ECONOMIC DEVELOPMENT IN INDIA: THE ROLE OF INDIVIDUAL ENTERPRISE (AND ENTREPRENEURIAL SPIRIT)

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The Indian economy provides a revealing contrast between how individuals react under a government-controlled environment and how they respond to a market-based environment. Evidence suggests that recent market reforms that encouraged individual enterprise have led to higher economic growth in that country.

India can generate additional economic growth by fostering entrepreneurial activity within its borders. To pursue further the entrepreneurial approach to economic growth, India must now provide opportunities for (1) education directed specifically at entrepreneurial skills, (2) financing of entrepreneurial efforts, and (3) networking among potential entrepreneurs and their experienced counterparts. Further, although the Indian government should establish policies supportive of entrepreneurial efforts, its role overall should be minimized so that the influence of the free market and individual self-interest can be fully realized.

Economic development, achieved largely through productivity growth, is very important to both developed and developing nations. However, even though we know that higher productivity leads to improved economic outcomes (for example, higher income, more choices to the consumers, better quality products, etc.), there has been no consensus among researchers about either the desired path of development or the role of state in economic development. Concerning the path of development, Lall (2001) says that the appropriate strategy for any country depends not only on its objective economic situation but also on its government policies and national views regarding the appropriate role of the state.

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Regarding the appropriate role of the state, it seems that for every argument in favour of a smaller government role one can find a counter argument in favour of a more active government role.

The role of the state in economic development began to change dramatically with the advent of the Industrial Revolution. In the West, the resulting industrialization and economic development were based on the establishment of individual property rights that encouraged the growth of private capital. Competition and individual enterprise thrive in this environment because individuals pursue their self-interest of survival and wealth accumulation. The instinct to survive under competitive pressures yields innovation and productivity increases, which eventually lead to both increased profits for business and lower prices to consumers.[1]

However, the rise and spread of capitalism led a number of thinkers to examine the consequences of the market-based approach to development. Socialists argued that capitalism (or private ownership of capital) can lead to greater inequalities of income and wealth, while developmental economists argued that private decisions may not always lead to socially desirable outcomes (particularly in the case of market imperfections). Indeed, many policymakers at the time saw market failures as quite common and therefore assumed that only appropriate government interventions could guide an economy to a path of sustained economic development (Krueger, 1993).

In the early 20th century, the former Soviet Union attempted a bold experiment of improving individual well-being without sacrificing the objective of greater equality of income and wealth through total ownership of capital by the government. Initially, the Soviet Government was able to raise productivity through directed industrialization and, within a span of 25 years (by the end of World War II), emerged as a superpower. It was around this time that a substantial number of colonized nations were gaining their independence (for example, India, Pakistan and Burma). Unfortunately, during their time as colonies to the Western nations, these countries, for the most part, had been deprived of the industrialization that had engulfed those same Western nations. Based on the successful experience of the former Soviet Union, many economists and policymakers concluded that, particularly in a poor country, planning was essential for the efficient allocation of an economy's resources (Panagariya, 1994, p. 194).

[1] The history of U.S. business has shown how the pursuit of self-interest by individual economic agents has led to benefits for the larger society. Consider the well-known example of Henry Ford's introduction of assembly line production. This technological advancement led to a significant increase in productivity at Ford Motor Company. Indeed, despite paying higher wages to his workers, Ford could still produce automobiles at a much lower cost and pass on part of that lower cost to consumers in terms of lower prices.

The governments in these newly independent nations assumed a significant role in economic development. They sought to quickly and substantially raise the standard of living through directed and controlled economic development. Apart from everything else, these developing countries invested heavily in education to promote literacy and to ensure an adequate supply of technical manpower to meet their growing needs. Further, these previously colonized nations did not want to subject their poor and weak economies to international economic fluctuations and thus sought to industrialize through import substituting industrialization, where imports were expected to be increasingly replaced by domestic production.

In this paper we examine economic development in India, a former British colony that became one of the most closed economies in the world, to contrast the roles of government intervention and individual enterprise in that country's economic growth. In particular, we demonstrate that, given recent economic reforms in India, along with the evidence for the role that individual enterprise can play in a country's economic growth, the Indian government should devise policies that rely more on individual enterprise, with its emphasis upon individual initiative and self-interest, to spur economic development. Further, we describe the special role that can be played in the economic development of India by a greater emphasis upon entrepreneurship.

