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India's economy

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A tale to gladden the heart of economic liberals

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JUST five years ago India was bracketed with Pakistan as one side of a potential nuclear war, and its economy was seen as a hopeless also-ran in a hypothetical race for growth with China. Now India finds itself in the same Western intellectual parenthesis as China itself: both fast-growing economies, both hugely populous—and both a threat and an opportunity to the rest of the world.

For publishers, India's emergence has become something of an emerging market in its own right. There has been a deluge of books seeking to explain the country's transformation: by businessmen, diplomats, journalists, political scientists and the occasional emerging-market opportunist. What has been missing is a comprehensive single-volume chronicle of the history of economic policy in India since independence in 1947 and its role in shaping the country's fortunes.

Arvind Panagariya, an economics professor at Columbia University and former chief economist of the Asian Development Bank, has sought to fill that gap: to do for the economic history of India what Stephen Cohen did for its geopolitical role in his 2001 book, "India: Emerging Power". The basic outlines of his story are uncontroversial enough among liberal economists. But they are fiercely contested in the rambunctious democracy in which India's economic policymakers have to try to operate, and this is an important book, if, to be honest, rather ploddingly compiled.

In the simplified legend, India endured nearly 40 lost years of the "Hindu rate of growth", in which the entrepreneurial talent of its people was stifled in a futile flirtation with socialism, planning and the "licence raj". Faced with a financial crisis in 1991, Manmohan Singh, now prime minister and then finance minister, introduced sweeping liberalising reforms.

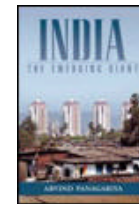
Mr Panagariya subdivides this story into four phases. In the first, under the founding prime minister, Jawaharlal Nehru, India pursued relatively liberal economic policies. Its single biggest mistake was "to ignore the critical importance of international trade for a poor developing country" and to push for import substitution. This paved the way for the disastrous second phase when "socialism strikes with a vengeance" under Nehru's daughter, Indira Gandhi. The average annual GDP growth rate fell from 4.1% in 1951-65 to 2.6% in 1965-75. With annual population growth of 2.3%, this implied a virtual standstill in living standards.

In the third phase, as Mr Panagariya sees it, the government under Mrs Gandhi and her son Rajiv, with a few piecemeal liberalising measures, simply undid some of the damage done in the previous decade, enabling the economy to regain its earlier momentum. An unprecedented growth spurt at the end of the 1980s led to a balance-of-payments crisis, Mr Singh's reforms and the subsequent boom—culminating in annual growth rates in the past three years of 9% or more.

Mr Panagariya, like many other foreign economists, regards this phase as "the triumph of liberalisation". Nothing, he argues, does more to alleviate poverty than rapid economic growth. But this is still not accepted wisdom in India, where over three-quarters of the population live on less than 20 rupees a day, the equivalent of about \$0.50,

India: The Emerging Giant

By Arvind Panagariya



Oxford University Press;
544 pages; \$39.95 and
£19.99

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and where the gap between the upwardly mobile city-dwellers and the stuck-on-the-farm poor is growing ever more visible.

Few foreign economists would disagree with the author's contention that "the solution to poverty even among farmers is to be found outside farming." India's biggest need is for employment opportunities for the growing working-age population—the "demographic dividend" of which it likes to boast. Mr Singh certainly agrees. Yet his government, facing an election by May next year, still found it easier in last month's budget to throw money at farmers rather than continuing the fight for difficult structural reforms that might help them find something else to do.

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