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EDITORIAL ANALYSIS

The Unfinished Agenda: Second-Generation Reforms and Factor Markets

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THE LIFT LINE

In 1991 India decided what firms could make and sell; the reform it never finished was how firms get the land to build on, the workers to hire and the capital to invest, and until those factor markets are freed, the 1991 promise stays half-kept.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Growth and development is the spine of GS3, and the examiner wants candidates who can go beyond narrating 1991 to diagnosing what remains undone. The single most useful distinction here is product markets versus factor markets, and a candidate who deploys it cleanly can answer almost any reform question with structure.

This editorial is deliberately forward-looking. The anniversary of 1991 is a history question; the "next-generation reforms" agenda is a policy question, and that is where high marks live, because it demands analysis and a way forward rather than recall.

GS Paper 3: Indian economy and issues relating to planning, mobilisation of resources, growth, development and employment; effects of liberalisation on the economy.

It also connects to GS2 (land acquisition law, labour regulation) and GS1 (urbanisation and migration), but the centre of gravity is GS3 growth economics.

For **Prelims**, hold the specifics: the distinction between **product-market** reform (delicensing, trade and industry, largely done in 1991) and **factor-market** reform (land, labour, capital, still unfinished); **total factor productivity (TFP)** as the residual driver of growth beyond adding labour and capital; the **middle-income trap**; the four **Labour Codes** (Wages, Industrial Relations, Social Security, Occupational Safety) consolidating 29 central laws; and **disinvestment and privatisation** as capital-market reform. For **Mains**, argue that raising productivity, not just adding inputs, requires freeing the three factor markets.

BACKGROUND AND CONTEXT

The 1991 reforms dismantled the licence-permit raj, opened trade and investment, and freed the product market, what firms could produce, at what scale, and whether they could sell abroad. The payoff was real: faster growth, a services boom and the rise of globally competitive firms. But 1991 largely left the **factor markets** alone. Acquiring land stayed slow and litigious; hiring and adjusting labour stayed rigid and threshold-bound; and long-tenor, low-cost capital stayed scarce in a bank-dominated financial system.

Thirty-five years on, that asymmetry is the binding constraint. India can design and sell world-class products, but it cannot easily assemble the inputs to make them at scale. This is why manufacturing has stagnated as a share of output, why firms stay small to dodge thresholds, and why productivity gains have been uneven. The **second-generation** or **next-generation reforms** agenda is, at its core, the factor-market agenda, and it is what stands between India and a durable escape from the **middle-income trap**.

THE CORE ARGUMENT / ISSUE

Product markets were freed, factor markets were not

The 1991 logic was to let competition decide winners in the product market. But competition cannot work if firms cannot flexibly get land, labour and capital. A liberalised product market bolted onto rigid factor markets produces exactly what India has: dynamic firms constrained by the cost and friction of scaling up.

The three unfinished markets

Land. Fragmented ownership, unclear titles, contested acquisition and high stamp duty make assembling large plots slow and risky, deterring big plants and infrastructure. Land titling and digitisation are the quiet reform that unlocks the rest.

Labour. The four Labour Codes consolidate 29 central laws and promise flexibility and portable social security, but their impact hinges on state rules and on dismantling the threshold-based incentives that keep firms small ("dwarfism"). Rigid labour markets suppress the formal, factory jobs a young workforce needs.

Capital. A bank-heavy system geared to working capital, a thin corporate-bond market, and unfinished privatisation leave patient, long-tenor capital scarce and costly. Disinvestment and deeper capital markets are the third leg.

FACTOR MARKET	REFORM OF 1991	WHAT REMAINS UNFINISHED
Product	Delicensing, trade and FDI opening (done)	Continuous, but largely liberalised
Land	Barely touched	Titling, acquisition, conversion, stamp duty
Labour	Barely touched	Codes' rules, social security, ending dwarfism
Capital	Partial (banking reform)	Bond market depth, patient capital, disinvestment

Productivity, not just inputs

The deeper argument is about **total factor productivity**. Growth from simply adding more workers and more capital eventually slows; sustained growth needs each unit of input to produce more, which is TFP. Free factor markets raise TFP by moving land, labour and capital to their most productive uses. Countries stuck in the middle-income trap are usually those that exhausted input-led growth without freeing factor markets to lift productivity, the exact risk India must avoid.

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

Use the frame **inputs versus productivity, and product versus factor markets**. First-generation reform freed the product market and delivered a burst of input-led and openness-led growth. The next phase must raise productivity, and productivity is gated by how freely the factors move. So the analytical test for any proposed reform is: does it help land, labour or capital flow to its most productive use? Reforms that only add inputs (more spending, more subsidy) postpone the trap; reforms that free factor markets are what actually raise the growth ceiling. The political economy is harder precisely because factor reform reallocates assets and jobs, which is why it was deferred, and why finishing it is the real test.

THE DIAGRAM IN WORDS

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1991: product market freed (delicensing, trade, FDI) -> growth burst, but factor markets left rigid -> land slow, labour rigid, capital short-tenor -> firms cannot scale, manufacturing stagnates, TFP uneven -> middle-income trap risk -> [resolution] second-generation reform frees land + labour + capital -> higher productivity -> durable escape past middle income
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WAY FORWARD

1. **Free the land market.** Complete land-title digitisation, ready industrial land banks, ease conversion and rationalise stamp duty so acquisition stops being the first and hardest hurdle.

2. **Operationalise the Labour Codes.** Get states to notify enabling rules, deliver portable social security, and remove threshold-based incentives that trap firms in smallness.
3. **Deepen capital.** Build the corporate-bond market and development finance for patient capital, and pursue disciplined privatisation and disinvestment to reallocate capital productively.
4. **Anchor to productivity.** Judge every reform by whether it raises total factor productivity and moves factors to their best use, not merely by whether it adds spending.

PYQ LINKAGE AND PRACTICE

UPSC has asked on the 1991 reforms and their effects, on why India's manufacturing has lagged, and on the constraints to sustained growth. This editorial reframes those as a single unfinished agenda: freeing factor markets to raise productivity.

Practice question: "Having liberalised its product markets in 1991, India's unfinished reform lies in its factor markets." Examine the land, labour and capital reforms needed to raise total factor productivity and avoid the middle-income trap. (250 words, 15 marks)

Sources: Business Standard opinion, PIB on India's economic reforms and ease of doing business

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