ARTNeT

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

BOOK REVIEW

NO. 31 | 2017

Why Growth Matters

Jagdish Bhagwati and Arvind Panagariya, Public Affairs, 2014, 304 pages. Paperback. $17.99. ISBN 978-1610393737.

Even as protectionist policies resurface and gain traction around the world, *Why Growth Matters* by Columbia University economists Jagdish Bhagwati* and Arvind Panagariya (also the National Institution for Transforming India Aayog Vice-Chairman), offers a vision of growth driven by engagement with the world market and comprehensive reforms to dismantle India's corrupt license-permit raj. With lucid arguments, powerfully salient examples and a wealth of research, *Why Growth Matters* is the definitive tour guide through India's economic past of failed socialist policies, its present struggles with over-regulation and its future of economic reform and inclusive growth.

Having experienced first-hand the effects of India's anti-market fundamentalism and autarkic policies during Indira Gandhi's presidency, the authors sharply admonish those who deny the benefits that liberalizing reforms in 1991 have brought. "Anyone who has had to ride for an hour and a half in a Delhi bus –as Bhagwati did twice a day. . . — will not scoff at the notion that one might improve the service by letting in the private sector" (p.89). But even as the authors advocate expanding market mechanisms and sharply criticize purely redistribution centered policies, their profound sensitivity for the underprivileged constantly reminds the reader that growth is ultimately for the purpose of helping "the poor man who slept on a charpoy" (p.89).

As a testament to the sway that remnants of socialist ideology continue to exert over Indian economic policy, the first third of *Why Growth Matters* is devoted to explaining the role of liberalizing reforms in the 1980s in bringing the Indian economy out of its "sorry plight" in the previous decades (p.28). Indira Ghandi's redistributive agenda in nationalizing large sections of the economy took the economy into a nosedive and left "too few from whom the government could take and too many to whom it needed to give" (p.19 and p.41). Sustained growth that drew the poor into gainful employment and generated the additional revenues necessary for social programs became possible only after the 1991 reforms that stimulated entrepreneurship and trade liberalization.

Indeed, the authors resoundingly debunk the myth of the much-hailed Kerala model of development through redistribution and public spending without relying on growth: high per capita income due to having had access to the world market prior to India's independence as well as private expenditures, not government intervention, remain at the heart of Kerala's remarkable achievements in health and education. According to the available evidence, even "[] low-end unrecognized schools have produced outcomes superior to those of their public counterparts operating in the same geographical area" (p.194). It thus becomes unsurprising that government intervention has ultimately failed to deliver the gains that growth based policies have brought to other Indian states like Gujarat.

Problems plague the evaluation of economic policies. For example, improper benchmarking: "if we measured poverty by the ex post calorie consumption, we would be tempted to offer free food to Bollywood actresses trying to stay slim on low calorie diets!" (p.168). Rather, the proper question is, *ex ante*, how many calories can the individual afford. Moreover, the criticism of rapid economic growth not being accompanied by equally strong progress for social indicators in states relying on growth rests on misjudging a low level of outcome for a low rate of progress (p.78). In many dimensions including literacy rates and key indicators of health, Gujarat despite beginning the race at a clear disadvantage, "unambiguously beats" Kerala in the gains made by turning to growth rather than redistribution (p.74).

In the rest of the book, the authors offer a comprehensive recipe book of large and small reforms to sustain and accelerate growth for ultimately providing greater benefits to the poor. Divided into "Type I" and "Type II," the reforms either target inefficiencies hindering growth, Type I reforms, or more efficient redistribution, Type II. By specifically highlighting redistribution in the context of growth, the authors' reforms turn accepted models of growth and international trade into an inclusive set of plans that can ensure no individual is left behind as the economy as a whole improves.

As a first order of business, the multitude of anachronistic labour laws perversely encouraging the flight of Indian entrepreneurs from labour-intensive to capital-intensive activities must go. The complex framework of regulations, for instance, banning women from working between 7p.m. to 6a.m. and requiring large firms to seek permission from the labour department to lay off its workers, create a rigidly inflexible market in which "unwitting noncompliance in one or more areas is inevitable" (pg.113). Labour laws targeting large establishments particularly discourage all but the most productive large firms from forming. Yet, ironically, large productive firms are the only firms able to access economies of scale and parlay India's abundance of labour into a comparative advantage in the world market. Thus, labour laws must be updated to meet India's current economic needs.

Purposeful deregulation and privatization becomes a theme in other growth-oriented reforms. In government procurement, land acquisition for private projects should be accomplished by direct negotiation between private parties rather than through legislation that currently "enables a rip-off of private landowners by unscrupulous state governments and large industrialists" (p.126). In education, private colleges and universities are needed to "accommodate the bourgeoning young population" (p.138). The government should pay a student's fees upfront, and only when the student's income researches a threshold would they be required to pay back the costs, thus granting students the freedom to join the institution at which the highest net returns are expected. However, in updating and building infrastructure, the authors concede the need for India's government, rather than the private sector, to undertake these projects.

In trade, applied tariffs on industrial products need to be reduced below the current simple average rate of 12%. "[T]rade openness in a labor-abundant economy stimulates growth in general and the expansion of labour-industries in particular so that it can be expected to lower rather than raise poverty" (p.43). Yet, despite providing numerous reasons supporting trade openness, the authors do not specifically address why an industrial tariff rate of 12% is too high for India's current economic structure.

Devoting an equal amount of attention to redistribution as to economic growth, the final proposed reforms are aimed at "more effective and inclusive redistribution." They are refreshing and uniquely suitable to India's struggles with corruption and governance. Rather than public provision of goods and services in-kind, which leads to "massive leakages" and "rampant corruption," the authors advocate unconditional cash transfers for most needs. For instance, in of the process of being transported, millet, wheat, and rice for public distribution are washed off by rain, eaten by pests and rats, and are left to rot! Not only are the grains wasted, but they also do not benefit the targeted recipients; the poor receive only 10.5% of food subsidies.

Yet, while NGOs and countries have experimented with unconditional cash transfers on a small with generally positive results, support for such transfers on a scale proposed by the authors have lagged (see Holmes and Jackson 2008; Haushofer and Shapiro 2016). Thus, the feasibility of the authors' redistributive reforms remains to be seen.

For good reason, the authors deviate from unconditional cash transfers for the provision of certain kinds of healthcare. Due to positive externalities, the government should provide for preventive public health measures such as vaccinations, since individuals are unlikely to purchase them at a socially optimum amount even after being given sufficient resources. However, for routine healthcare, such as treatment for the flu, the public sector has already proven to be ineffective. Thus, the authors again return to privatization but only after giving cash transfers "to place the financial power to buy health services in the hands of the patients" (pg.182).

The set of carefully thought out and researched-based reforms proposed in *Why Growth Matters* cuts through the molasses of prior policies that trapped the very people they purported to benefit in poverty and leaves the reader with the tools for understanding India's rapid growth today.

Notes

***** Professor Jagdish Bhagwati has been serving as an adviser to the ARTNeT Secretariat since 2005.

References

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