The plan of the paper is as follows. Section I summarizes the strategy of economic development and the overall economic environment that has prevailed in India since its independence from the United Kingdom. Section II analyses the consequences of regulated economic development in India, with particular emphasis on the implications of the microeconomic aspects of India's approach to its economic environment. Section III assesses the results of India's economic reforms since the country's economic crisis of 1990, and highlights the role that individual enterprise has played and can continue to play in that country's economic fortunes. Section IV describes the special role that entrepreneurship can play in India's efforts at economic growth. Finally, section V summarizes the main findings and concludes the paper.

I. INDIA'S STRATEGY OF ECONOMIC DEVELOPMENT

India's economic development strategy immediately after Independence was based primarily on the Mahalanobis model, which gave preference to the investment goods industries sector, with secondary importance accorded to the services and household goods sector (Nayar, 2001). For example, the Mahalanobis model placed strong emphasis on mining and manufacturing (for the production of capital goods) and infrastructural development (including electricity generation and transportation). The model downplayed the role of the factory goods sector because it was more capital intensive and therefore would not address the problem of high unemployment in India. Any increase in planned investments in India required a higher level of savings than existed in the country. Because of the low average incomes in India, the needed higher levels of savings had to be generated mainly by restrictions on the growth of consumption expenditures. Therefore, the Indian government implemented a progressive tax system not only to generate the higher levels of savings[2] but also to restrict increases in income and wealth inequalities.[3]

Among other things, this strategy involved canalization of resources into their most productive uses.[4] Investments were carried out both by the government and the private sector, with the government investing in strategic sectors (such as national defense) and also those sectors in which private capital would not be forthcoming because of lags or the size of investment required (such as infrastructure). The private sector was required to contribute to India's economic growth in ways envisaged by the government planners. Not only did the government determine where businesses could invest in terms of location, but it also identified what businesses could produce, what they could sell, and what prices they could charge.

Thus the strategy of economic development in India meant (1) direct participation of the government in economic activities such as production and selling and (2) regulation of private sector economic activities through a complex system of controls. In addition, the Indian economy was sheltered from foreign competition through use of both the "infant industry argument" and a binding foreign exchange constraint. Imports were limited to goods considered essential either to the development of the economy (such as raw materials and machines) or to the maintenance of minimal living standards (such as crude oil and food items). It was further decided that exports should play a limited role in economic development, thereby minimizing the need to compete in the global market place. As a result, India became a relatively closed economy, permitting only limited economic transactions with other countries. Domestic producers were sheltered from foreign competition not only from abroad but also from within India itself.

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[2] The huge savings-investments gap could not be filled by the amount of foreign aid that was both sought and available. Further, additional foreign investments (both direct and portfolio) were never seriously considered as a way to close this savings-investment gap.

[3] Higher levels of income and wealth were taxed at much higher rates relative to lower income and wealth. Further, as Rao (2000) notes, the marginal rate of taxation including a tax surcharge was 93.5 per cent in early 1970s.

[4] In India, this meant transfer of savings from the private to the public sector.

Over time, India created a large number of government institutions to meet the objective of growth with equity. The size of the government grew substantially as it played an increasingly larger role in the economy in such areas as investment, production, retailing, and regulation of the private sector. For example, in the late 1950s and 1960s, the government established public sector enterprises in such areas as production and distribution of electricity, petroleum products, steel, coal, and engineering goods. In the late 1960s, it nationalized the banking and insurance sectors. To alleviate the shortages of food and other agricultural outputs, it provided modern agricultural inputs (for example farm machinery, irrigation, high yielding varieties of seeds, chemical fertilizers) to farmers at highly subsidized prices (World Economic Indicators, 2001). In 1970, to increase foreign exchange earnings, it designated exports as a priority sector for active government help and established, among other things, a duty drawback system, programmes of assistance for market development, and 100 per cent export-oriented entities to help producers export (Government of India, 1984). Finally, from the late 1970s through the mid-1980s, India liberalized imports such that those not subject to licensing as a proportion to total imports grew from five per cent in 1980-1981 to about 30 per cent in 1987-1988 (Pursell, 1992). However, this partial removal of quantitative restrictions was accompanied by a steep rise in tariff rates.

