

Economic Freedom: An Indian Impression



In the era of globalisation and liberalisation, economic indicators reflect the direction and the state of economy. Economic freedom in today's world reflects parameters which when improved upon will put the nation into the growth trajectory. It also reflects prosperity and the course as to why one nation thrives more than the other. Economic freedom reflects that the nations must put their resources together and embark on the growth journey without being detrimental to the path of other nations. Higher economic freedom reflects greater opportunity and quality of human life. The Heritage Foundation in collaboration with The Wall Street Journal publishes an annual guide called 'Index of Economic Freedom' which issues country specific data on economic freedom across the globe. This article is based on the study of '2015 Index of Economic Freedom', particularly, from India's perspective. Please read on...

In the words of **Franklin D. Roosevelt**, "true individual freedom cannot exist without economic security and independence."

Taking a cue from above, it can rightly be interpreted that economic freedom is the key to greater opportunity and an improved quality of life. The principles of economic freedom promotes competition and openness and it also reinforces dynamic growth through efficient resource

allocation, improving human conditions, value creation and offering practical solution to economic and social challenges. The impact of the economic freedom of a country demonstrates policies of its government, to encourage greater entrepreneurship and reduction in poverty thereby improvements in living standards. Better health care and educational opportunities with higher levels of innovations ensures greater economic freedom of a democratic country. Even the capacity of the society to meet basic human needs that enhance the quality of their lives is an important factor to determine the economic freedom of the country.

In a nutshell, economic freedom has become essential as:

- It is a fundamental right in the sense that without economic freedom, there can be no political or civil freedom



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- It is a prerequisite for development and growth
- It is a prerequisite for development of human resources.

The importance of the economic freedom in developing countries like India is of more concern, as it highlights the importance of better economic and social outcomes and is instrumental to establish a correlation between economic freedom and national indicators of human and material progress.

The Index of Economic Freedom

At present, there are two indices for measuring the economic freedom of the countries in the world: Economic Freedom of World (EFW) project started by Fraser Institute in 1980 and, the Index of Economic Freedom is published by Heritage Foundation since 1995.

Fraser Institute in conjunction with the Economic Freedom Network and the Heritage Foundation with the Wall Street Journal used to publish the index which measure the economic freedom and helps in tracking freedom across the globe. Fraser Institute's economic index puts a thrust on expenditure and taxes as well as the size of the government, property rights, freedom of trade, access to money and regulation of credit business and labour. However, the Heritage Foundation's index's sub-components include business, trade, monetary and fiscal policy, government spending and the right to property in the world's nation.

The Index of Economic Freedom 2015 by the Heritage Foundation categorises world economy as "moderately free".

Chart 1
Key policy and its categories

Limited Government	Regulatory Efficiency	Open Market	Rule of Law
Fiscal Freedom	Business Freedom	Trade Freedom	Property Freedom
Government Spending Freedom	Monetary Freedom	Investment Freedom	Freedom From Corruption
	Labour Freedom	Financial Freedom	

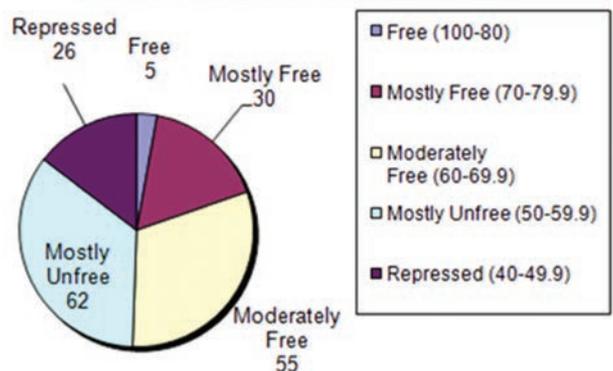
Source: Self (Compiled from 2015 The Index of Economic Freedom pp13)

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Chart 1 reflects key policies and its sub-categories. These categories reflect the freedom which is essential for countries who aspire for greater economic prosperity and dynamism. The interrelated freedom also helps in adapting policies which in both short run and long run helps in stable currency, better tax administration, market openness, financial flows and sensible regulations.

The 2015 Index of Economic Freedom assesses economic policy development in 186 countries. Due to lack of sufficient data, ranking for the eight countries have been excluded in this index. The index uses ten major policy areas affecting economic freedom. The ten policy areas are shown above in Chart 1 which is grouped into four major pillars: limited government, regulatory efficiency, open market and rule of law.

