REVIEWS OF BHAGWATI AND PANAGARIYA (PUBLICAFFAIRS, APRIL 2013)

1. **"The World's Largest Debate Club," by James P. Walsh in Finance & Development, June 2013. (IMF: Paid circulation, nearly 100,000 + several languages).**

2. **"A 'Myth-Buster of a Book," by Pravin Krishna in The International Economy, Spring 2013.**

3. **"A robust defence of India's growth story," by James Crabtree in Financial Times, May 19, 2013.**

4. **"Summer books guide," (under Economics) by Martin Wolf, Financial Times, June 28, 2013.**

5. **"Debating the Tiger's Rise," by Sadanand Dhume in The Wall Street Journal, April 15, 2013.**

6. **"How to lift a nation out of poverty," by Diana Furchtgott-Roth in Washington Examiner, March 26, 2013.**

7. **"The capitalism manifesto: How to get India moving again," in The Economist (lead review), April 20, 2013.**

8. **"Ask Amartya Sen why he will not engage in a debate with me: Jagdish N Bhagwati" in The Economic Times, India's leading economics newspaper, June 2, 2013.**

9. **"India's Economic Rise is a Firm Rebuke of Joseph Stiglitz, Brad DeLong, and the World Bank," by Kyle Smith in Forbes, April 24, 2013.**

10. **"Friends of the Poor Are Often Their Greatest Enemies," by Diana Furchtgott-Roth on RealClearMarkets.com, March 26, 2013.**

11. **"Stuck in informal employment," by Hans Dembowski in Development and Cooperation, Germany's leading liberal development magazine, May 7, 2013.**

More reviews are on the way, especially Foreign Affairs and Tiers Monde. Numerous TV and print media interviews appeared in India in December 2012 when the Indian edition, titled INDIA'S TRYST WITH DESTINY (COLLINS) was published. The latest is listed below at No. 12.

12. **"India's Tryst with Destiny," by P.P. Ramachandran in Free Press Journal, June 30, 2013.**

13. **"India's Reliance on Growth to Reduce Poverty is Subject of New CFR Book," The Chronicle, Newsletter of the Council on Foreign Relations, June 2013.**

14. **"Bhagwati finds Lessons for U.S. in India's Economic Growth," (Bhagwati profile apropos of the Bhagwati-Panagariya book), The Record (Columbia University), Summer 2013, page 5.**

http://www.imf.org/external/pubs/ft/fandd/2013/06/books.htm#3

Finance & Development

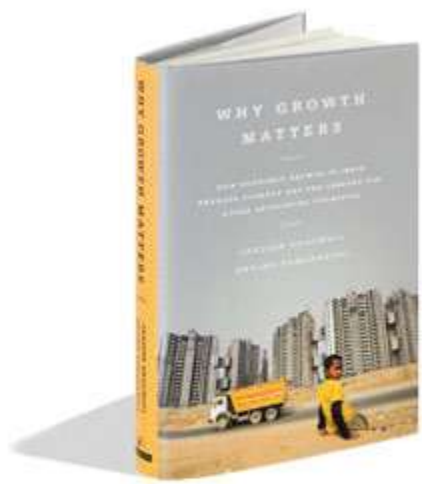
The World's Largest Debate Club

Jagdish Bhagwati and Arvind Panagariya

Why Growth Matters

How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries

PublicAffairs, New York, 2013, 304 pp., $28.99 (cloth).



Over the past few decades, India's development story has garnered increasing attention. Following independence, but especially in the 1960s and 1970s, restrictions on foreign trade and capital flows and measures to raise government oversight of, and involvement in, the economy were ratcheted up. The Indian government nationalized banks, coal mines, and insurance and oil companies; created a strict regulatory environment, reining in large companies and favoring small-scale enterprises; tightened labor market regulation; and curtailed foreign investment.

Growth gradually ground to a near halt, until this tightly controlled and closed economy began to loosen and open up in the 1980s. The process accelerated dramatically after a balance of payments crisis in 1991. Since then, India has become a fast-growing economy with world-class corporations and increasingly important global connections.

This story led to debate—in the world's largest democracy it seems almost everything leads to debate—over whether those reforms actually fueled growth, whether growth reduced poverty and income inequality, and whether the lives of the poor improved. These questions matter. India still has hundreds of millions of poor people by any count: What does India's success tell us about which policies make their lives better?

In *Why Growth Matters,* Jagdish Bhagwati and Arvind Panagariya forcefully defend the past two decades of reform, dismantling step-by-step various myths about Indian economic and social policy from independence to the present day, and issue a call for additional reforms to bolster growth and further improve the lives of Indians.

Start with the myths about Indian growth. Were the 1991 reforms, which among other things dismantled industrial licensing and opened India to foreign trade and capital flows, the reason growth accelerated? Have these reforms widened income inequality and led to a new Gilded Age? Bhagwati and Panagariya cite extensive evidence supporting their claim that it is the 1991 reforms, rather than earlier, more minor reforms, that underlie India's accelerated growth and that these reforms have led to less poverty in India—without a significant increase in income inequality.

The authors go on to address the frequent claim that social progress in India, especially in health and nutrition, lags that of other countries. They dig deeply into studies that either ignore India's initial conditions or define various social indicators in a way that may make India look worse than comparator countries. The overall thrust of these claims is convincing: certainly, the 1991 reforms ushered in a new period of optimism and macroeconomic stability. A lower percentage of the Indian population is poor, and a higher percentage literate, than at any time in the past. These are indisputable. Other points—such as denial that the 1991 reforms led to increased corruption—are stated clearly and convincingly. Still others, however, such as those on malnutrition and infant mortality, are set forth with equally stentorian certainty but somewhat less convincing evidence.

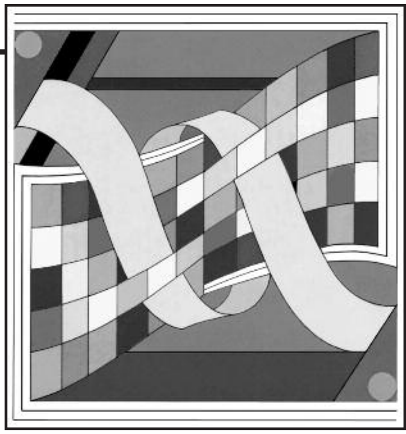
Bhagwati and Panagariya also make a valuable contribution in presenting a reform agenda to extend India's recent growth record and make it more inclusive. The authors usefully divide progrowth reforms into two tracks: those that support growth immediately—for example, less regulation and more investment in infrastructure—and those aimed at more effective and inclusive growth—such as better elementary education and implementation of social programs.

Although the list of reforms is familiar to many people who follow India—the need for broader access to higher education and better roads is clear—the authors go a step further and lay out clearly and insightfully the specific difficulties that could arise if these reforms are implemented in an Indian context. Conditional cash transfers, which have been quite successful in Latin America and have been mooted in the Indian context, should be undertaken with care, given India's challenging governance environment.

