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Law

Legal framework and economic growth of India

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Introduction:

We are living in the era of globalization. The globalization has thrown open several challenges and opportunities. Globalization, Liberalization and Privatization has introduced the cut throat competition not only in the various sectors of the economy but also in various aspects of human life. The life system itself has undergone a paradoxical change; people want to do everything quickly and fastly. For example, nowadays the food system itself is termed as fast food. On the other hand, revolution made by Information and Communication Technology (ICT) has made far reaching impact in every sector of economy as well as human life. India is one of the fastest growing economies in the world. Where there is a high rate of economic growth, necessarily it translate to the increase of income, improvement of purchasing power, thereby it leads to the growth of effective demand and supply which ultimately results into the standard of living, life expectancy, quality of human life and others. The opening upon Indian markets to the foreign firms in various fields of Industry including service sector has tremendously increased volume of cases in the courts, which are already over burdened with the huge arrears of backlog1 and pending for a quite long time. This not only affects the individuals /institutions, but also the overall growth of the Indian economy. Foreign direct investment, as one of the core features of globalization, grew at an unprecedented pace and even faster than world output and trade.

India, among the world investors, is believed to be a good investment destination in spite of political uncertainty, bureaucratic hassles, shortages of power supply and infrastructural deficiencies. Despite the Asian financial turmoil, India has improved its position among the most attractive foreign investment destinations in the world. India presents a vast potential for overseas investment and is actively encouraging the entrance of foreign players into the market. No company of any size aspiring to be a global player can no longer ignore this country, which is expected to become one of the top emerging economies. India, which is the second fastest growing economy after China, has lately been a major recipient of foreign institutional investor (FII) funds driven by the strong fundamentals and growth opportunities. FIIs have recognized the fact and unlike other countries where FDI has gained predominance, India has seen significant growth in FII investment.

Economic Growth - In economic terms economic growth is the increase in value of goods and service provided by an economy and conventionally measured by the increase in real gross domestic product (GDP). After Rio declaration of 1992 there has been a growing focus in ‘Sustainable economic growth’. The world commission of Environment and Development (Brundland commission) in its publication ‘Our Common Future’ (1987) defined the Sustainable development as “Development that meets the needs of present future without compromising the ability of future generation to meet their own needs”. Therefore the realist of development should be in context to only economic growth but sustainable development”.

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Hence the realist of development is not only economic growth but what is known as sustainable development.

Factor of Development –

Even before Adam Smith's "Wealth of Nation" the study on development and economic disparity among nations of the world has been going on but thinking moved beyond factors of production and market in twentieth century.

In the decades of 50 and 60 it was leveled that the path of development lie in capital formation[1] in the 70's it was realized that physical capital was not enough and fulfillment of basic human needs was also important. But efforts in this direction too did not produce results then improving the social capital through education and health were linked with development. But this also did not get the break though. These have been debt crisis in Latin American and chronic poverty in Africa and south Asian countries in 1080's. This Freed to leave it was realized that the path of development lay in improving economic management and giving greater role of market force. There was a mixed result of this story. This result in Latin America was disappointing where as East Asian countries performed that institutions of Governance may make the difference of the institution approach.

The institution Approach - This Approach is based on the idea pioneered by Douglas north " that the productivity of country's citizenry and resources depends in large social, political and 3economic institutions competitive markets, freedom of exchange and secure private property rights are all example of institution that contribute to economic growth.[1]

In 1990's the focus was towards "legal institution" and understanding the relationship between country's legal environment financial sector and economic growth. The study on the relationship between the beliefs that well functioning legal institution (i.e. the rule of Law) are most important to economic development.

Rule of Law - The rule of law means that the law enacted transparently and is enforced specializing in the promotion of rule of law has set four principles:-

1. The Government and its official and agent are accountable under law.
2. The laws are clear, publicized, stable and fair and product fundamental rights, including the security of persons and property.