Figure 1
Country Ranking According to 2015 Index of Economic Freedom



Source: Self (Compiled from 2015 The Index of Economic Freedom pp 4-9)

Figure 1 depicts the ranking of remaining 178 world economies on the parameters of economic freedom which are categorised into five sub-categories like free, mostly free, moderately free, mostly unfree and repressed. Amongst the 178 countries ranked, scores have improved for 101 countries and declined for 73. Figure 1 also shows

Economics

number of countries falling in each category. These categories have been developed on the basis of scores given to these countries on the ten parameters and are ranged as below:

Sub Categories	Range/Score
Free	100-80
Mostly Free	70-79.9
Moderately Free	60-69.9
Mostly Unfree	50-59.9
Repressed	40-49.9

Countries falling under the free category have distinct advantage as compared to other countries in terms of per capita income and level of development. The shift from one category to another signifies economic change and its subsequent benefit which not only benefits the people of the country but also improves the overall ranking of the country.

Recent Global and Regional Trends

In Chart 2 given below, global trend in economic freedom is reflected wherein, it has been shown that the level of development and economic freedom does not show positive correlation with the level of economic development. The increasing and decreasing trends are also giving the direction in reflecting economic freedom amongst different countries.

Chart 2



Source: 2015 The Index of Economic Freedom, The Heritage foundation in partnership with The Wall Street Journal, ed. Terry Miller, Anthony B. Kim

For the purpose of assessing 186 economies, Index of Economic Freedom has divided economies into six regions as is mentioned below in Table 1.

One-Year freedom Score Change		
Region	Index Year	
	2014	2015
Sub-Saharan Africa	54.6	54.9
Asia-Pacific	58.5	58.8
Middle East and North Africa	61.5	61.6
South and Central America/Caribbean	59.7	59.7
Europe	67.1	67
North America	74.1	73.9

Table 1

Source: Self (Compiled from 2015 The Index of Economic Freedom pp 73)

Table 1 depicts one year freedom score change wherein except Europe and North American regions, all others have modestly advanced in comparison to 2014. However, average economic freedom of South and Central America/Caribbean regions remains unchanged. The Asia Pacific region has showed signs of improvement and disparities as it consists of six of the twenty freest economies (like Hong Kong, Singapore, New Zealand, etc.) but also seven of the twenty least free countries (like North Korea, Uzbekistan, Burma, Kiribati, etc.). The Index brings out one of the most important facts that about 65% of world's population lacks

economic freedom and maximum concentration of this population is living in just two countries, China and India. Both the countries are advancing towards economic freedom with uneven and limited approach.

Indian Impression in Economic Freedom

The economic freedom of India has considerably improved since the introduction of market reforms (period of liberalisation in the early 90's). However, there is a long way to step up the ladder of index of economic freedom. At present, the Indian economy is ranked 128th out of 178 ranked economies. India has the economic freedom score of 54.6 and is categorised under the “mostly unfree economy”. The regional rank of India has slipped from last year's index and is currently 26th out of 41 Asia-Pacific countries. The major reasons behind the slow performance of Indian economy are corruption, labour market rigidities, extensive regulatory controls and most importantly, burdensome bureaucracy.

Graph 1



Source: Self (Compiled from 2015 The Index of Economic Freedom pp470)

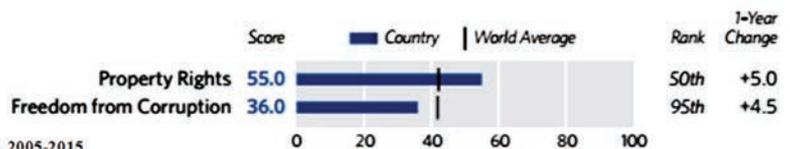
Graph 1 is compiled on the basis of last 10 years' (from 2005 to 2015) score of India on the Index of Economic Freedom by Heritage Foundation. This also depicts that India's index of economic freedom is more or less the same for the last 5 years, which implies that there is a little improvement in a few parameters like business freedom and property rights. However, corruption and labour freedom needs more attention from the government set-up in India. For maintaining a reasonable level of economic freedom, the role and willingness of government cannot be over

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sighted. In a democratic set up like in India, the role of the government is that of a regulator to bring transparency and accountability in the system which will create a conducive environment and remove the regional disparities for the growth of the business which would help in improving the status of the economic freedom in the country.