Similarly, expanding higher education is an important goal, but the reasons such expansion has not already taken place—ranging from limited funds to the need to confront the entrenched interests of market occupants in skilled fields—are sometimes counterintuitive, and the discussion of how to address these roadblocks is useful.

Those unfamiliar with India and its complicated federal system will find some of this discussion—and the debates over India's pre-1985 economic policy and source data for household survey–based research—arcane. But for those who have followed India's recent growth story, *Why Growth Matters* is a useful summary of both the history of economic reform in India and of the controversies these reforms have generated, as well as a detailed and practical explication of what is necessary for the future.

James P. Walsh
Senior Economist
IMF Asia and Pacific Department



A “Myth-Buster of a Book”

BY PRAVIN KRISHNA

A review of

Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries, by **Jagdish Bhagwati and Arvind Panagariya,** PublicAffairs, 2013

The freeing of India’s economy from the shackles of governmental restrictions, through a process of market-oriented reforms initiated in the early 1990s, constitutes a momentous turning point in modern economic history. Despite the failures of the prior economic regime to bring any real progress and the obvious chokehold that the accretion of socialist policies had exerted on the Indian economy, the reforms were born out of neither an intellectual consensus nor a political one. Instead, they had been occasioned by the 1991 balance-of-payments crisis that necessitated International Monetary Fund support with its associated pro-market conditionalities.

More surprisingly, even today—despite the two decades of robust economic growth that have followed the reforms—no consensus view prevails. Instead, we are witness to a high-decibel discourse awash in myth, ossified ideologies, and an often-willful ignorance of the facts. Central to the anti-reform narratives runs the conceptual claim that economic growth is neither necessary nor sufficient to alleviate poverty and that what is needed instead is a redistribution of incomes from the rich to poor. In parallel runs the complaint that, in practice, the Indian reforms have lacked any “human” element: that they have not reduced the ranks of the poor, that they have bypassed and possibly worsened the condition of socially disadvantaged groups, and that they have led to a widening inequality of incomes and wealth.

Enter Professors Jagdish Bhagwati and Arvind Panagariya, two major scholars specializing in international economics and development, with *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries.* In this splendid myth-buster of a book, the authors, both widely regarded as the leading intellectual forces behind the Indian reforms, provide a comprehensive list of popular anti-reform and anti-market myths, which they then systematically demolish using an impressive array of statistics, economic reasoning, and fact-laden discussions of the economic and institutional history of modern India.

First, some numbers. As Bhagwati and Panagariya point out, the annual growth rate of GDP increased significantly in the years following the reforms, from an average of around 4 percent (the infamous “Hindu” rate of growth) in the pre-reform decades (1951–1990) to around 8 percent in the last decade (2003–2012). The poverty ratio (the fraction of people living below the poverty line) in both urban and rural India fell from nearly 40 percent in the immediate pre-reform years, 1987–1988, to just around 20 percent in 2009–2010, with the absolute numbers of the poor falling by around 200 million people in this time period. Moreover, this sustained period of economic growth alongside the liberalizing reforms reduced poverty among all broadly defined social groups, including among the socially disadvantaged groups, the “scheduled castes” and “scheduled tribes” of India. Uniform progress was also recorded on a number of socioeconomic indicators, ranging from literacy rates to life expectancy and malnutrition rates.

Furthermore, if development fundamentally consists of the removal of “un-freedoms,” as Professor Amartya Sen has often reminded us, India can certainly count much developmental success since the reforms. Consider, for

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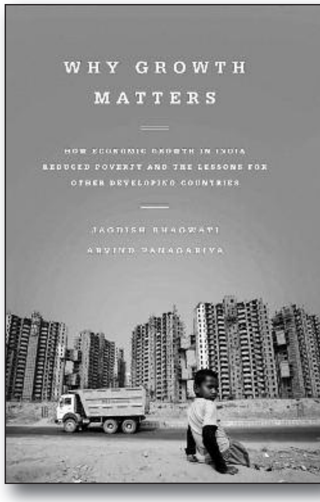
instance, the miracle of the cellular phone, which the largely private providers of telecommunications services in India have placed in the hands of over three-quarters of a billion subscribers within just more than a decade. From farmers in rural areas, who can check the reference prices of their outputs with their phones and thus are less likely to be defrauded by intermediaries, to bank customers, who receive instant transaction notifications via SMS, to migrant workers in urban areas who are able to make remittances to their rural families through mobile banking and payments services offered by domestic entrepreneurs, cell phone technology has created more economic freedom and redistributed economic power, often to the benefit of the poor. As Bhagwati and Panagariya convincingly argue, the manifestations of such innovation and progress are pervasive, with improvements in the provision of a wide range of private and public services that are readily evident to even the most casual of observers.

For countries such as India, which achieved independence with an overwhelming proportion of their populations living in abject poverty, there were "too few from whom the government could take" and "too many in need to whom the government needed to give." Lacking growth, redistribution itself could never have done the job. As the authors point out, this was the essential wisdom in Jawaharlal Nehru's insistence that for poverty to be reduced, "national income had to be greatly increased." It is also clear from their analysis that without the burst in India's growth rates during the post-reform years and the revenues it generated, large-scale redistributive programs such as the National Rural Employment Guarantee Scheme would have never been possible.

India has provided the world with a textbook example of the benefits of economic liberalization.

Without a doubt, much remains to be done. India's labor laws remain highly restrictive. For instance, the Industrial Disputes Act of 1947 makes it nearly impossible for firms with a workforce of more than a hundred people to lay off workers under any circumstances, with similar restrictions applying to firms with more than fifty workers. This has led to nearly 85 percent of workers in Indian manufacturing firms being employed in small-scale (lower productivity, lower wage) firms with fewer than fifty workers (in sharp contrast with China, where the corresponding figure is a mere 25 percent). Infrastructure improvements are badly needed. Vast numbers of Indians remain stuck in poverty, despite all the progress that has been made. Education and health services are in need of dramatic improvement. Inefficiencies and corruption still pervade most levels of government. And the rapaciousness of the country's political and business elite remains in full evidence.



Bhagwati and Panagariya call for future reforms to proceed along two tracks, with "Track I" reforms aimed at accelerating and sustaining economic growth and "Track II" reforms focused on making redistributive programs more effective. The book offers a number of valuable suggestions on how government programs may be better designed and better implemented, for instance, by the suitable use of conditional cash transfers and a combination of public and private supply of necessary services.

