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## Past, present and future

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Arvind Panagariya's *India: The Emerging Giant* is the latest in the genre of books that have come out recently on the changes that are transforming India's economy. Panagariya, a Jagdish Bhagwati Professor of Indian Political Economy and Economics at the School of International and Public Affairs at Columbia University, is also a non-resident fellow at Brookings Institute. Well-known in India for his work on trade policy, he has been a frequent contributor to debates on the subject and has been a critic on the proliferation of regional and bilateral agreements and an ardent supporter of the multilateral trading regime, WTO.

His latest work is a seminal one and a must for all serious students of India's economic history and the rapid changes that the country is going through. Structurally the book is divided into five major parts — Growth and Economic Reforms; Poverty, Inequality, and Economic Reforms; Macroeconomics; Transforming India; The Government. His analysis virtually covers all the major scholarly and policy debates and controversies that have arisen in recent years in various areas of policy. Of particular relevance is his insight into the linkage between growth, equity and poverty alleviation. As he himself states, the book is an attempt "to offer an analytical account and interpretation of the major economic development in post independence India" and "provides a detailed discussion of where the policies currently stand and a road map of the future reforms necessary to accelerate and sustain growth".

There are two aspects that the book does not attempt to cover — state level policies and the fiscal relations between the central government and the states. Interestingly, he has structured his analysis of the political economy of India (Part I) into four segments: 1951-65 take off under a liberal regime, 1965-81 socialism strikes with a vengeance, 1981-88 liberalisation by stealth and 1988-2006 triumph of liberalisation. The chapter heads are provocative and provide for stimulating reading and the comparison between the growth stories of India and Korea enables us to get a perspective of what was right and what went wrong for India.

In Part II, where he studies the issues of poverty, inequality and economic reforms, he argues that "pre-occupation with growth and lack of concern for the poor was not at the centre of failure of India to achieve substantial reduction in poverty till 1980's" and the "key failure was the pre-occupation with equity, which led to adoption of policies that were anti-growth and anti-poor". He favours cash transfers and using of vouchers for both education and health services for poverty alleviation, in view of the fact that there are huge leakages in schemes that have provisions for employment guarantee and the poor quality of our health and educational services. He calls for far greater private sector involvement in both primary health and education.

On the macro economic front, the book covers all the major areas of inflation, large public debt (accompanied by large fiscal deficits), current account and capital account convertibility, the present status of our capital markets and the need for the development of corporate born markets. He also looks at the opening up of the insurance and pension sectors with suggestions for reform and change. He correctly analyses that the financial sector in India is still insufficiently developed.

For trade, India is still far from integrated with the world economy, he argues. He is of the view that agriculture in India is heavily protected by high tariffs, even though he admits that agricultural subsidies in the developed world have still to be disciplined. This argument is difficult to support considering that agricultural subsidies, particularly in the US, are opaque and a very clever methodology of box shifting (in WTO terminology) has been taken recourse to both by US and EU to park their subsidies.

The underlying theme is towards greater trade liberalisation through the multi-lateral route and in the area of manufacturing the need to promote large scale manufacturing of labour intensive products. He rightly believes that taxation instruments like the fringe benefit tax and the transaction tax distort. He gives SEZ a qualified yes, provided that labour intensive manufacturing come up within the SEZs. Criticising rigid labour laws pursued in this country, he considers them an anathema to the growth particularly of labour intensive industries.

The book makes a comprehensive study of tax reforms, the changes required in the civil services and other issues like privatisation, the infrastructure sectors of telecom, electricity and transportation and the social infrastructure reforms required in health and education, water supply and sanitation. In a revealing paragraph he comes out as a severe critic of the IAS. "Enormous power combined with near absence of competition, punishment or accountability, has made many officers arrogant and self indulgent". As a retired member of this service, it is necessary to qualify his comments. We have to accept the fact that in spite of the complex framework in which the administration in India has to operate, the contribution of many of our civil servants to India's growth should not be underestimated.

An extremely useful reference book for any person who needs to be aware of the political economy of India, especially for politicians, civil servants and others engaged in the making and implementation of public policy.

**The reviewer is a former commerce secretary**