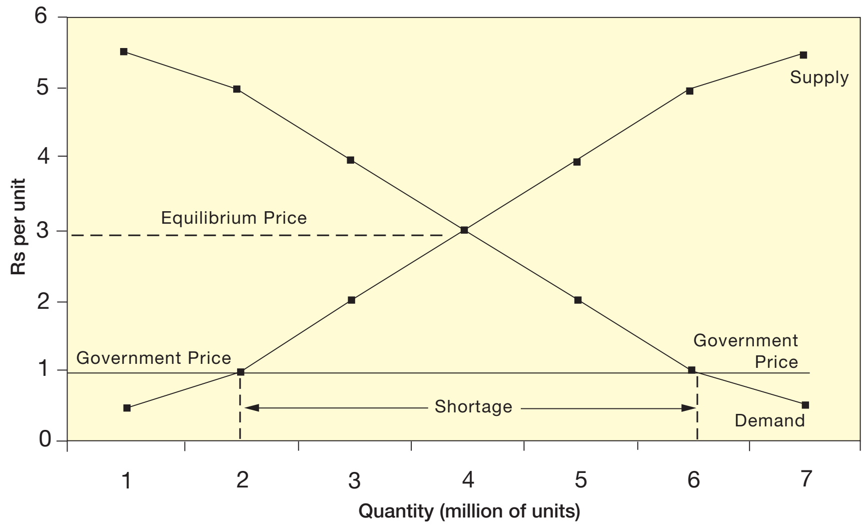
This active and dominant participation by the government in economic activities resulted in the creation of a protected, highly-regulated, public sector-dominated economic environment. Along with this government domination of the economy, India soon faced not only some major problems in its overall approach to development, particularly in the area of industrialization (Ahluwalia, 1985), but also a dramatic increase in corruption in its economy. Finally, like any other growing economy, the Indian economy faced a number of serious sectoral imbalances, with shortages in some sectors and surpluses in others. These consequences of India's government-controlled economy are discussed in depth in the next section.

II. THE CONSEQUENCES OF INDIA'S REGULATED ECONOMIC DEVELOPMENT

India's environment of regulated economic development led to the formulation of policies that were concerned with both macroeconomic and microeconomic aspects. Whereas much attention in the literature has been devoted to the macroeconomic issues, we focus primarily on the microeconomic aspects of Indian economic policies. In particular, we examine how individuals guided by their self-interests of survival and wealth accumulation will act in a regulated environment, which in fact discourages the pursuit of those self-interests. To do so, we describe the consequences of India's use of price ceilings, in which prices are set below their equilibrium level to make products and services affordable to relatively poorer sections of the society.

Figure 1 illustrates how price ceilings can influence a nation's economy. Specifically, when prices are kept artificially low, demand outstrips supply. To alleviate the resulting shortage of products and services, the government can either help to increase the supply or help to decrease demand for those products and services. Considering the supply side options first, the government had the following choices: (1) increase the price of the product; (2) subsidize production of existing suppliers so they will produce and sell more; (3) encourage new businesses to enter the line of production and selling; or (4) permit imports to reduce or eliminate the shortage. In India, none of these options was seen as satisfactory. First, the government certainly did not wish to increase prices, because price ceilings appealed to a majority of the vote bank. Second, although the government did subsidize production in several sectors considered essential, the resulting increased production was not sufficient to eliminate the large shortages. Third, the government decided to restrict rather than increase the entry of new producers under the pretext of directing scarce resources into their efficient uses. Finally, it allowed only limited recourse to imports, in order to protect Indian producers, unless the shortage reached a stage of crisis. The overall result was that inadequate amounts of products and services were supplied to the market.

Figure 1. Price ceiling



In contrast to the supply side options just considered, if the government had decided instead to limit demand, it could have done so by increasing taxes or by regulating the level of demand itself, usually by restricting how much an individual or a family could consume. To ensure the availability of the scarce products and services to Indian consumers, albeit at less than desired levels, the Indian government in fact resorted to large-scale rationing. This rationing was undertaken by government agencies themselves or by licensed private retailers. As might be expected, the rationing regulations required those licensed private retailers to follow government stipulations in their sale of the scarce products and services.