For all of the challenges that lie ahead, India has provided the world with a textbook example of the benefits of economic liberalization. And Bhagwati and Panagariya have provided us with the essential textbook with which to understand the Indian reform experience and the vast benefit to humanity that has been achieved as a consequence. This important book, masterfully written in a sophisticated and playful, yet punchy, debating style and peppered with sparkling wit throughout, serves to expose the intellectual clichés and compromises of the romantic left, while itself occupying the pragmatic and experientially informed center. It is required reading for anyone concerned with the dominant moral imperative of our times—the task of eliminating poverty worldwide. ◆

http://www.ft.com/cms/s/2/49924c80-bd88-11e2-890a-00144feab7de.html#ixzz2VN0g2bHO

May 19, 2013 8:27 pm

A robust defence of India's growth story

Review by James Crabtree

A welcome contribution that signals the need for a deep debate about the direction of the country's economy

Why Growth Matters: How Economic Growth In India Reduced Poverty and The Lessons For Other Developing Countries, by Jagdish Bhagwati and Arvind Panagariya, *PublicAffairs, RRP$28.99/RRP£19.99*

With an election due in 2014, India may soon face its most intriguing political choice in a generation. On one side stands Rahul Gandhi, the son of Congress party leader Sonia Gandhi, and scion of a dynasty stretching back to the nation's independence in 1947. On the other is Narendra Modi from the Hindu nationalist Bharatiya Janata party opposition, a controversial but effective chief minister who runs the business-friendly state of Gujarat.

Both men have drawbacks. It is never clear Mr Gandhi actually wants the top job, while Mr Modi's appeal is blemished by a massacre of Muslims that occurred on his watch in 2002. Nonetheless, the potential clash has New Delhi's political class salivating; it could even offer something approaching a battle of ideas between the broadly centre-left Congress and the more centre-right Mr Modi.

Yet behind it lies the need for a deeper debate about the direction of the economy; a debate that is often poorly articulated by political leaders, even as India's growth has lately come off the boil so conspicuously.

For that reason this latest contribution from Jagdish Bhagwati and Arvind Panagariya, two Indian-born economists at Columbia University, is welcome. In *Why Growth Matters*, the duo provide perhaps the most full-throated defence to date of India's economic liberalisation, which began in 1991 and is widely understood to have led to a period of fast growth over the past decade.

But not so fast: leftwing critics are undermining these achievements, the authors claim, promulgating a series of "myths" that are debunked in the first half of the book. The result is a convincing (if at times slightly wearying) litany, arguing that India's growth spurt did indeed benefit lower caste Indians, for instance, or that it lifted many millions of people from poverty.

It is notable for its pugnacious tone too; for this is a book that comes out swinging. In its early pages the economist Joseph Stiglitz and the financier George Soros are accused of "*Jurassic Park* economics", for their questioning of pro-market orthodoxies. The work of Dani Rodrik, a respected Harvard academic who backs some trade restrictions in developing countries, is dismissed tartly as “hollow”.

The Indian thinker Amartya Sen is mentioned only in passing, however, which seems odd, given *Why Growth Matters* is in large part a riposte to his arguments – namely that post-reform India has suffered rising inequality and performed badly on development indicators, at least when compared to poorer neighbours such as Bangladesh and Nepal.

Indeed, Prof Bhagwati and Prof Sen have been staking out their sides of this debate for years, with the former styling himself as the chief defender of further liberalisation. It is a cause he clearly relishes, although one that would benefit from considering the unpopularity of the measures he backs. If the argument for further growth-enhancing liberalisation has only upsides, the reader is left to ponder why it often has so few allies.

Despite this, the authors’ contention that India needs a further shake-up is surely correct, as is their suggested focus on rejigging outdated systems of land acquisition, planning and a tightly regulated labour market.

The latter point is especially well made: India ought to be a global giant in low-skilled, labour-intensive manufacturing industries, such as garment-making and electronics. But it isn’t – in fact the country employs only about 5m workers in manufacturing facilities with more than 10 staff, a pitiful record in a country with about half a billion workers, but where senseless regulations stop too many businesses expanding.

“Many commentators have expressed the view that we are now witnessing the beginning of the end of the Indian growth story. But these commentators greatly overstate their case,” the authors write. Yet while there are many sensible measures that could be introduced, whether they will be remains doubtful.

India’s Congress-led government has rediscovered its reformist zeal over the past six months, although it should get little credit for having dawdled in preceding years. But even with this renewed determination, relatively straightforward measures often appear unachievable amid the country’s fractious political system.

Worse, the approach of next year’s election may set back the case for further reforms, as India’s leaders avoid potentially unpopular decisions.

That would be a shame, but it provides only further reasons to hope that the contest itself provides a substantial forum for debate, whether that be between Mr Gandhi and Mr Modi or not. Indeed, the future of India’s growth story depends upon it.

The writer is the FT’s Mumbai correspondent http://www.ft.com/intl/cms/s/2/b995a37e-df5c-11e2-881f-00144feab7de.html#axzz2XozPhPoT

FINANCIAL TIMES

June 28, 2013 7:49 pm

Summer books guide

From Bretton Woods to Britten's century, FT writers and guests pick their books of the year so far

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ECONOMICS

The Bankers' New Clothes: What's Wrong with Banking and What to Do About It, by Anat Admati and Martin Hellwig, *Princeton, RRP£19.95, 392 pages*

This is the most important book to have come out of the financial crisis. It argues, convincingly, that the problem with banks is that they operate with an order of magnitude too little equity capital, relative to their assets. Targeting return on equity, without consideration of risk, allows bankers to pay themselves egregiously, while making their institutions and the economy hugely unstable.

Why Growth Matters : How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries, by Jagdish Bhagwati and Arvind Panagariya, *PublicAffairs, RRP£19.99, 304 pages*

Economic growth benefits the poor. That is the theme of this extremely important book. It is impossible to eliminate mass destitution in countries with low average incomes. So growth is a necessary condition for poverty alleviation. Is it also a sufficient condition? Again, yes, provided market-led liberalisation is sufficiently broad. Indian experience over the past two decades demonstrates this conclusively.

After the Music Stopped : The Financial Crisis, the Response, and the Work Ahead, by Alan Blinder, *Penguin Press, RRP$29.95, 496 pages*

This is the best account I have read of the US financial crisis. It offers a superbly written and rigorous analysis of what happened to the US financial system and of how policy makers responded. It makes for depressing reading, not least because the Federal Reserve and the federal government, which rescued the economy, have been turned into the villains of the story.

Austerity: The History of a Dangerous Idea, by Mark Blyth, *OUP, RRP£14.99, 224 pages*

Mark Blyth of Brown University has written a thought-provoking polemic against the policies of austerity, to which western governments have turned since 2010. He insists: "Austerity doesn't work. Period." The argument is overstated. But the central point is right: if closely intertwined countries all cut back on public spending, the outcome will be a deeper depression and more public debt.

When the Money Runs Out : The End of Western Affluence, by Stephen King, *Yale, RRP£20, 304 pages*

For many, the financial crisis is a temporary interruption in the rise of western prosperity that is due to easily remedied policy mistakes. The Keynesians believe this, as do anti-Keynesians on the free-market right. King argues, instead, that the future is not what it used to be. We have made promises to ourselves we cannot afford to keep. The argument is important, even if, like me, you are not persuaded.