Legal and Financial System - It has been identified that there is a connection between legal environment and financial development of various countries. Ross Levine has expressed in his view that "Legal System that provide strong legal protection for investors have permitted the development of sophisticated financial market, which enhances the economy's ability to beat risk in turn encouraging entrepreneurship and economic growth" 2. The legal and regulatory environment does matter for financial development. It is a established fact that the countries which give legal and ***regulatory*** system give high priority to creditors have better functioning financial intermediaries than the countries where the legal system provides weaker support to creditors It is also found that countries which impose compliance with law efficiently and enforce them effectively have better development of financial intermediaries. If has been established that countries where corporation publish relatively comprehensive and accurate financial statement have better developed financial intermediaries. Thus it confirms that the legal and regulatory environment is positively associated with economic growth.

Role of institution **-** The role of institution which enforces the legislation is more important for economic growth than the mere availability of legislation. Success of the legislation depends upon the following**-**

(1) Design**-** i.e. development the law in participatory manner.
(2) Implementation **-** i.e. mechanism for enforcement of law
(3) Monitoring **-** i.e. system to assess the performance of law
(4) Revision **-** i.e. modification of law to achieve the objectives of legislation

Most of the countries give emphasis to design aspect of the legislation and the real challenge in other three areas

1. e. implementation monitoring and revision are neglected which are the real challenge to achieve the objective of legislation.

Legislation in India **-** India is one of the most over legislated countries in the world Beside the act left lay British the Indian govt. has been enthusiastic to frame new laws as the solution to combat countries problem. Only the enactment of law will not ensure the objectives if the Act. In the Indian context it is felt that enforcement of these laws is missing. Therefore there is slow economic growth in spite of robust set of economic laws in the country. Some recent laws including the RTI have been instrumental in improving governance and decreasing corruption.

A study by IMF on corruption (1997)[3] finds that the level of investment economic growth is negatively linked that is to say that the more corruption the less instrument and the less economic growth.

2. Why worry about corruption? Panlo Mauro IMF 1997[3]. A recent working paper on economic growth law and corruption in India[4] tries to analyze the impact of recent legislation on government in 20 state of India and concludes that,

(1) If the corruption index improves by one standard deviation (legal 2.38 in this case measures the variation from the normal Indian) the investment rate increase by more than 4 % point and annual growth of per capita GDP increase by over a half percentage point. If a country improves its standing the corruption will enjoy the benefit of an increase investment improve employment and growth.

In the seventh D.P. Kohli memorial lecture on economic growth and issue of governance (2006) analyzed, the evolution of reforms with the development of sound legal framework and regulation of financial intermediaries and identified three important steps by reform agenda:**-** (i) The first was to dismantle the complex regime of License permits and control which directly affected the production and distribution.

3. Economic growth, Law and Corruption: Evidence from India, Sambit Bhattacharya and Reghuvdra Jha, ASARC working paper 2009/15 August 2009.

(i) The second was to reverse the strong bias towards state ownership of means of production and proliferation of public sector enterprises in almost every sphere of economic activity

(ii) The third was to abandon our inward looking trade policy and embrace international trade which encouraged efficiency and decrease the cost of production.

All these, of course required legislation and it is evident now that the recent economic legislation has contributed significantly to the current growth trajectory of the country.

Conclusion –

On the basis of the analysis of the research evidence on the role of the legislation in economic growth it may be concluded that there is significant linkage between roles of law, Legislation and economic growth. The quality of legislation affects the role of financial intermediaries and financial market which in turn affect economic growth. But only legislation can not affect the economic growth they need 'good institution' i.e. the social, political and economic agencies which strictly follows the cannons of good governance.

Another significant point a successful legislation is its implementation and enforcement of the laws. Sustainable economic growth is a product of both implementation enforcement and content of legislation. The implementation of laws has been a major challenge for India, although there is evidence to prove that of some of recent law such as RTI has been exceptionally successful in improving accountability. It is one of the best India's reform initiatives.

References –

[1] Douglas North "Economic Freedom and The Environment for Economic Growth" 2004.
[2] The process by which law are enacted administered and enforced is accessible fair and efficient
[3] Access to justice is provided by competent independent and ethical adjudicator, attorneys or representative and judicial officers.
[4] Ross Levine , Law and Finance and economic growth journal of Financial intermediation (1999)
[5] Administrative Law Dr. Jai Jai Ram Uppadhyay.
[6] Land Acquisition Act 1894.
[7] Environment Protection Act 1986.
[8] Indian forest Act 1927