The policy of price ceilings, along with the quantitative restrictions on production and consumption, led to an economic environment ripe for corruption. Specifically, because of the general scarcity of products and services, individuals competed to receive the privilege of economic rights to produce or consume. The implementing authority responsible for allocating these economic rights – politicians, government officials and businesses – enjoyed monopoly power in this situation and, as might be expected, were susceptible to bribes and other illegal favours. The result was an informal and illegal market in which the desired economic rights could be traded. Also, the lure of higher profits led producers and sellers (1) to have little concern for quality such that many deliberately produced and sold inferior quality products, and (2) to resort to the creation of artificial shortages by not releasing to the market all of the products that were available for selling.

Bardhan (1997) defines corruption as the use of public office for private gain, in which an official entrusted with the responsibility for certain public duties engages in malfeasance for personal enrichment that is not easy to monitor. He says that corruption has multiple effects on economic development. For example, it diminishes the efficiency of economic transactions, because corrupt officials will delay or otherwise obstruct those transactions until they receive their expected favours. Also, the payment of a bribe to receive an investment license tends to reduce the incentive to in vest. Honest investors will see the futility of competing with dishonest investors who are guaranteed, through their bribes, to receive the privilege of investment rights.

To fully understand the widespread nature of the corruption that existed in India at this time, it is necessary to consider the roles played by the many participants. For example, business people bribed government officials not only for the right to enter a particular line of business, but also to prevent others from entering that same line of business. Government officials made payoffs to politicians to receive the premium government positions that would allow them to easily contact businesses to seek illegal income and wealth. Indeed, as Wade (1985) indicates, those officials could earn far more through bribes and other corrupt behaviour than they could earn in salary. Consumers bribed government officials, politicians, and business people to receive a particular amount of a scarce good or a higher quality version of the good. Even individuals and organizations outside India took part in the corruption. Some bribed both officials and politicians, particularly those connected with the revenue and police departments, to smuggle scarce goods into India at a high profit.

The complex system of government controls, including price ceilings, along with the resultant corruption, meant that decision making was arbitrary and the transactions non-transparent. The result was an increase in transaction costs. For example, businesses had to spend more to "stay connected' with appropriate government officials and politicians. And consumers, in addition to waiting in line to purchase needed products and services, also made illegal payments for what they should have received at a reasonable price in the first place. It has already been explained how India's government grew in size as it played an increasing role in controlling the economy. It grew even further in trying to be appropriately vigilant in dealing with the increased corruption among government officials, businesses, and other participants.

Price controls were only one example of the regulated economic environment. Another example of a harmful policy was the control of ownership of private capital (both income and wealth) by Indian nationals in India and also by foreign nationals doing business in India. Such policies, coupled with high individual and corporate income tax rates and high customs and excise duties, led to outcomes similar to those resulting from price ceilings namely, increased corruption and higher transaction costs.

In conclusion, this section has shown how individuals guided by their self-interests, will act in a regulated environment. Government controls based on arbitrary and ad hoc administrative decisions lead not only to greater concealed income and wealth but also to diminished productivity, particularly due to the resulting higher transaction costs.

III. ECONOMIC REFORMS: THE MIXED RESULTS FOR INDIA

Due to government intervention, particularly the high levels of government subsidies, it was clear by 1990 that India was living beyond its means. The result was a severe payments crisis in which, for the first time, the government physically transported gold overseas to prevent defaulting on foreign commitments. To meet its immediate balance of payments crisis, India also entered into a structural loan adjustment agreement with the International Monetary Fund (IMF). However, one condition of this loan required India to undertake economic reforms to move from a centrally-planned development strategy to one based on market-based resource allocations. As a result, the government of India undertook a package of economic reforms between 1991 and 1993, with the intent of placing the market in place of government controls as the prime mover in the economic development process.

As one might expect, macroeconomic policy played a major role in India's economic progress in the 1990s. For example, Acharya (2001) concludes that India's devaluation of the rupee and its decision to increase the level of allowable foreign investment helped it to make considerable economic progress. Joshi (2001) and Karunaratne (2001) both say that India's policy of selective capital account liberalization helped it to achieve important economic objectives (and still avoided the crises faced by the East Asian countries). Gupta (1999) highlights the important role played by India's prudent management of exchange rate policy and its tight monetary policy. Bhalla (2000) notes both the privatization of the public sector enterprises and the gradual dismantling of the government planning process in favour of market forces.