The Great Convergence : Asia, the West and the Logic of One World, by Kishore Mahbubani, *PublicAffairs, RRP£17.99, 304 pages*

How could I not admire a book that quotes me, approvingly, on its first page? The Singaporean scholar-diplomat Kishore Mahbubani has written a sobering analysis of the political impact of the "great convergence" between the advanced western countries and the rest of the world. He argues that the rise of a global middle class requires matching political transformation. The outcome must be joint management of an increasingly interdependent world.

The End of Power : From Boardrooms to Battlefields and Churches to States, Why Being in Charge Isn't What It Used to Be, by Moisés Naím, *Basic Books, RRP£18.99, 320 pages*

Who is in charge? The answer given in this book is: nobody. The monopolies of coercion that characterised states, the potency of advanced militaries that created great powers, the barriers to entry that protected businesses, the media organisations that controlled information, the religious institutions that defined orthodoxy and the hierarchical parties that controlled democratic power are all losing control. Readers may disagree. They will be provoked.

Martin Wolf

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http://online.wsj.com/article/SB10001424127887324100904578404832410133390.html

THE WALL STREET JOURNAL.
WSJ.com

BOOKSHELF | April 15, 2013, 3:00 p.m. ET

Debating the Tiger's Rise

India would have had 175 million fewer poor people by 2008 had it embarked upon free-market reforms in 1971 instead of 1991.

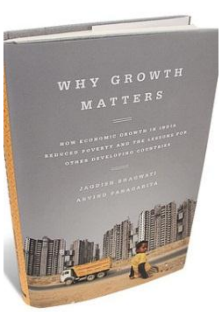
By SADANAND DHUME

For the first time since the advent of economic reforms in 1991, a question mark looms over India's development prospects. Growth this year is less than half the tigerish high of 9.8% six years ago, and Prime Minister Manmohan Singh's reputation as a reformer lies in tatters. The government he heads has become synonymous with corruption scandals, reckless populism and policy torpor.

Columbia University economists Jagdish Bhagwati and Arvind Panagariya believe that bad ideas and economic mismanagement are mostly responsible for India's current slowdown. In "Why Growth Matters," they trace India's economic trajectory since independence in 1947 and offer a comprehensive to-do list for reformers. At the heart of this book lies a simple message. The country's post-1991 transformation "from a basket case into a powerful engine of growth," the authors say, unambiguously proves something that many on the Indian left remain in denial about: that a rapidly expanding economy is the best antidote to poverty.

Why Growth Matters

By Jagdish Bhagwati and Arvind Panagariya
(PublicAffairs, 280 pages, $28.99)



Over the past two decades, India's economic reforms—especially scrapping industrial licensing, in which bureaucrats set production targets for firms, and lowering tariff barriers to trade—have pulled nearly 200 million people out of poverty. Yet the country's public discourse remains littered with myths: that only the rich have benefited from growth; that ending poverty depends on redistribution; and that the country's wealth has little to do with its health and education standards. Taken together, they add up to the absurd notion that India has reformed too fast rather than not fast enough. Indeed, the present government first came to power in 2004 by championing the dodgy slogan "inclusive growth," which suggests that somehow growth by itself was exclusive or anti-poor.

In fact, it is the bloated and suffocating socialist model unveiled by Jawaharlal Nehru at independence in 1947 that deserves such ignominious labels. Messrs. Bhagwati and Panagariya contrast the heavy hand of Indian central planning with the private-sector-led growth that allowed East Asia's nimble economies, such as South Korea and Taiwan, to prosper from the 1960s onward. By contrast, India grew at an anemic 3.5% per year on average in the three decades to 1980, thanks to government control over private investment, the steady expansion of the public sector, an obsession with self-sufficiency and restraints on foreign investment. In short, as the authors write, after independence "India's economics quickly collapsed into the disaster range."

Nonetheless, the villain of the book isn't Nehru, a hapless idealist born to extreme privilege—his father sent his shirts to Paris to be laundered. It's Nehru's daughter, Indira Gandhi, who led the country from 1966 to 1984 (minus a three-year spell in opposition). She doubled down on her father's mistakes even as the benefits of an unshackled private sector were fast becoming obvious in East Asia. On her watch, India nationalized mines, general insurance companies and the 14 largest banks. She forced the dilution of foreign equity in Indian companies, reserved production in vast swaths of the economy for small firms, limited the size of urban land holdings and made it virtually impossible to fire workers.

Between 1965 and 1975, per capita income in India rose by a minuscule 0.3% annually. If you were to draw up a list of post-colonial leaders responsible for economic crimes against their people, Indira Gandhi's name would figure near the top. By one Cato Institute estimate, India would have had 175 million fewer poor people by 2008 had it embarked upon reforms in 1971 instead of 1991.

Only then, prodded by a balance of payments crisis that threatened to halt imports and tip the government into debt default, did India decisively change course. The government ended industrial licensing and slashed import duties, at the time among the highest in Asia. Since 1991, the trade-to-GDP ratio has risen from 17% to above 50%. Foreign investment soared from $100 million in 1991 to $60 billion in 2007. Over roughly the same period, the number of phones in India skyrocketed from a total of five million to 895 million today, with an average of 15 million *new* connections each month. Annual automobile production rose from 180,000 to two million in 2010. As for poverty, in the mid-1980s nearly one in two Indians lived below the poverty line. A generation later that proportion is closer to one in four.

And yet, paradoxically, the intellectual debate about reforms in India is untethered from the dictates of common sense. For this Messrs. Bhagwati and Panagariya squarely blame leftist economists, such as their Columbia colleague Joseph Stiglitz, Belgian-born Jean Drèze and Harvard's Amartya Sen, for being "intellectually lazy and unwilling to learn from the ruin they had visited on India and its poor." In the bazaar of ideas, leftists consistently question the efficacy of markets, exaggerate the extent of poverty and oppose the privatization of inefficient public services. In a country once steeped in socialism, these arguments continue to find buyers.

To the outside observer, it may seem strange that Indians are still squabbling over whether growth really matters or over how to define the poverty line. When the data unambiguously point to all social groups, including the lowest castes, having benefited from reforms, then why is this even a topic for discussion? Indeed, the most depressing aspect of this book is the fact that two eminent economists felt the need to write it in the first place. Shouldn't such fundamental questions have passed by now from contention to consensus?

Nonetheless, the authors' deep compassion for the poor, gimlet-eyed view of India's checkered economic past and genuine concern for its future shine through on every page. For the reader interested in the big policy questions facing the world's largest democracy—and, by extension, much of the rest of the developing world—"Why Growth Matters" is as good a place to start as any.

Mr. Dhume is a resident fellow at the American Enterprise Institute and a columnist for WSJ.com. Follow him on Twitter @dhume01.

