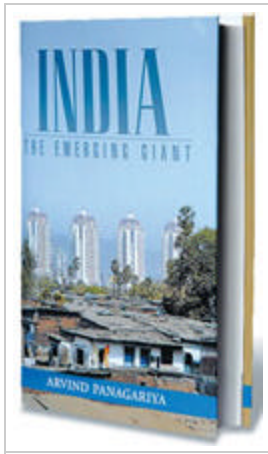




## BOOK MARK

### The Eternally Hopeful Liberal

BY ASHOK V. DESAI  
09 May 2008



#### INDIA The Emerging Giant

By Arvind Panagariya, Oxford University Press,

Pages: 514; Price: \$49.95

The last comprehensive book on the Indian economy was written by Jagdish Bhagwati and Padma Desai in 1970; surprisingly, no one attempted to repeat their feat — not till Arvind Panagariya took up the challenge. Bhagwati and Desai had less than a quarter of a century of independent India to cover; Panagariya takes on twice as long a period. He is also more inclusive in his interests; sometimes it seems that nothing is beneath his attention. The result is a book of over 200,000 words. Panagariya says he wrote the book over at least two years; it is a tour de force.

Even 500 pages cannot tell the story of everything. Panagariya has selected five major areas. In the first part, he gives a broad narrative of economic growth over 1951-2006. Then he deals with an area of perpetual Indian debate: poverty and inequality. In the third part, he goes on to cover the macroeconomy. He then turns to some microeconomics, covering trade, services and agriculture. In the last part, he deals with government policies — and with reforms, which are his

special interest.

Panagariya divides the period of 1951-2006 into four phases, based on the mean growth rate. Two phases are easily discernible: the growth rate suddenly and perceptibly accelerated after 1979. Is a further division into four justified? Beginning with the famine of 1965 India went through a harrowing time, which ended only after the second oil crisis in 1979; Panagariya turns it into a phase. And he is convinced that liberalisation led to a distinct acceleration of reforms after 1988; that gives him a fourth phase.

Poverty and inequality are staples of controversy in India, so it is not surprising to find them here. They have been such hardy perennials because the official sample surveys, which form the empirical basis of the debate, changed definitions a number of times. So no standard series of poverty and inequality on which everyone can agree are possible. These are the bedrocks of policy, so the Planning Commission keeps generating estimates. Private researchers dissect its figures endlessly, and add their own. The field has become intractable as a result. Panagariya painstakingly describes the changes in definitions and ways of dealing with them. He is more cavalier with inequality. He takes only recent figures, and covers recent studies without much scrutiny. But he adds useful, short reviews of unemployment, agricultural wages and farmer suicides.

In the third part, Panagariya takes up more interesting questions. He shows how India teetered into a crisis in 1991, and asks whether fiscal profligacy may throw it into another. He ends up with Patel and Buiters' conclusion that while the governments — central and state — may resolve to repair the fiscal deficit and legislate time paths to such repair, they can with impunity ignore and forget their own legislation. The point is not simply how close the Indian governments are to default, but how they managed to avoid it in the past. They have done so by forcible borrowing from the people through the cash reserve ratio and statutory liquidity ratio imposed on the banks, and expropriation of their wealth through inflation and negative real interest rates. These instruments have receded into obscurity after 1991; but the potential for policy-induced inflation still exists and perhaps deserved greater discussion. In particular, the cycles of inflation are of considerable macroeconomic interest.



Then Panagariya asks whether India, with its overflowing exchange reserves, is on way to capital account convertibility. On reserve accumulation, Panagariya takes an anti-monetarist stance and argues that it led to undervaluation of the exchange rate and higher growth of exports. He is against full convertibility, so this part of the discussion is not very exciting. The issues raised by the Percy Mistry Committee and the Raghuram Rajan Committee have been ignored, presumably because the two reports came too late for the book. I found the coverage of banking and monetary policy too descriptive and insufficiently critical. It is not correct to say that automatic monetization of deficits has been permanently stopped. The central deficit has come down, so it is easily funded by non-coercive means; and state debt continues to be absorbed by banks and monetized through the statutory liquidity ratio.