Overall, there can be no doubt that the reforms implemented since 1991 have led to considerable economic progress in India. For example, from 1992-1993 through 2000-2001, economic growth averaged an unprecedented 6.3 per cent per year (Acharya, 2001). Further, as Bhalla (2000) indicates, the rate of inflation and the fiscal deficit have both decreased substantially. He also says that India's improved exchange rate management has restored the confidence of foreign investors, which in turn has led to improved financing of the current account deficit and higher levels of foreign exchange reserves.

However, even though India has made substantial economic progress in recent years, it still has several areas in need of major market-based reforms.[5] Below, we identify three examples from India's economy that reveal a restriction of the pursuit of individual self-interest and a diversion of resources away from their most efficient use. The first example concerns the obstacle still presented by the Indian tax system, the second highlights the inefficiencies of the Indian civil service, and the third describes the need for further land reform in India.

[5] A study undertaken by McKinsey Global Institute found that the Indian product markets are still over-regulated; government still owns about 43 per cent of total capital stock; and the real estate market is still substantially distorted. This study concluded that this over-regulation is still the major barrier to economic growth in India (see Lewis (2001).

1. In spite of recent tax reforms in India, the present tax system still works against the individual self-interest to survive and accumulate wealth and, as a result, still leads to the hiding of income, wealth and expenditures. Indeed, whereas in the United States and the Republic of Korea, the highest tax rate applies to an income level of $250,000 and $66,000, respectively, in India that same tax rate applies to an income of only $3,400. Simply reforming its tax system to bring it in line with comparable nations should yield several substantial benefits to the Indian economy.[6]

2. The Indian civil service provides attractive career choices for young job seekers due mainly to the excellent job security, non-monetary compensation, and opportunities for influence available in those careers. For example, despite minimal salaries for individuals holding top-tier positions in such areas as administration, police, revenue and railways,[7] these civil servants are entitled to high job security and heavily subsidized housing, transport, medical services, telephone privileges, and at times domestic help. We believe that the policies underlying compensation to government employees should be reformed such that they are based primarily on market principles. The advantages of doing so include eliminating departments known for corrupt practices, making explicit the true cost of a government employee's performance, and giving government employees a good sense of their market worth.

3. Finally, considerable reform is needed in the Indian real estate sector. A large proportion of the land is owned by the government, and any land made available for private use is governed by archaic ownership, zoning, tenancy, and rent laws. Further, this government control of land has reduced the amount of land available for trading purposes. The result is that Indian land prices are the highest among all Asian nations relative to average income (Lewis, 2001).

[6] Most of the illegal income is concealed by people at higher income brackets trying to avoid paying higher taxes. Consider the following illustration: suppose the extent of unreported income is 100 per cent of reported income. Since the tax on income, profits, and capital gains was about three per cent of GDP, we can assume that unreported income, once reported, should yield at least three per cent of GDP (or around $13.42 billion in 1999). This total should be enough to cover more than 67 per cent of the overall budget deficit of the Indian Central Government (*World Economic Indicators*, 2001).

[7] The starting salaries for these positions are in the range of $1,800 to $2,200 per year, with the highest salary at about $10,000 per year.

> Further, the officially assessed values of real estate are low, while the true market price is very high.[8] This situation leads, among other things, to higher levels of corruption as individuals use real estate as a major hiding place for investments of illegally acquired income (DiLodovico, Lewis, Palmade and Sankhe, 2001).

Examples such as these indicate that there are still a large number of areas where the individual self-interests of survival and wealth accumulation are not respected. In the next section, we examine how one fairly new approach to microeconomic policy – the encouragement of entrepreneurship – can help India to continue its recent economic growth.

