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India's economy

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INDIA has always produced more economists than it can consume locally. It has enough of them to run the country with plenty left over to fill prestigious positions at foreign universities and international organisations.

These expatriates rarely forget their country of origin. Earlier this year Arvind Panagariya of Columbia University published "India: The Emerging Giant". Now a second Arvind—Arvind Subramanian, of the Peterson Institute for International Economics in Washington, DC—has brought out another book on India's economy, named "India's Turn".

Comparisons between the two books are hard to resist. Mr Panagariya's book is the capstone of a career, a sustained work of scholarship. It demands a lot of its readers, and amply repays the investment. The author's father told him: "Take your time, but write a definite book on India." The son did not disappoint.

Mr Subramanian may one day write such a book. But this is not it. Instead it is an assemblage of newspaper columns and academic papers, some not so new. Nor is it a great credit to its editors. Six typographic errors appear on a single page. Despite these distractions and the book's frequent recourse to econometric results, it is an easier read than Mr Panagariya's.

The two economists agree on a lot. Both are optimistic about India's prospects. But neither believes the country can become a major economic power without first becoming a manufacturing one. Both are wary of opening the economy further to foreign capital, which might bid up the rupee and undermine the competitiveness of its exports.

The two Arvinds cross swords on when and why India's fortunes turned. The breakthrough is often dated to 1991, when an embattled government cut tariffs on inputs, eased entry to foreign investors and largely dismantled industrial licensing. Seen this way, India's turnaround is a straightforward triumph of market-friendly reform. However, India's growth in the decade before the 1991 reforms matched its growth in the decade after.

The "dark age was not all dark", Mr Subramanian writes. He believes India's response to the 1991 reforms owed a lot to the groundwork it laid in the 1980s and even earlier, when it acquired a skilled workforce and industrial experience, unharried by foreign competition. Bolder, earlier reforms would not necessarily have served India better. Mr Panagariya rejects this argument and even Mr Subramanian seems ambivalent about it. Later in his book, he argues that the pre-reform era has skewed India's development in ways that are not entirely welcome. Its businesses were herded into heavy industry, chemicals and engineering, leaving the economy reliant on capital and credentials, rather than the unskilled labour it has in abundance.

This has allowed India's most successful companies to prosper despite the onerous labour regulations which protect a minority of job-holders at the expense of legions of job-seekers. But precisely because these companies have learned to live with these laws, they do not lobby particularly hard to repeal them.

The author notes a similar pattern at work among India's newly affluent classes. Rather than fighting to reform its ailing public institutions, they opt out of them, enrolling their children in private schools, installing their own generators and gating their communities. This is a reasonable response to poor public provision, but it is dangerous. According to Mr Subramanian, crime is rising in India's richer states and armed insurgencies now

India's Turn:
Understanding the
Economic
Transformation
By Arvind Subramanian



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threaten a quarter of its 610 districts.

These two books seem to be fighting different battles. Mr Panagariya patiently applies the simple truths of liberal economics to a country that still sabotages itself with some dotty regulations. Mr Subramanian, on the other hand, relishes anomalies and idiosyncrasies that test the conventional wisdom of his discipline and his Washington confrères. This contrarian bent is refreshing and sometimes rewarding. But one cannot escape the conclusion that although India is a net exporter of economists, its policies still suffer from a deficit of economic logic.

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