Arvind Panagariya is currently Jagdish Bhagwati Professor of Indian Political Economy and Professor of Economics in the School of International and Public Affairs at Columbia University. He is also a non-resident senior fellow at the Brookings Institution, Washington D.C. He was previously the Chief Economist of the Asian Development Bank and has also served the World Bank, IMF, WTO and UNCTAD

The discussion of international trade could have been deeper. India-China comparisons are endlessly exciting to western economists. They are not unimportant, but there are other interesting issues. The opening up of the Indian economy is the most important change in my view that has occurred since the 1991 reforms. It nearly killed the engineering industry; but it survived and emerged much stronger. The pharmaceutical industry built up exports and showed great promise, but then somehow petered out. India's cotton output has tripled in the past five years, and price has come down, but it has not stimulated textile exports at all. These and other stories need to be covered.

The last part, on the government, is perhaps the most important from Panagariya's view; he reviews every area of government activity, assesses its performance and proposes reforms. I happen to believe that the Indian government is essentially patronal and dirigiste. It was forced by the payments crisis and the consequent need for foreign aid to liberalize controls in 1991-93, but it stopped liberalizing as soon as it got out of the Fund-Bank's clutches. The BJP government did liberalize further, largely for ideological

reasons; but the succeeding Congress government is a throwback to Indira Gandhi. So in my view Panagariya is preaching to the incorrigible; that he has devoted so much energy and passion to these Sisyphean labours is an indicator of his impeccable liberal credentials and indomitable optimism. And perhaps because of this painstaking analysis, his book is the best critique of the Indian economy available today.



#### ALERT

#### **THE SHAPE OF THE BEAST: Conversations with Arundhati Roy** Penguin/Viking

This is a collection of 14 interviews conducted with writer and activist at large, Arundhati Roy. Conducted between January 2001 and March 2008, the interviews bring together her thoughts and positions on issues of democracy, corporate power, conflict, development and peace. This

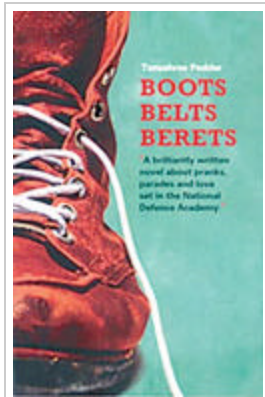
integrated narrative includes her call for the globalisation of dissent as a way of countering corporate globalisation. The collection is bound to evoke strong reactions and get people thinking.



#### BROWSING

#### **Surjeet Singh** CFO, Patni

I'm reading *Profiting From Evidence Based Management* by Jeffery Pfeiffer and Robert Sutton. The book questions existing paradigms of business and reveals the potential harm of using them without adequate evidence. It urges managers to use 'logic' and 'facts' while making decisions rather than the newest management mantra. I normally read management books, especially those that capture experiences of business leaders and the actual application of management concepts.



#### Selection 1

#### **From Boys To Men** **Boots, Belts, Berets** By Tanushree Podder, Indialnk/Roli Books, Pages: 223; Price: Rs 295

This is a charming coming of age tale in a unique setting. A bunch of disparate boys at India's National Defence Academy (NDA) find themselves pitted against a brutally disciplined system and sadistic seniors. There is the lover boy, Bertie, the stately Randy, the boringly earnest Pessi (short for pessimist), and Maachh, who is a genius at coming up with stupid plans. They grow from gawky adolescents into assertive adults on the sidelines of the draining drills and mortifying punishments. *Boots, Belts, Berets* is an autobiographical tale, written in first person by the author from the perspective of her husband, Pessi, who spent three years at NDA in the 1970s. The author has restrained from making her husband the hero and has kept it about the band of boys who grew into men at NDA.

—Feroz Ahmed





### Water, Water Nowhere

Every summer, the acute problem of water shortage becomes all too apparent. And individuals, local authorities and governments point fingers and indulge in blame games which at times can and do lead to violence. What they should be doing instead is reading Nitya Jacob's *Jalyatra — Exploring India's Traditional Water Management Systems* (Penguin). Jacob travels through Delhi, Tamil Nadu, Chambal, Shillong, Shekhawati, Goa, Uttarakhand and Bundelkhand in search of traditional water management systems and finds step wells, talais, underground wells, ooranis, shyngiar and gharaats and the men and women who continue to nurture them. Engaging and informative, the book is

unambiguous in its assertion that we are all complicit in the degeneration of these systems and therefore must take on the responsibility of reviving them to ensure water security for our very survival.

—Sumati Nagrath

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