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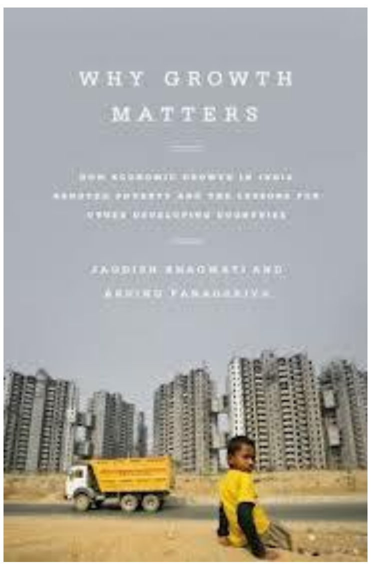
India's Economic Rise Is A Firm Rebuke Of Joseph Stiglitz, Brad DeLong, And The World Bank



The triumph of the great free-market liberalization that took place in India in 1991 is stunning, an advancement for human well-being that is one of the greatest stories ever told. Life expectancy has risen from less than 45 years to more than 60. The poverty ratio, still over 50 percent as recently as 1977-78, has fallen to 20 percent. There were only 5 million phones in India in 1990-91; today there are hundreds of millions, with more than 15 million phones being activated a month.

Who could question this dizzying success? Lots of people, it turns out. Including Nobel laureates Amartya Sen and Joseph Stiglitz, economist-blogger Brad DeLong and the World Bank. All of them and many other prominent theorists harboring suspicions about the marketplace have questioned aspects of the Indian boom, many of them counseling more centralization and less freedom. And all of them get briskly corrected in the new book *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries*.

The book by Columbia University economists Jagdish Bhagwati and Arvind Panagariya is a point-by-point rebuke of India's doubters. Brad DeLong, for instance, is a proponent of the myth that growth was not a result of the post-1991 reforms but instead can be traced back to the 1980s. In the '80s some mild reforms were first introduced, but on a much smaller scale relative to the 1991 liberalization, when at a stroke India devalued its currency, eliminated most of its licenses and quotas, opened industries to foreign capital, cut taxes, privatized many industries and freed up foreign trade, quadrupling GDP in 20 years. In an introduction to the book containing DeLong's essay, Harvard economist Dani Rodrik elaborated that "the change in official attitudes in the 1980s," meaning encouragement of entrepreneurship and further engagement with the world, "may have had a bigger impact on growth than any specific policy reforms."

But growth in the 1980s was a lackluster 4.6 percent a year until it picked up to a much better 7.2 percent from 1988 to 1991. Bhagwati and Panagariya point out that this later growth was financed by fiscal expansion and external borrowing that were not sustainable and indeed led to the 1991 balance-of-payments crisis that precipitated the major reforms that year. From 2003 to 2012, growth roared along at 8.2 percent a year. "Attributing this latest acceleration to some vague 'attitudinal' change in the 1980s strains credulity," write the authors. Auto production jumped from 180,000 in 1990-91 to two million in 2009-2010. Foreign investment exploded from $100 million in 1990-91 to more than $60 billion in 2007-08. Specific policy reforms caused these changes.

But didn't India's worst-off classes – bureaucratically known as the scheduled tribes and scheduled castes — miss out on the boom? A World Bank brief made that case, saying, "It is widely acknowledged that…many groups are left behind amid improving living standards. Among them are tribal groups identified by the Constitution as Scheduled Tribes." In fact, research shows poverty dropping steadily among these disadvantaged groups, which comprise nearly a quarter of India's population. For the "scheduled castes," poverty rates fell from 59 percent in 1983 to 29 percent in 2009-10. The "scheduled tribes" saw a similar improvement, from 64 percent in poverty in 1983 to 31 percent in 2009-10. Moreover, poverty rates are actually declining more quickly among these groups than in the population as a whole. India's worst-off are seeing some of liberalization's most amazing gains.

The World Bank has also been pushing the metric that the absolute number of indigent people hasn't changed much in India — from 323 million to 304 million between 1983 and 2004-2005. Bhagwati and Panagariya note the absurdity of this approach when they point out that India added 374 million souls in the same period, so if the rate of poverty hadn't changed when market forces were freed there would today be half a billion poor people in India today. Nobel laureate Joseph Stiglitz, a longtime skeptic of free enterprise, was a leading World Bank official (vice president and chief economist) when the outfit made these tendentious and misleading assertions.

Another Nobel winner, Amartya Sen, took the equally alarming tack of saying a focus on economic growth somehow crowded out attention to social welfare, though Bhagwati and Panagariya comprehensively demonstrate that increasing social welfare was a direct result of the gigantic enlargement of the Indian economy. Sen wrote snidely in 1995, "Debates on such questions as the details of tax concessions to multinationals, or whether Indians should drink Coca Cola, or whether the private sector should be allowed to operate city buses, tend to 'crowd out' the time that it left to discuss the abysmal situation of basic education and elementary health care, or the persistence of debilitating social inequalities."

The obsession with slicing up the economic pie rather than growing it is a malady that afflicts economists as well as politicians, and the former, like the latter, resort to rationalizations and number-fudging when confronted with the superiority of market-based policies over central planning. Bhagwati replied to Sen, "The put-down of attention to multinationals misses the point that India's economic reforms require precisely that India join the Global Age." Moreover, anyone who has had to ride a Delhi bus would be far less dismissive than Sen of the idea that new competition is needed.

India's economic fate is by no means sealed, and further reforms are needed. The country's Asian neighbors provide much more flexible labor markets than the highly regulated one in India. Air India, which devoured $10 billion in subsidies in 2010-11, should be privatized. Infrastructure is hampered by slow movement on the part of the Planning Commission, which recently banned the highway authority from issuing new contracts for two years. Education remains woeful. And a recent slowdown in growth (to 5.5 percent in the first half of last year) has encouraged statists to speak up again. But no "third way" or "middle path" will lift up India the way economic freedom has.