A version of this article appeared April 16, 2013, on page A13 in the U.S. edition of The Wall Street Journal, with the headline: Debating The Tiger's Rise.

http://washingtonexaminer.com/diana-furchtgott-roth-how-to-lift-a-nation-out-of-poverty/article/2525420

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.

Examiner Columnist Diana Furchtgott-Roth (dfr@manhattan-institute.org), former chief economist at the U.S. Department of Labor, is a senior fellow at the Manhattan Institute for Policy Research.

http://www.economist.com/news/books-and-arts/21576372-how-get-india-moving-again-capitalist-manifesto

The Economist

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

http://articles.economictimes.indiatimes.com/2013-06-03/news/39714742_1_indian-economy-hundred-days-debate

Ask Amartya Sen why he will not engage in a debate with me: Jagdish N Bhagwati

Jun 3, 2013, 04.00AM IST | Economic Times

You have been a staunch critic of Professor Amartya Sen's "pro-poor" statements and economics. Are you piqued that he refuses to engage in a debate with you?

Of course, I have not been against "pro-poor" policies. From my first job in the Indian Planning Commission in the early 1960s, I have been working on how to reduce poverty. What I have objected to are the specific anti-poverty policies that Professor Sen has backed, in one way or another. Those policies, as I and professor Panagariya in our book 'India's Tryst with Destiny', have demonstrated, actually increased poverty! You must ask Professor Sen, not me, why he will not engage in a debate with me, even though he has been invited to do so by others. After all, he is the one who used the phrase "argumentative Indian" to describe Indians (a phrase I originated but used differently almost two decades earlier to explain how we argued, like the French, with the United States which led to tensions because the US gave us aid while we were snotty when dealing with USAID). No, we either lie prostrate at the feet of Bhagwatis and Sens; or we engage in unseemly confrontations (I once remarked that we Indians are so ingenious that we multiply by dividing).

It is the young Indians who will now force us into true "argumentation": they have little patience for people who hide behind their laurels. So, when in a recent NDTV panel, Professor Sen spoke haughtily to Professor Panagariya, 20 years his junior, that he lived in New York and did not understand India, Panagariya quietly shot back that Sen lived in Cambridge and that Panagariya visited India as frequently as Sen did! Panagariya was flooded with complimentary emails saying he was a hero in slaying Sen! But Sen is not the only one who avoids debating with his peers.

This is true also of my Columbia University colleague Joseph Stiglitz. He challenged in Outlook magazine last year the retail sector reform which I and Professor Rajeev Kohli had supported in an extensive paper. So, the Columbia students wanted a debate between us. They are still waiting for an answer!

How do you rate your own role in campaigning for opening up of the Indian economy? Who are the prime ministers before Narasimha Rao with whom you have argued for liberalisation?

It is not for me to applaud my successful efforts at opening the Indian economy: many, including the noted economist Deena Khatkhate and Prime Minister Manmohan Singh have written generously about my contribution. As for other prime ministers, I particularly remember arguing for trade liberalisation and devaluation in 1966 before Indira Gandhi. I recollect that she was shy while her minister C Subramanian carried on a dialogue with me! I was only 32 years old and a nervous novice! No longer, of course.

How do you react to Oxfam's view that free trade robs poor people of a proper living?

Oxfam is totally wrong on trade issues. Once, I teased their spokesman, Jeremy Hobbes, by saying that he must be a schizophrenic: one day, he must think he was Jeremy Bentham, and the next day that he was Hobbes! A good man, he was out of his depth. NGOs, expanding into areas where they have no competence, do harm, not good. They confuse ignorance with originality.

And this is particularly true of huge NGOs like Oxfam which are "too big to succeed" and use their enormous financial capital to drown out informed voices that can only bring human capital to the contest.

How do you feel about being inducted into the WTO Hall of Fame?

In so honouring professor John Jackson, the distinguished lawyer, and myself, the WTO is recognising our many contributions to the scientific analysis of multilateral free trade over more than two decades, and in particular the dedication and effectiveness of our work on several committees of the GATT and its successor, the WTO, and our public policy defence of these institutions which have often been under threat. Among those who are no more, the only comparable figure in trade law is the late Professor Robert Hudec of Minnesota; and in economics, Professor Paul Samuelson whose writings dominated trade theory for decades,

Professor Gottfried Haberler, also a great figure in trade theory and also chairman of a major GATT committee, and Professor Robert Baldwin, a mighty defender of freer trade and also member of WTO expert groups. Among those who are alive, I would love to have WTO honour my most eminent student, Professor Paul Krugman.

His scientific and policy work on international trade has been profound and I admire him even if I often disagree with him. By contrast, there are economist scholars who have not written anything of scholarly value on free trade, and who have done absolutely nothing for GATT or WTO either! In fact, they have simultaneously pandered to anti-openness and to the rubbish that ill-informed NGOs like Oxfam have levelled against the world trading system. Maybe there ought to be a contrasting Hall of Shame, devoted to such people!

What is the full scope of your contributions to the theory and policy of freer trade?

My own evolution as a trade scholar and a proponent of openness to trade was two-sided. First, in regard to policy changes I was deeply involved (with colleagues such as Padma Desai and T N Srinivasan) in proposing reforms in India that included reversing the excessive and crippling reliance on autarky (i.e. inward-looking policies). In turn, I also was in two major projects (at the Organisation of Economic Cooperation and Development and the National Bureau of Economic Research), with several country studies, that extended such analysis to several other countries.

Needless to say, these efforts helped to demolish the protectionism that was otherwise rampant in India and in several other developing countries. Second, I moved on to thinking and writing about the world trading system.

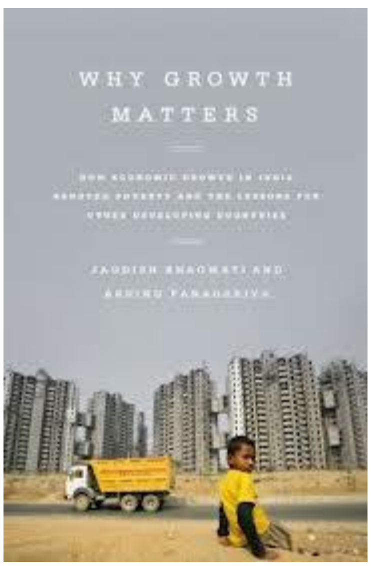
This evolution was accelerated when I became economic policy adviser to GATT director-general Arthur Dunkel (1991-1993), and then a member of successive expert groups at the WTO and UNCTAD, and to UN. I also decided early on that if I was to influence public policy, I had to write for the public as well. Hence I engaged in public policy debates with every opponent of the multilateral free trade regime: Ralph Nader, Naomi Klein and many others. In my view, only such debates can inform the public and improve public policy.

http://www.forbes.com/sites/kylesmith/2013/04/24/indias-economic-rise-is-a-firm-rebuke-of-joseph-stiglitz-brad-delong-and-the-world-bank/

Forbes

Kyle Smith, Contributor | **OP/ED | 4/24/2013**

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.

http://www.realclearmarkets.com/articles/2013/03/26/friends_of_the_poor_are_their_greatest_enemies_100220.html

Friends of the Poor Are Often Their Greatest Enemies

March 26, 2013 | Real Clear Markets

By Diana Furchtgott-Roth

Pope Francis has repeatedly called on those in positions of responsibility to protect and care for the poor. What is the best way to do this?

