONOMY

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

India's aspiration to become a \$5 trillion economy depends critically on promoting "pro-business" policy that unleashes the power of competitive markets to generate wealth on the one hand, and weaning away from "pro-crony" policy that may favour specific private interests, especially powerful incumbents, on the other, according to the Economic Survey.

The Survey said economic events since 1991 provide powerful evidence supporting this crucial distinction.

"The creative destruction has increased significantly after reform. The liberalization of the Indian economy in 1991 unleashed competitive markets and enabled the forces of creative destruction, generating benefits that we still witness today. Creative destruction brings new innovations in the market that serve people better than the old technologies they displace," it said.

It observed that pro-crony policies, in contrast to pro-business ones, erode wealth in the economy as cronyism fosters inefficiencies by inhibiting the process of creative destruction. Despite impressive progress in enabling competitive markets, pro-crony policies have destroyed value in the economy.

The Survey said wilful default would increase the cost of borrowing for everyone, including genuine businesses with profitable investment opportunities before them. Adverse selection may force genuine borrowers to exit the market, leaving only cronies, resulting in a market failure.

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