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India's economy

The capitalist manifesto

How to get India moving again

Apr 20th 2013 | From the print edition



Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries. By Jagdish Bhagwati and Arvind Panagariya. *PublicAffairs*; 290 pages; \$28.99 and £19.99. Buy from Amazon.com, Amazon.co.uk

INDIA needs more market liberalisation to promote economic growth. A few years ago, with its economy expanding at an annual rate of nearly 10%, there was talk of India one day rivalling China, or even overtaking it. But policymakers have grown complacent. They assumed rapid growth would continue, but did nothing to foster it. The result is that India

now putters on at less than half what it could achieve. Investors are anxious and the politicians are bickering.

In their new book Jagdish Bhagwati and Arvind Panagariya, both economics professors at Columbia University, outline a series of measures to boost growth. “Why Growth Matters” is a blunt book; almost a manifesto for policymakers and analysts. It explains how rapid expansion has brought India immense gains, and why more change is needed—and needed soon. Both men are champions of globalisation and they hope their ideas will stiffen the resolve of India’s leaders.

What they have to say is convincing. Increasing growth rates over the past couple of decades lifted some 200m Indians out of poverty. That is an immense gain. In 1978, say the authors, more than half of all Indians were below the poverty line; today it is roughly a fifth. Gradually even those politicians who put their trust mostly in redistribution and the early roll-out of welfare grasp that a bigger economy means more resources to share around.

Some powerful figures who used not to believe in liberalisation, notably Sonia Gandhi, who presides over the ruling Congress party, have now been persuaded. To restore confidence in public management, for example, she has agreed to cuts in the huge state diesel subsidies that were supposed to help the poor. And more foreign capital will be let into bits of the economy that used to be fenced off, such as retail. These measures are no magic bullet. But they hint at bigger reforms to follow.

What should these be? The authors want rapid liberalisation of areas that remain heavily regulated, notably labour, land and education. They make a good case for change. India has been unsuccessful at creating jobs in the formal economy, especially manufacturing, in part because of a choking jumble of 200 national and state-level labour laws. The courts hardly provide the solution. The authors recount one awful tale about how it took a metalworking company two decades, and the Supreme Court’s intervention, to sack a man repeatedly caught asleep on the job. Easing those laws clearly makes sense.

Other problems persist. For investors, obtaining land with adequate roads and power is a nightmare. A fossilised university system means a lack of skills. Reform could help in all these areas.

Despite their broad, forceful thrust, the authors’ judgments are not always sound. They shrug off worries over inequality and corruption a little too casually. Sniping at a student

who blogged, rightly, about shamefully high rates of child hunger in India seems unnecessarily petty. They should also have looked more closely at Bangladesh's development record. On many social scores it matches India, yet Bangladeshis are only half as rich per person, which challenges the notion that a country needs to be wealthy to make social gains. (Bangladesh may be doing surprisingly well because it directs help to women, especially in rural areas.)

The book becomes particularly confrontational when the authors, the spirited Mr Bhagwati especially, let fly at a long-standing academic rival. Amartya Sen, a Bengali-born economist now at Harvard University, won the Nobel prize in economics in 1998 and has since become feted in development circles. Although his name gets only the occasional mention in the book, Mr Sen, the co-author with Jean Drèze of another book on India which comes out later this year, is in effect a sparring partner throughout.

Mr Sen does not deride market-led growth, but he places greater emphasis on redistribution than Mr Bhagwati. He has long trumpeted the social gains made in the southern state of Kerala. And although he does not offer a Kerala "model" for others to follow, he gives full credit to its well-run, left-leaning administrations for achieving first-world levels of literacy and life-expectancy. Its more industrial neighbour, Tamil Nadu, has made similar gains.

The authors disagree. Kerala's success, they argue, is more likely the result of many years of rapid economic growth and private endeavour (it has India's highest private spending on education and health). They insist that Mr Bhagwati's native state, Gujarat, is fast catching up on social indicators, thanks to its own bounding economic gains, a claim that is doubtful, particularly if applied to women.

Superficially, the split reflects the balance of political debate ahead of India's general elections next year. The chief minister of Gujarat, Narendra Modi, hopes to be prime minister. His pro-business ideas and caution on welfare and labour laws are not far off the views expressed by the authors. By contrast, Mr Sen's concern for social gains fits closer to Congress's older redistributive ideas of "inclusive growth". But India is never that simple. Congress itself is divided and Mr Modi's Bharatiya Janata Party though once favouring reforms, looks less sure of itself these days.

Politics seems, by and large, to be on the liberalisers' side. Chief ministers who preside over fast growth in their states are often rewarded with re-election. And their party's candidates also do better in national polls. Each extra percentage point of growth raises the chances of

their candidate winning a seat in the national parliament by 5-6 percentage points, according to a study of the last election by Mr Panagariya and a co-author. Reform is not just the right thing to do; it may be politically rewarding, too.

From the print edition: Books and arts

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