There is a famous story among India's liberal circles of a young man, Nandan Nilekani, ordering a hard drive. By the time he obtained government approval for this piece of silicon, it was already obsolete, with a standard double the size. As a different good altogether, Nilekani had to file for yet another license.[i]

Anyone who argues that India is undergoing another liberal catharsis underestimates both the degree of economic repression pre-liberalization and the political will required to dispense such reform. Prominent economists, such as Kenneth Rogoff, feel that many structural dividends from liberalization have yet to be realized. It is also crucial to note that the economic reforms of 1991 weren't the result of an inherent disposition towards liberalism, but made politically feasible by pressure from the International Monetary Fund (IMF). While I believe that future liberalization in retail, finance, and energy will be pivotal for an "Indian century", I doubt that the current political climate will rival the truly revolutionary end of the Permit Raj.

India's modern retail sector finds similarity to Japan's ten years ago. In the *Power of Productivity*[ii], William Lewis compares worker productivity across various sectors in Japan and the United States. The first 10% of Japanese output – consumer electronics, automobiles, and supporting industries such as steel – are highly productive. However, domestic industries are weak due to government regulations. Subsidies and arcane laws, including one capping the size of supermarkets to 1000 square meters, limit retail competitiveness.[iii]

The effects of a liberal retail sector are multi-order. Retail productivity can have a deep impact on far-reaching segments of the economy; a competitive supermarket that sources its produce from the cheapest firm will result in a more competitive food processing sector in the same way a productive automotive sector affects an efficient steel industry. India's decaying cold chains and food systems are ignored because there is no Walmart to demand efficiency. As Richard Katz argues, Japan suffers from a "dual economy"[iv], where efficient exporters subsidize weak domestic industries. As the deflation of the 1990s demonstrates, this makes the Japanese people particularly vulnerable to appreciation in the yen. By allowing broad reformation in economic structure, India will avoid a trap in which a relatively competitive services industry is limited by an inefficient domestic supply-chain.

With Raghuram Rajan as Chief Economic Advisor, India has no dearth of the liberal thought needed to reform its financial sector by licensing foreign banks and allowing private ownership of domestic banks. However, India's political reality makes it remarkably difficult to engage in any such reform. Indian politicians derive their authority not from the urban middle-class that funds them, but the rural villagers that still represent almost 70% of India's populace[v], more concerned with inefficient welfare schemes such as the National Rural Employment Guarantee Act (NREGA) that restricts funding to non-mechanized farm work, resulting in a chaotic and anachronistic agricultural sector.

Energy sector reform is important for supporting India's economic growth targets. Businesses are handcuffed by poor electricity distribution. Scheduled power cuts force many factories to shut down, sometimes compelling poor laborers to toil in inhumane conditions. Efficiently distributed energy is one of the many factors that separates the United States from Europe in today's recovery. By leveraging its natural resources through structural reforms, India is well-poised to benefit from similar advantages.

Energy reform is hardly independent of that in retail or finance. The kickback effects from competitive firms like Walmart are likely to demand more efficient distribution of energy to source manufactured goods. While this might be wishful thinking as a specific example in a larger system, it reflects the powerful second-order effects of systematic liberalization. Coal India is the world's largest coal miner and needs to be privatized. As one of India's most valuable companies by market capitalization, sale of assets can not only improve efficiency but provide a stopgap on India's deficit. In a zero-sum economy, inefficiencies resulting from poor retail or fiscal policy and coal imports, which increased almost 20% in 2010[vi], will be unaffordable. India is projected to import approximately 90% of its oil within twenty years[vii] – India will need to direct its debt towards the financing of oil, not coal.

Land acquisition laws as well as social pressure prevent India from fully realizing the potential of nuclear energy. Indeed, while it may still be a thing of the future, India sits atop of almost 30% of the world's thorium reserves[viii], a possible fuel for nuclear reactors. Coal and diesel will become an increasing burden on India's health systems, and while India may not be able to finance large-scale research for clean energy, it should certainly invest in cleaner fuels for economic reasons.

Energy reform is import not only for economic output, but human dignity. Kids in India sweat in the sweltering months of summer, starving their time to study and work. The prohibitive cost of artificial cooling will continue to separate the "west and the rest". As the IEA notes, proposed reforms in the energy sector will finally allow the liberalization of the 1990s to bring electricity to the masses[ix] – this would be critical for both business and dignity itself.

India's economic woes stem in some part from poorly-managed inflation. It would be a step in the right direction, as Rajan suggests[x], to grant the Reserve Bank of India (RBI) constitutionally-enshrined independence, which he claims results in India's borrowing binge: by levying a high liquid capital requirement on banks, the RBI indirectly compels bond-buying – over 70% of government bonds are owned either by the RBI or the banking system in general. The $14 billion bond-buying scheme is likely a tactic to keep yields low, again further encouraging deficits.[xi] If the Government accepts Rajan's proposal, one might hope that RBI takes a more pragmatic approach towards deficit spending, and exercises its right to quell inflation.

Considering the relatively high investment at a repo rate of 8%[xii], one can only imagine the inflow of capital were India to reduce inflation, decreasing borrowing costs. Indian politicians would do well to observe Latin America: while regimes don't always crumble during periods of recession, they do under inflation. Proposed reforms go a long way in attracting needed capital and curbing an increase in prices.

However, there is a critical gap between proposed reforms and those that actually pass. The Indian system of democracy is unable to dispense crucial reform. The executive, by virtue of serving at the confidence of a Parliament, is at the constant mercy of small coalition partners and cannot easily implement new policy, unlike some governments where legislative power is more centralized. The ultimate form of democracy for a federation of states as diverse as India can only be a highly-devolved Presidential system, a la the United States. It is, as Shashi Tharoor says, a perversity that the legislature exists for the sake of forming an executive.

The relatively healthy inflow of FDI despite political instability only underscores the faith investors have in India's entrepreneurial spirit. Under the constant threat of a hung parliament, Indian markets are exposed to an unfortunate degree of uncertainty, which play no small role in higher borrowing costs. Therefore, to determine whether the proposed reforms can have any lasting effect, it would be crucial to guarantee that a sudden change of government would not upset the reform.

Though only a footnote in the news cycle, reforms encouraging the sale of gold, will stimulate the economy. Import of gold accounted for over 50% of India's deficit last quarter[xiii]. Proposals to encourage investment collateralized on gold should be pursued with vigor, funding public infrastructure and education systems.

Neither of India's national political platforms can really support visionary thinking; the BJP falls prey to religious and social populism, while the National Congress does so to economic populism. However, urbanization will bring an end to the unfair grip rural India has on national politics. While neither leading candidate for premier, Rahul Gandhi or Narendra Modi, are likely to oversee the same level of liberalization as did the Narasimha Rao government, the defining moment of the next Union Cabinet will be the transition to an urban India. If it facilitates a strong city system, with independent mayors, competitive economic zones, and strong rule of law, the stage will be set for meaningful growth and reform.

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