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Diana Furchtgott-Roth: How to lift a nation out of poverty

March 26, 2013 | Washington Examiner

Pope Francis has called on those in positions of responsibility to protect and care for the poor. This is the time to consider how to do this. It's Holy Week, and also Passover, when Jews say "All who are hungry, let them come and eat."

For an answer, look no further than a new book by Columbia University professors Jagdish Bhagwati and Arvind Panagariya, "Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries."

Out next week from Public Affairs Books, "Why Growth Matters" shows how countries can achieve higher growth and reduce poverty. It analyzes what India did right and what it did wrong in its struggle to lift its millions from poverty.

The Indian experience shows that policies matter as much as objectives, and that, ironically, the worst enemies of the poor can be those who profess to be their friends. The new pope can use this important book as a guide to provide the pro-poor leadership that he promises from the Vatican.

Capitalist systems have been the most successful in delivering high incomes and better quality of life. Look at economic growth in North Korea vs. South Korea, and, in the 20th century, East Germany vs. West Germany, the Soviet Union vs. Europe, Taiwan and Hong Kong vs. China.

Bhagwati and Panagariya show how India's economic reforms started in earnest in 1991 after a balance-of-payments crisis. Before 1991, India's economy was characterized by extensive government intervention, with strict industrial licensing for capacity creation and utilization. The results were Kafkaesque. Bhagwati told me that the problem with India was that Adam Smith's invisible hand was nowhere to be seen.

Before 1991, India's inefficient public sector tainted not just natural monopolies but every kind of activity. Public-sector enterprises were often given monopolistic positions, with no private entry allowed and with import controls preventing foreign competition as well. When India produced inputs such as steel, the inefficiency undermined several user sectors in turn. Hence, India's share in world trade and trade-to-GNP ratio declined. Direct foreign investment shrank, and in 1991 equity investment into India had fallen almost to $100 million -- less than the annual budget of some major American universities.

Bhagwati and Panagariya show that the 1991 economic reforms swept away industrial licensing, reduced tariffs and opened the way to entry by private firms into industries previously reserved for the public sector, forcing all to compete.

New businesses such as Jet Airways entered private aviation, forcing Air India to raise its level of performance. The effect was a sharp rise in India's growth rate, followed by a reduction of poverty.

India still has problems, of course, and the authors do not shy away from recommendations for changes in the provision of electricity, infrastructure and transportation. India's exacting and detailed labor laws, many of them more than 40 years old, need wholesale reform because they discourage hiring. Mandates on employers rise steadily with the number of employees. For instance, manufacturers that use electricity and employ 10 workers, or those which do not use electricity and employ 20 employees, need to whitewash their premises every 14 months and repaint every five years. A firm with 150 employees must provide a lunch room. A firm with 30 female employees must provide a day care center. No one can be fired without extensive discussions with labor tribunals and courts.

All economic correlations are complex, and many factors are at play, but "Why Growth Matters" shows how the poor benefit from economic development and which regulations still stand in the way. As Pope Francis opens a discussion on reducing poverty, the book could not have come at a better time.

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