



Misallocation of Factors of Production

What is the issue?

\n\n

India is facing major problem of misallocation of factors of production which primarily involves land and capital.

\n\n

What are the issues with allocation of land and capital?

\n\n

\n

- **Land** -In India land misallocation is worse than labour misallocation.
- Low-productivity firms have better access to land and buildings than high-productivity firms.

\n

\n\n

\n

- **Capital** -Firms in the organised sector have much higher access to loans compared to firms in the unorganised sector.
- There are urban-rural and gender based disparities in access to finance, with rural locations lagging their urban counterparts.

\n

\n\n

What are the impacts of misallocation?

\n\n

\n

- In India start-ups are often backed by bank loans for which land is used as collateral.

\n

- Due to highly distorted land allocation bank loan allocation is also distorted, given the misplaced collateral channel.
\n
- Empirical evidence provides substantial confirmation in the links between land misallocation and financial misallocation at the district level.
\n
- It leads to low proportion of manufacturing establishments access financial loans in India (8 per cent), it also covers huge spatial, sectoral, and gender differences.
\n

\n\n

What measures needs to be taken?

\n\n

- \n
- Economic growth can be enhanced only by the reallocation of the factors of production from less-productive to more-productive firms.
\n
- Bank and corporate restructuring may not be enough to put growth on a higher trajectory, policy makers need to pay more attention to addressing the underlying causes of factor misallocation.
\n
- This would involve removing land market distortions, better land-use regulations, and more efficient taxation of properties.
\n

\n\n

- \n
- Disparity against women-owned enterprises and other gender gap in business environment needs to be addressed to attain an inclusive growth.
\n

\n\n

\n\n

Source: Business standard

\n



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative