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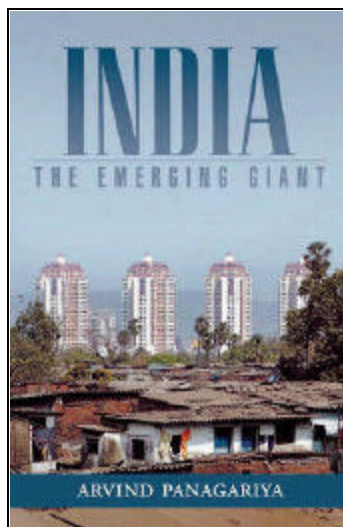
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Rising economic player

S.L. RAO

A comprehensive analysis of the Indian economy from the time of the First Five-Year Plan



INDIA — The Emerging Giant: Arvind Panagariya; Oxford University Press, 198 Madison Avenue, New York. NY 10016-4314. \$ 39.95.

Arvind Panagariya is a distinguished trade economist, professor at the Columbia University and an excellent communicator who through his newspaper columns has placed economic issues in their social and political contexts and made them explicable to the lay reader.

This book draws on this experience. It is a comprehensive history of the Indian economy from the time of the First Five-Year Plan of 1951. It is not limited to examining selected aspects of the economy but considers the relationship between different aspects. Indian economists, like Indian policy-makers, have tended to look at specific issues and neglected the interactions between different sectors and issues. Panagariya constantly relates policies to political leaderships, economic concepts to practice, analyses a vast amount of data to support his conclusions, looks closely at the infrastructure, social sectors and not merely at poverty levels, industrial policies, agriculture, taxation, and public finance.

Current debates

He analyses current debates (like using foreign exchange reserves to fund infrastructure investments) and suggests practical policy directions for every issue that he discusses. For example, he relates poor industrial progress to restrictive labour laws dissuading the organised sector from entering labour intensive industries. He discusses in detail the many infirmities in providing health, education, water and sanitation to the majority of people. He analyses required tax reforms, necessary subsidies to the poor and how they can be given efficiently, the mistake of ignoring the critical importance of international trade for a poor country, the infrastructure and how recent reforms have worked, while attributing poor implementation to hidebound procedures and the infirmities of the civil service set-up.

He shows convincingly that policy focus on equality often harms the fight against poverty. The present government has achieved less reform than the earlier NDA coalition, principally because of opposition from the Left. The Left had also opposed Shastri when he set the Green Revolution in motion, fearing American influence. He recognises the proclivity of American administrations to push India as did Johnson with the PL 480 food grain supplies. He also refutes the pleas for full convertibility of the rupee and supports the gradual relaxations that India has followed.

Four growth phases

The book divides the years since 1951 into four growth phases: 1951-65 at 4.1 per cent, 1965-81 at 3.2 per cent, 1981-88 at 4.8 per cent, and from 1988 to 2006 at 6.3 per cent. The restrictive period under Indira Gandhi's rule with her 10-point programme held the economy back and kept poverty levels high. They have dropped sharply since 1991. He demonstrates that growth in the Rajiv Gandhi years was at the cost of weakening the macroeconomic condition and that the years since 1988, especially 1992, show more sustainable growth. He considers a macroeconomic crisis (like in pre-1991) unlikely in the near future because of the gradual reduction of the fiscal deficit, more openness to trade, foreign exchange reserves, and removal of restrictions on industry.

He seems to accept government claims on reducing fiscal deficits, though government figures do not provide for the large and growing Rupee bonds for supporting the oil and FCI subsidies, which are not counted in the fiscal deficit. He recognises the stimulating role of large public expenditures when there is growth and finds a close relationship between trade openness, growth and poverty alleviation.

Neglect of agriculture

He bemoans the neglect of agriculture in favour of heavy industry. He analyses the rising farmer suicides in a few states and proposes agricultural diversification, contract farming, and reform of agricultural marketing, rural roads, power and irrigation, and guaranteed land titles, as essential for improved agricultural growth and incomes, along with agricultural labour moving into labour intensive organised industry.

He blames the complex labour laws for the dependence on agriculture and the huge informal sector for employment. Powerful labour inspectors, provision of facilities on premises, safety provisions, overtime, Provident Fund, health insurance, limited rights to reassign or fire workers, lack of speedy resolution of industrial disputes, and absence of option for firms to exit at reasonable cost (because of antique bankruptcy laws) have disproportionately strengthened the hand of the unions in the organised sector and made wages in the private formal sector 1.8 times those in the private informal sector. This has raised wage costs in unskilled labour intensive industry as against the capital intensive industries, and has held back India's growth of labour intensive industries unlike in China, Bangladesh and Sri Lanka.

This is among the best books and certainly the most comprehensive study of the Indian economy since Independence. It is easy to read despite the immense erudition that the author has brought to bear on the different issues. Except for the fiscal deficit calculations, the influence of the Left in tempering economic with social reforms, and the neglect of the consumer goods industries and their influence on growth, there is nothing one can find to criticise in this book. It is a valuable addition to the libraries of people interested in understanding the past, present and future of the Indian economy.

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