For an answer, look to a new book by Columbia University professors Jagdish Bhagwati and Arvind Panagariya, out next week from PublicAffairs. Based on data from India, it shows how countries can achieve higher growth and reduce poverty. Entitled *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries*, it analyzes what India did right and what it did wrong in its struggle to lift its millions from poverty.

A concern for the poor is not the same as doing something effective about reducing poverty. The Indian experience shows that policies matter as much as objectives, and that the worst enemies of the poor can ironically be those who profess to be their friends. Pope Francis can use this important book as a guide to provide the pro-poor leadership that he promises from the Vatican.

An examination of global economic systems shows that 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.

The latest Economic Freedom of the World report, co-published by the Cato Institute, the Fraser Institute, and 70 other think tanks, finds that:

* Countries ranked in the top fourth of the world in economic freedom had average GDP per person of $37,691 in 2010, whereas countries ranked in the bottom fourth had average GDP of $5,188.

* For countries in the top fourth, average per person GDP of the poorest 10 percent was $11,382. In the bottom fourth, the same group earned $1,209.

* The average income of the poorest 10 percent of citizens of the most economically free countries was more than twice the average income for all citizens in the countries with the least economic freedom.

Or, as Catholic theologian Michael Novak wrote in *The Universal Hunger for Liberty*, "Developed countries are better able to order the economic elements of life to the good of human prosperity. In this way they reduce scarcities, raise the average age of mortality, eradicate diseases, diminish illiteracy, and so forth. To be well ordered for the achievement of such goals is what it means to be *developed*."

India's economic reforms started in earnest in 1991 after a balance of payments crisis, according to Bhagwati and Panagariya.

Prior to 1991, India's economy was characterized by extensive intervention, with strict industrial licensing for capacity creation and utilization, with Kafkaesque results. Bhagwati told me that the problem with India was that Adam Smith's Invisible Hand was nowhere to be seen.

India's public sector proliferated into every kind of activity, not just natural monopolies. When India produced inputs such as steel, the inefficiency undermined several user sectors in turn. These public sector enterprises were often given monopolistic positions, with no private entry allowed and with import controls preventing foreign competition.

Hence, India's share in world trade and trade to GNP ratio declined, while those in successful developing countries rose. Direct foreign investment shrank, and by 1991 equity investment into India had fallen to almost $100 million, smaller than the budgets of major American universities.

Bhagwati and Panagariya show that the 1991 reforms virtually swept away industrial licensing, reduced tariffs, and opened the way to entry by private firms into the industries reserved for the private sector, thus forcing them to compete. New firms such as Jet Airways entered private aviation in India, forcing Indian Airlines to raise its level of performance. The effect was a sharp rise in the growth rate and in the reduction of poverty.

Bhagwati and Panagariya explode a series of common myths about India's economic progress, such as that India pursued growth as an end in itself, without considering poverty reductions or the provision of health and education. They show that poverty fell more rapidly after the 1991 reforms than before.

Rather than more open trade leading to increased poverty, as is often alleged, the authors show that trade decreased poverty in India. They write, "trade openness in a labor-abundant economy stimulates growth in general and the expansion of labor-intensive industries in particular so that it can be expected to lower rather than raise poverty." In particular, two of India's poorer regions, Bihar and Orissa, now are among the fastest-growing states today.

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. Labor laws, many over 40 years old, need wholesale reform because they discourage hiring. Mandates on employers rise steadily with the number of employees.

For instance, manufacturers which 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 5 years. A firm with 150 employees must provide a lunch room, and 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.

Many anti-poverty programs focus on redistribution, but growth is a precondition to generate revenues to help the poor. This applies to countries with many poor and few rich, not only India, but also China, Indonesia, Brazil, and many countries in Africa. Redistribution cannot help countries where there is little to redistribute in the first place.

And welfare programs need careful consideration to be effective. One suggestion from Bhagwati and Panagariya: Replace the National Rural Employment Guarantee Act, which guarantees one member of a rural household 100 days' worth of employment at a given wage, with simple cash transfers through an ATM. These will give the poor more purchasing power and it will enable them to sell their labor at a higher wage.

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 can still stand in the way. As Pope Francis opens a discussion on reducing poverty, the book could not have come at a better time.

Diana Furchtgott-Roth is a contributing editor at RealClearMarkets, a senior fellow at the Manhattan Institute, and a columnist for the Examiner. She is the author of Regulating to Disaster: How Green Jobs Policies Are Damaging America's Economy (Encounter Books, 2012).

http://www.dandc.eu/en/article/prominent-indian-economists-emphasise-indispensability-growth-new-book-development-policy

Economic policy

Stuck in informal employment

May 7, 2013 – by Hans Dembowski

D+C Development and Cooperation | Conferences and studies

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Informal employment remains the norm: fast-food vendor in Delhi.

India needs more liberalisation, argue two prominent economists. They consider growth "a double-barrelled assault on poverty".

Jagdish Bhagwati and Arvind Panagariya are Indian economists who teach at Columbia University in New York. They are proud of the progress India made in the past two decades, but believe the country could and should achieve more. Their recently published book "Why growth matters" spells out a two-pronged approach for doing so. In this context "Track I reforms" serve to boost growth, and “Track II reforms” serve “more effective and inclusive redistribution”.

Bhagwati has a long history of calling for liberalisation in India. He has been arguing for more than two decades that growth leads to more jobs and more business opportunities and is therefore essential for fighting poverty. At the same time, he says, growth leads to higher state revenues, allowing governments at various levels to spend more on the kind of redistributive programmes that allow poor people to grasp the opportunities growth offers. Health care and education matter especially in this context.

Bhagwati has been a proponent of policies that facilitate economic expansion for decades. After all, the statist-socialist approach India took after independence did not deliver fast growth. Matters changed in the early 1990s, when Manmohan Singh, who is prime minister today and was finance minister back then, started liberalising the economy. At the time, Singh built on the academic work of scholars like Bhagwati and on his own insights as an economist.

Today, Bhagwati and Panagariya insist that the policy change in the early 1990s was not simply a surrender to the World Bank and the IMF in a balance-of-payments crisis. They emphasise Indian ownership. Their proof is that the reforms were never reversed even though India’s foreign-exchange reserves grew impressively soon after liberalisation set in.