Indian Rankings on the Four Parameters of Index of Economic Freedom

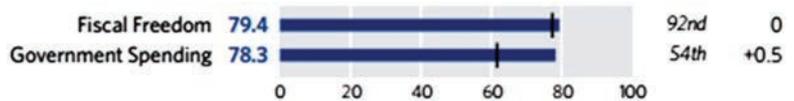
Rule of Law



Source: 2015 Index of Economic Freedom pp.244

Under the parameter of Rule of Law, property rights and freedom from corruption are major variables wherein the scores are depicted in comparison to the world average. In both these areas, the government should ensure transparency and critically deal with corruption which is holding the economic performance of the country and also hampering the progress in these parameters.

Government Size

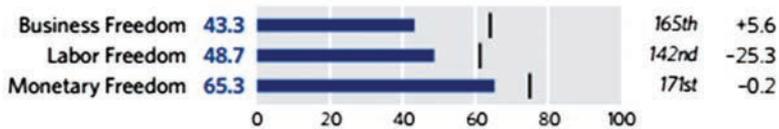


Source: 2015 Index of Economic Freedom pp.244

Fiscal freedom and government spending are the major indicators which are reflected in the economic freedom as it reflects the financial well being of the economy (management of expenditure of revenue) and less reliance on public borrowing which in turn reflected in less public debt and burden on the economy. The FRBM targets fixed by the government

will help in maintaining fiscal management and budgetary control. Improvement in both the fronts will subsequently help India in improving its ranking in the Index of Economic Freedom.

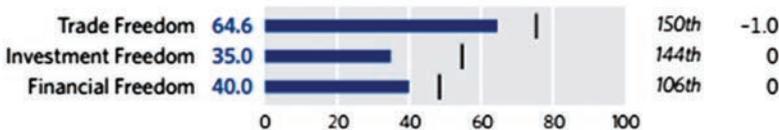
Regulatory Efficiency



Source: 2015 Index of Economic Freedom pp.244

The higher cost of business in the form of licenses, clearances, labour cost, *etc.* has constrained the economic freedom of the country due to time consuming procedures and deficiency in labour laws which need systematic reforms to handle business and labour inadequacies. However, from the figures above, India has shown a marked improvement in business freedom due to transparency in rules and regulation, single window clearance and second and third generation reforms undertaken by the Indian government.

Open Markets



Source: 2015 Index of Economic Freedom pp.244

Freedom of trade reflects the direction of the country in generating favourable financial environment which provides maximum opportunities for expanding economic activities like advancement in technology, job creation, trade relations, *etc.* Empowering banking and financial institutions would also provide conducive environment to foreign investments for overall economic efficiency and growth.

Challenges Before India

India, though making its mark by improving its GDP growth and slowdown of inflation rate, needs concentrated and sustainable efforts to tackle the following challenges:-

- Simplification and rationalisation of taxation system
- Quick resolution of corporate disputes
- Effective liberalisation of foreign direct investment
- Reforms in labour and allied laws

- Fiscal consolidation and greater tax devolution to the State
- Empowering government and public institution
- Effective financial and legal sector reforms
- External sector reforms for the openness of market
- Providing social security to the citizens of the country
- Reduction in regional disparity and emphasis on small industries.

Conclusion

To sustain the economic momentum and to maintain supremacy as a force to reckon with, the thrust of the government is to bridge the gap between policy paralysis and policy decisions. Better understanding of the need of the people for inclusive growth will help the economy to improve upon the major indicators of the economic development and to improve the rankings in the Index. India has tremendous global potential in terms of innovative and educative young population which will help in improving its ranking in the Index of Economic Freedom.

According to the 2015 Index of Economic Freedom, the main challenges faced by the Indian economy are to eliminate economic inequalities, unemployment and negative growth of exports. As the Indian economy has opened up, maintaining a low inflation rate is also a major challenge. Keeping the global trend of higher inflation rate also leads to challenges against exchange rate, banking, insurance and investment.

As per the recent projections by various studies of renowned institutes, India has been shown as most progressive and developing country in the Asia-Pacific region. The improving GDP growth rate is a clear sign of the same. In order to accomplish the economic reforms agenda, the new government is laying more stress on the societal benefits, financial inclusion of citizens and various government welfare schemes which have been introduced in recent past. All the reforms, if implemented in the right direction, will unlock the potential of the country and help attaining its objective of having in place good governance, better living standards thereby achieving economic freedom. Changes in tax policy and implementing fiscal reforms will embark the road of economic freedom and bright future of India. ■