IV. THE ROLE OF ENTREPRENEURSHIP IN INDIA'S FUTURE ECONOMIC DEVELOPMENT

The progress of Indian economic development from 1947 to the present provides further evidence that individuals do respond to incentives in their pursuit of self-survival and accumulation of wealth. Further, the nature of this response depends on the economic climate, particularly the role of the government. India's economy struggled as long as it was based in a system of government regulation with little interaction with economic forces outside the country. The economic reforms of the early 1990s set the stage for substantial improvements in the Indian economy. As was stated earlier, India's economy grew at an average of 6.3 per cent from 1992-1993 to 2000-2001 (Acharya, 2001). Further, its rate of inflation and fiscal deficit both decreased substantially (Bhalla, 2000). Improved exchange rate management led to improved financing of the current account deficit and higher foreign exchange reserves. Finally, India's GDP and per capita income both increased substantially from 1990-1991 to 1998-1999.

India can do more, however, to further advance its economic development. Indeed, one of the more recent microeconomic approaches to economic growth is the promotion of entrepreneurial activities. Entrepreneurial efforts have been found to generate a wide range of economic benefits, including new businesses, new jobs, innovative products and services, and increased wealth for future community investment (Kayne, 1999). The following narrative explains in considerable depth how entrepreneurial activities have succeeded in several countries and how it can now be used to further India's economic development.

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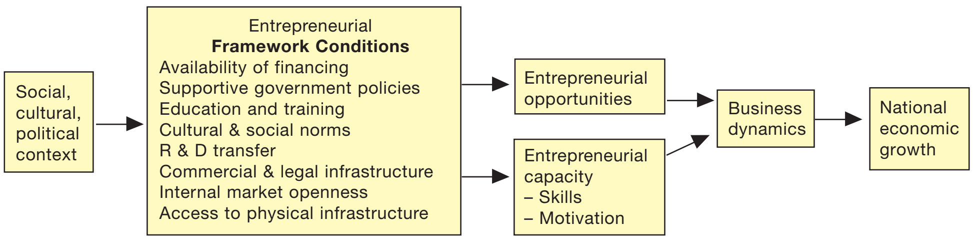
[8] It is entirely possible that the officially assessed value may be 5 to 10 per cent of the actual market price of the dwelling of the plot of land.

Following an extensive study of entrepreneurship in 21 countries, Reynolds, Hay, Bygrave, Camp and Autio (2000) concluded that successful entrepreneurial activity is strongly associated with economic growth. Their research was subsumed under the "Global Entrepreneurship Monitor" (GEM), a joint research initiative conducted by Babson College and London Business School and supported by the Kauffman Center for Entrepreneurial Leadership. Their findings, based on surveys of the adult population of each country, in-depth interviews of experts on entrepreneurship in each country, and the use of standardized national data, supported their conceptual model depicting the role of the entrepreneurial process in a country's economic development (see figure 2).

Figure 2. The GEM Conceptual Model



Source: Reynolds, Paul D., Michael Hay, William D. Bygrave, S. Michael Camp, and Erkko Autio, 2000. *Global Entrepreneurship Monitor: 2000 Executive Report* (Kansas City, Kauffman Center for Entrepreneurial Leadership), p. 6.

The GEM Conceptual Model suggests that the social-cultural-political context within a country must foster certain "General National Framework Conditions," which can generate not only the opportunities for entrepreneurship but also the capacity for entrepreneurship – in particular, the skills and motivation necessary to succeed. Together, the entrepreneurship opportunities, on the one hand, and the skills and motivation, on the other, lead to business dynamics that yield creative destruction, a process in which new firms are created and older, less efficient firms are destroyed. The overall result for a country is economic growth.

Of the eight "General National Framework Conditions" listed in figure 2, the three that Reynolds, et al. (2000) highlighted as especially important are the availability of financing for new entrepreneurs, the need for government policies which are supportive of entrepreneurial efforts, and the opportunities for education and training in entrepreneurship.

Given India's economic progress in recent years, the country may now be ready for the implementation of microeconomic policies that will foster entrepreneurial activities. Fortunately, in addition to the macroeconomic reforms mentioned earlier, India has taken other steps to lay the foundation for the type of economic growth that can be fostered only by entrepreneurial activities and appropriate economic policies that reflect individual rights and responsibilities. For example, in recent years India has made several important structural changes, including the construction of telecommunications networks and the implementation of a nationwide road-construction programme (Solomon, 2003). Further, several thousand "new economy" businesses – the types of businesses especially suited for entrepreneurship efforts-were started in 2000 alone.