The results in terms of poverty alleviation were impressive too, the two professors from Columbia University point out. According to their data, the poverty ratio fell from almost 40 % of India’s population in the late 1980s to about 20 % in 2009/2010. In the same time span, the poverty ratios for scheduled castes and tribes, India’s most disadvantaged communities, fell from about 50 % to about 30 %.

Bhagwati and Panagariya strongly disagree with leftist views, according to which growth does not trickle down and redistribution is the principle way to fight poverty. India is too poor to rise to the challenge of poverty only be redistributing wealth, the two economists state. They have a point. According to the IMF, India’s GDP per head was not quite $ 1500 in 2012.

In Bhagwati’s and Panagariya’s eyes, more liberalisation is needed. Once more challenging leftists, they call for labour market reforms. They argue that laws designed to protect workers from exploitation are counter-productive because they make the growth of formal-sector businesses unlikely. “The costs due to labour legislations progressively rise in discrete steps at seven, 10, 20, 50 and 100 workers,” they state. As a consequence, India has very little formal sector employment.

A mere 9.8 million people in India were employed by private-sector enterprises in the financial year of 2009/2010, according to the authors. For a nation of 1.2 billion people, that number is negligible. In many other Asian nations, the growth of manufacturing companies led to more formal-sector employment, beginning in low-skill industries like textiles and toys, but later spreading to more sophisticated industries. Bhagwati and Panagariya warn that labour-market regulations are blocking that kind of development in India. Instead, informal and unprotected employment remains the norm.

To facilitate growth, the two scholars also want India to change land-acquisition laws, improve infrastructure and invest more in higher education. The result, they promise, will not only be more and better-paid jobs, but also more government revenue and thus more scope for what they call “Track II reforms”. Such reforms should focus on issues like primary education, health and food security, they state.

Hans Dembowski

http://freepressjournal.in/indias-tryst-with-destiny/

June 30, 2013

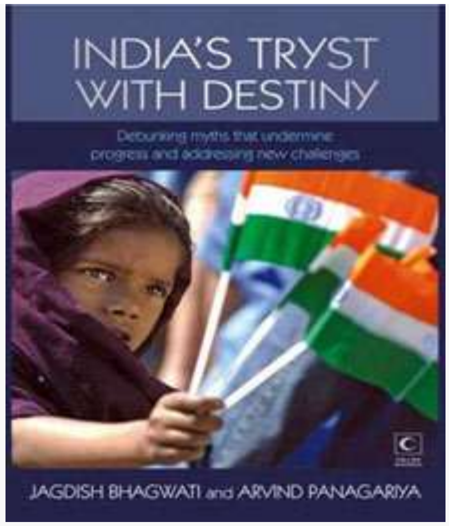
India's Tryst with Destiny

In this definitive book on economic reforms in India since Independence, Bhagwati and Panagariya decisively demolish myths, which critics use as weapons to wound and maim the reforms.

Jagdish Bhagwati is University Professor of economics at Columbia University, a nominee for the Nobel Prize and a long time fellow at the Council on Foreign Relations in the US. He is the author of several books and has annexed many prizes and is rightly regarded as an intellectual pioneer of India's reforms for which he has been honoured with the Padma Vibhushan.

Arvind Panagariya is also from Columbia University and quondam Chief Economist of the Asian Development. He has worked for the World Bank, IMF, WTO, and UNCTAD in various capacities. He has authored many books and was awarded the Padma Bhushan. The voices of both are heard with considerable respect the world over.

The book under review is a treatise on India's economic reforms post-1947 reforms that have been plagued by a number of unfounded myths. The authors employ systematic data and rigorous analysis to nullify critics who attempt to denigrate the positive results of reforms. The panacea the duo offer is intensification of reforms that contribute to economic growth that is at once sustained and speedy. They argue that nothing save growth can generate adequate revenues for the provision of education and good health for the masses. They deal in detail with reforms which assist growth making it inclusive and lead to effective and efficient redistribution from the rich to the poor.



India's Tryst with Destiny
Jagdish Bhagwati & Arvind Panagariya
Published by Collins Business
Pages 284; Price: Rs 599

The conjunction of the politics and the economics of poverty reduction envisaged in Jawaharlal Nehru's memorable speech 'Tryst with Destiny' is very relevant and forms the opening theme of the book. It is a comprehensive analysis of several myths that have enveloped Nehru's ideas and policies and an attempt to clear the debris of ex-cathedra critiques of India's reforms and measures to broaden and deepen the reforms.

One of the myths which the authors demolish is that people believe that poverty, illiteracy and ill-health afflict India because its leadership ignored them in favour of growth ; that the economic reforms focusing on growth failed to help the poor, especially the socially disadvantaged; that any gains claimed in poverty alleviation derive from the use of progressively lower poverty lines; and that even if any gains have been achieved, reforms have done precious little to improve health outcomes.

The authors depict the historical evolution of Indian macro-economic policy framework ranging from Jawaharlal Nehru's affection for socialistic ideas to the active implementation of nationalisation policies under Indira Gandhi regime to present post-liberalisation era to the future possibilities of enhancing the pace of economic progress with enhanced reform measures. They also delineate how these restrictive policies ended up in reduced growth rate to abysmal levels and increased the social inequality.

The book is in three Parts. Part 1 deals with countering the unascertained myths on the imbalance between growth and social justice. Five chapters deal with major domains of macro-socioeconomic aspects. A few of the myths are: (1) Planning pursued growth as an end in itself, ignoring poverty reduction (and other social objectives). (2) Reforms do not explain the faster growth in India since 1991. (3) Reforms have led to increased inequality. (4) Impact of reforms on Health and Education: The Kerala Model has yielded superior education and health outcomes. Despite high growth, Gujarat has performed poorly in health and education. (5) Reforms have led to increased suicides by Indian farmers The post-1991 reforms have resulted in a tsunami of corruption.

The authors have successfully tackled these myths with absolutely unchallengeable data and they prove that only growth can provide sufficient revenues for the provision of education and good health for the success.

Part 2 of this book deals with what the authors categorise as Track 1 Reforms, which will further help accelerate growth and make it more “inclusive’. Part 3 deals with Track 2 Reforms. The focus is on making redistribution programmes more effective as their scope widens. The authors believe that we should balance growth with social objectives Their optimism is objectively based on increasing positive public attitude, mass appeal against social ills and gradual diminishing of anti-reform political power centers and revival of economic fundamentals. This is compulsory reading for all planners, social scientists and students of economics and development.