However, more than just opportunities should lead India to consider entrepreneurial activities as a way to economic growth. At least one major threat, a growing population, also should motivate it to consider entrepreneurial effort as an economic policy. Specifically, the country's population is expected to increase by 110 to 130 million people over the next 10 years, with approximately 80 to 100 million of those new citizens seeking jobs that do not currently exist (Gupta, 2001). Entrepreneurial efforts can help to provide those jobs.

Recent research on entrepreneurship around the world indicates that the cultural characteristics that can foster successful entrepreneurial activities and its related economic benefits are a strong education base, the necessary financial support, opportunities for networking among entrepreneurs, and a well-defined, minimal role for the government. In the case of India specifically, an emphasis upon entrepreneurial activities in the information technology sector also seems relevant.

Consider first the need for a strong education base. The study of 21 nations by Reynolds, et al. (2000) found that providing opportunities for education in entrepreneurship was critical to success in new entrepreneurship efforts. For example, experts interviewed in the 21 nations felt strongly that new entrepreneurs needed training in the skills needed to convert a market opportunity into a commercial enterprise. Gupta (2001) says that India now has an extraordinary talent pool suited to entrepreneurship. However, he also says that the government must ensure that new entrepreneurs have access to both the functional and entrepreneurial skills needed for success in business startups. He sees both sets of skills as still somewhat lacking in India. The functional skills include abilities in such areas as marketing, finance and product development. The entrepreneurial skills include managing risk, building an effective team and raising funds. Gupta says that India's educational institutions can play a major role in the development of these skills. For example, the Indian School of Business (ISB) at Hyderabad has already produced a curriculum suited to the development of entrepreneurial leaders. It will soon have a new Entrepreneurship Centre that will be founded, led and managed by several leading Silicon Valley entrepreneurs.

Lall (2001) says that the structure of a country's exports affects its prospects for economic growth. He claims that a technology-intensive structure is desirable for a country that has a substantial industrial base. Although India has such an industrial base, its export structure is still dominated by low-technology products. Lall says that a low-technology export structure is based in such products as textiles, garments, simple metal and plastics products, and furniture. However, these types of products are produced by low-skilled labour and are undifferentiated, so they do not yield the competitive advantages necessary for broad economic growth. A high-technology export structure, on the other hand, relies upon such products as complex electronic machinery, precision instruments and fine chemicals. This type of structure, based in complex skills and fast-changing technologies, generally does yield competitive advantages and export-based economic development. Given India's extraordinary talent pool (Gupta, 2001), it would seem that the country is poised to take advantage of a high-technology export structure.

Consider next the financial support required to produce successful entrepreneurial efforts. On the one hand, as Solomon (2003) indicates, foreign capital has been pouring into India recently, with one of its aims being to tap the country's emergence as a center for software development and information technology services. However, much remains to be done, and the government can play a major role in this area. Among other things, India must ensure that its new entrepreneurs will have access to venture capital. Gupta (2001) suggests the establishment of a global support network of venture capitalists and other funding sources (also known as "angels") who would be willing to support the new entrepreneurs. He also says that India must create "areas of excellence" breeding grounds where ideas grow into new businesses similar to those created in Silicon Valley in the United States. They can attract the ideas, the venture capital, and the management talent often found to succeed in other entrepreneurial efforts around the world. India can begin to create these areas of excellence by drawing upon the resources of its universities and other educational institutions, including the Indian Institutes of Technology.

Providing opportunities for networking among entrepreneurs themselves also can help new businesses get started on the right foot. In particular, Gupta (2001) says that India needs to foster networking and exchange among both new and established entrepreneurs. The obvious reason is that entrepreneurs can learn not only through their own experience but also through that of others. An effective approach to encouraging this type of networking might be to follow the academic model and begin to schedule conferences throughout India at which these individuals could interact. At these conferences, experienced entrepreneurs could present their ideas on what has worked for them (and what has not). Entrepreneurs just getting started could describe what they hope to achieve in their new businesses and get feedback on their plans from other entrepreneurs present. Obviously, newer entrepreneurs will want to be careful not to divulge important company secrets. The Indian government might have to provide small grants to subsidize the travel and lodging expenses of individuals lacking the resources to attend such conferences. However, just as in the academic setting, those grants could be awarded based on the merits of an individual's ideas for a startup business.

The role that the government can play in the encouragement of entrepreneurial efforts has already been noted in the above narrative. Clearly, the government can develop policies concerning educational and financial support. Government policies on taxing and regulation of business also are relevant here, given that such policies can either promote or hamper entrepreneurial efforts. And the government can certainly help to provide networking opportunities among new and experienced entrepreneurs.

Kayne (1999) identifies additional actions that the Indian government can take to provide a solid foundation for entrepreneurial efforts. He says that, in any country, the advocates of an entrepreneurial economy must promote and communicate policies that will provide a clear link between entrepreneurial efforts and overall economic prosperity. That is, voters and taxpayers must understand the reasons why their government is investing in anything as new as entrepreneurship. Rodrik (1996) also addressed this issue by concluding that reforms will be resisted if they are seen as being primarily redistributive (i.e., zero-sum) in nature. He further says that, while most economists prefer speedy economic reforms administered from above (i.e. the state), the best approach might be a gradual approach that considers the political economy of the situation (and involves relevant powerful groups). Panagariya (1994) further addressed this issue when he said that, especially in a democratic society like India, the government must mobilize public opinion in favour of new economic policies. He says that one reason for the relative success of the economic reforms beginning in 1991 was that the Rao government moved quickly to announce major economic reforms. Finally, Reynolds, et al. (2000) also found that the perceived social legitimacy of entrepreneurship can be a critical factor in its success. Specifically, they found that respect for individuals starting new firms was an important cultural factor for countries with high levels of entrepreneurial activities. In short, uncertainty within the culture can lead to resistance.

However, as Reynolds et al. (2000) concluded, the role of government beyond laying the foundation for entrepreneurship through tax and regulatory policies, support for education in entrepreneurship, and so forth should be minimized. Specifically, they found that a reduced government role in the economy including a low tax burden on both firms and individuals could yield substantially higher levels of entrepreneurial activity. They also found that, in India, excessive government regulations and related bureaucratic complexities did indeed handicap entrepreneurs. As was reported extensively earlier in this paper, India has for decades been saddled with a government that is far too involved in its economy.

V. CONCLUSION

The Indian economy provides a revealing contrast between how individuals react under a government-controlled environment and how they respond to a market-based environment. The evidence presented here suggests that recent market reforms encouraging individual enterprise have led to higher economic growth in that country. The reasoning here is not new, although it is refreshing to discover that this "tried-and-true" reasoning applies to developing as well as to developed nations. Specifically, reliance upon a free market, with its emphasis upon individual self-interest in survival and wealth accumulation, can yield a wide range of economic benefits. In India those benefits have included, among other things, increased economic growth, reduced inflation, a smaller fiscal deficit, and higher inflows of the foreign capital needed for investment.

We further conclude that India can generate additional economic growth by fostering entrepreneurial activities within its borders, particularly within its burgeoning middle class. Not only has entrepreneurship been found to yield significant economic benefits in a wide variety of nations, but India specifically has reached a point in its development where it can achieve similar results through entrepreneurial efforts. Among other things, India is poised to generate new business startups in the high technology area that can help it become a major competitor in the world economy. For example, it has a strong education base suited to entrepreneurial activities, increased inflows of foreign capital aimed at its growing information technology services sector, and a host of successful new business startups. To pursue further the entrepreneurial approach to economic growth, India must now provide opportunities for (1) education directed specifically at developing entrepreneurial skills, (2) financing of entrepreneurial efforts, and (3) networking among potential entrepreneurs and their experienced counterparts. Obviously, the government can play a substantial role in helping to provide these types of opportunities. It can also provide the appropriate tax and regulatory policies and help the citizens of India to understand the link between entrepreneurial efforts and economic prosperity. However, its role overall must be minimized so that the influence of the free market and individual self-interest can be fully realized.

Only time will tell if increased entrepreneurial activities in India will actually yield the economic benefits found in so many other nations of the world. Should India decide to pursue that avenue of economic development, then future research needs to examine the results of India's entrepreneurial programme. Perhaps more important, that research also needs to determine how India's success in entrepreneurial efforts might differ from those pursued in developed nations.

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