P.P. RAMACHANDRAN

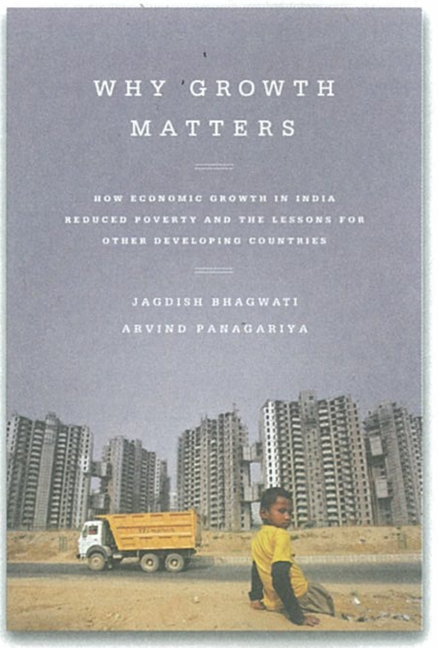
India's Reliance on Growth to Reduce Poverty Is Subject of New CFR Book

Indian leaders and economic planners focused on eradicating poverty by "growing the pie rather than slicing it," and fueled the country's growth with market-based policies, write economists **Jagdish Bhagwati** and **Arvind Panagariya** in *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries.*

Bhagwati, CFR senior fellow, and Panagariya, professor of economics at Columbia University, demonstrate how India successfully deployed a growth strategy to reduce poverty. Official poverty estimates provided by India's Planning Commission show the proportion of the population below the poverty line in India decreased 17 percentage points in two decades, from 44.5 percent in 1983 to 27.5 percent in 2004–2005. "We cannot emphasize enough that our analysis, while it is addressed to India's development experience and underlines the centrality of growth in reducing poverty, has clear lessons for aid and development agencies, as well as NGOs that continually work to affect poverty all over the world," conclude Bhagwati and Panagariya.

The authors acknowledge that further reforms in labor and land markets are essential to make growth even more inclusive. They stress that growth must precede spending on healthcare and education for the poor, as only growth will generate the revenues necessary for such spending. Moreover, they emphasize that both growth and the efficacy of spending on the poor require that "doors . . . be opened wider to the private sector." *cfr*

To order the book, visit www.cfr.org/why_growth_matters.



"Jagdish Bhagwati and Arvind Panagariya are two of the great intellectual lights behind one of the greatest miracles of economic history: the economic reform of India, and its subsequent takeoff. It is not just the well-to-do who have benefited, but, especially, the poor. The lessons from the spirit of 1991 are not just relevant for India today; they are also of prime importance for the billions of citizens of low-income countries around the globe."

—George A. Akerlof, Nobel laureate in economics, 2001

BHAGWATI FINDS LESSONS FOR U.S. IN INDIA'S ECONOMIC GROWTH

By Georgette Jasen

Jagdish Bhagwati has been thinking about how to reduce poverty for more than 50 years, since he returned to his native India with degrees in economics from Cambridge and MIT to work for the India Planning Commission in 1961.

Now a noted international economist and a University Professor at Columbia, his latest book is *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries.* In it he explores the policies that helped dramatically reduce India's poverty rate, to about 20 percent of the nation's population today, down from half in 1978.

He and co-author Arvind Panagariya, the Jagdish Bhagwati Professor in Indian Political Economy and Professor of Economics at the School of International and Public Affairs, peg India's economic growth to a series of reforms in 1991 that moved the country away from what they call excessive regulation of private investment and production, protectionist trade policies and limitations on foreign investment.

"In large countries like India, Brazil, China and Indonesia, income redistribution to help the poor was not an option; there were too few rich and too many poor," says Bhagwati. Growth alone makes sense, he adds, "as it pulls people up from poverty by giving them economic opportunity, while also generating revenue to help the poor by providing for their education and healthcare."

He and Panagariya say that acceleration of growth generally requires liberal economic policies, with market incentives playing a major role. They are not "market fundamentalists," says Bhagwati, who has advised India's current prime minister, Manmohan Singh, who previously was that nation's finance minister. India is moving from its pre-reform embrace of "anti-market fundamentalism" to pragmatism, Bhagwati says.

University Professor, Jagdish Bhagwati.

> "It's not growth for growth's sake but a strategy to increase income so we can help the poor."

He acknowledges that some critics contend that India's economic reforms have hurt the poor. "I say get off your high horse and come look at the facts," he says, citing evidence in his book of improvement to the well being of marginalized groups like untouchables, tribals and women. Economic growth fuels demand for labor, he says, so low wages in developing countries are bound to rise, as they have in China.

There are lessons for developed economies, too, including the U.S. "Again you need to grow the pie," he says, to pay for services such as health care and education for the poor. Outsourcing is good, he adds, because by creating jobs for workers in developing economies like India, it provides markets for exports from developed countries like the U.S.

Bhagwati as seen on *The Simpsons*.

A professor of economics and law, he identifies with both ends of the political spectrum. He calls himself a Democrat but also serves as an adviser on trade policies to the right-of-center Cato Institute and has worked with the American Enterprise Institute and the Council on Foreign Relations.

While he agrees with Democrats' calls for increased spending to "reflate" the economy, he adds that Republicans have a point when they point to restrictions on American business that discourage investment and impede growth. "We should do away with a whole lot of regulations that make no sense," he says, adding that growth can raise revenue without raising taxes and raising taxes isn't easy in a democratic society.

In a lively and wide-ranging interview in his 11th floor corner office in the SIPA building on 118th Street, he laughed as he read the lyrics from the Beatles' 1966 song "Taxman," which are in the preface to his book. Written after British Prime Minister Harold Wilson imposed a 95 percent tax on the country's highest earners, the lyrics include, "Should 5 percent appear too small, be thankful I don't take it all ... you're working for no one but me."

Now 78, Bhagwati grew up in Bombay (now Mumbai), surrounded by poverty. He initially planned to study social anthropology, but became interested in economics as a way to change society. After teaching at MIT for 12 years, he came to Columbia in 1980 with his wife Padma Desai, the Gladys and Ronald Harriman Professor of Comparative Economic Systems at Columbia and an expert on the Russian economy.

He is frequently mentioned as a candidate for the Nobel Prize in Economics, so much so that he was named a winner in a 2010 episode of *The Simpsons,* which he includes on his website. Bhagwati jokes that he has taught most of the world's economic policy makers, including Paul Krugman, a Nobel winner, Mario Draghi, head of the European Central Bank—but not Federal Reserve Chairman Ben S. Bernanke.

Bhagwati is an outspoken advocate of free trade, which he says encourages competition and innovation. In November 2010, he was chosen by the leaders of Britain and Germany to head a panel looking at ways to boost world trade. His 2004 book, *In Defense of Globalization* argued that, contrary to widespread belief, globalization indeed has a human face.

His next book will be about illegal immigration. "We are the destination for the world, no matter what we do, there will always be illegals here," he says. "We need to focus instead on treating the illegals with humanity." He expects the book to be controversial, but what point is there in writing a book that is not?" he says. "Intellectuals can only do public good by becoming a public nuisance."

COLUMBIA*NEWS* ON THE WEB

For a video of Bhagwati discussing his work visit news.columbia.edu/bhagwati.