# Book-review India's Long Road: The Search for Prosperity

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**Book-review**

***India's Long Road: The Search for Prosperity*** (word-count: 2226)

Book Author: Vijay Joshi; Oxford University Press (2016). ISBN: 0190610131

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## Introduction

What policies and policy reforms can put India on the path of rapid and sustained economic growth and hence prosperity (defined in this work as average incomes close to Portugal's and where national income is widely shared to ensure reasonable living standards for the poorest)? The analytical lenses coming from neoclassical economics—predictable given Dr Joshi's training and subsequent affiliations—the book delves into, not only the probable explanations underlying India's suboptimal economic growth and development performance, but also outlines the required policy initiatives to improve economic and social development outcomes. Several reforms suggested, such as in public health, are indeed critically impending ones (Chapter 9).

## Unpacking the Hindu rate of growth

Compared to under 1 percent economic growth between 1900 and 1950, a period when countries like Germany used active Hamiltonian policies to build technological capabilities, India, a manifestly free market then, achieved a rather commendable 3.5 percent growth between 1950 and 1980.[2] Labelled 'Hindu growth', India's economic growth performance was indeed suboptimal when compared to Korea (as the author notes; Chapter 1). Explaining India's suboptimal growth performance, the author had this to suggest in a recent discussion on the book:

> *"…India, in my judgment, is still recovering from a bad case of old-fashioned socialism..."*[3]

The book offers a similar formulation linking the Hindu rate of growth to India's statist command and control policies. Dr Joshi suggests that planning-driven dominance of state-owned firms in economic activities, licensing and protectionist trade among others—signifying a "general contempt for the price-mechanism"—produced inefficiencies and distortions that acted as a drag on economic growth (Chapter 2). To describe the divergent path in countries like Korea, the books suggests the latter's better initial conditions such as higher literacy (Chapter 2).

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[1] Research Officer, South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu, Nepal. A shorter version of this has been published in TRADE INSIGHT (Volume 10, August 2017), SAWTEE flagship periodical, a periodical on trade, industry and development in South Asia. Available at http://sawtee.org/publications/Trade-Insight40.pdf (p 37-38)

[2] See for instance, Gerschenkron (1962) which discusses the German growth story

[3] Corden lecture at Faculty of Business and Economics, University of Melbourne. See (George 2017)

While literacy rates were certainly better in Korea (and so was its infrastructure, for instance), scholars have argued that the planning by the state is not merely about distortions (or socialism) and that in fact, the Korean catch-up story is significantly about credible planning (for instance, the Korean industrial policy; Evans 1995). The Korean bureaucracy did not just hand out industrial policy rents; these rents were conditional on meeting performance targets and upon non-performance, there was a credible threat of withdrawal of such rents (ibid.).

In terms of differences in initial conditions, it appears that it is not just literacy but several institutional dynamics that differed—so, because of specific evolutionary processes—and which has intricate and not-so-straightforward links to Korean catch-up story (Kohli 1994). These institutions—several related to state-planning mechanisms—such as a highly effective bureaucracy, went on to influence significantly (and positively) the development outcomes. Emphasizing the context-specific evolutionary processes, Kohli (1994) observes that in Korea, a highly repressive Japanese colonialism (1905-1945) transformed the ineffective and corrupt Korean bureaucracy to a highly repressive and deep-penetrating institution capable of altering state-society relations (Kohli 1994). Unlike countries like Pakistan and India where rents could be kept endlessly without meeting targets by buying political support, such organizing capabilities were significantly dismantled by Japanese colonialism; hence the bureaucracy could discipline firms (Kohli 1994; Khan 2010).

Notwithstanding the somewhat ideological theorization towards the so-called Hindu growth rate, India's development outcomes (in metrics like the number of people below poverty line, Chapter 2) in the three decades between 1950 and 1980 were indeed not very encouraging. In this, several shocks—droughts, wars and the 1970s oil-shock (in the 1960s and 1970s)—constrained sizably the capabilities of the state. These dynamics have been captured well in one of Dr Joshi's previous books (See Joshi and Little 1998). How did India escape the Hindu rate?

**Structural break and marketization**

Dr Joshi attributes the structural break (1979) and the subsequent increase in economic growth to "marketization, hesitatingly first, explicitly then (Chapter 2)". The work, however, completely ignores how state interventions between 1950 and 1980 had built the foundation for rapid growth. Indeed, the interventions led to emergence and success of many competitive sectors of today such as automobiles, IT and pharmaceuticals. Public Sector Undertakings (or PSUs) like Bharat Electronics Limited, founded in 1954, functioned as a training ground for thousands of engineers; essentially the groundwork for turning Bangalore into the Technopolis of today (Evans 1995). Others have stressed on how the prestigious Indian Institute of Technology and Indian Institute of Management graduates form the core human resource base in sectors like IT and manufacturing (Rajan 2006). Both institutions are part of the Nehruvian legacy.

Achieving rapid and sustained economic growth for three decades or more, considered a path to developmental structural transformation, has been increasingly difficult as only few countries like Korea, Taiwan and in the recent years only China, have been able to do so (highlighted by the author in Chapter:1). The role of the state in the three contexts has been far from being a gatekeeper whether it is aiding technological learning through active industrial policies or institutional experiments and learning (Kennedy and Stiglitz 2013). At the risk of oversimplification, there has been in action, a mix of 'old-fashioned socialism (state- ownership of banks and firms for example)' and capitalism in the three cases of developmental structural transformation. Consider this: The extremely competitive automobile sector (India in FY16 has exported more cars than China), its foundation was laid in 1982 when Suzuki was roped in for a joint-venture (JV). The JV became possible because the highest political leadership was committed for it while capable Indian bureaucrats were scouting for the potential partners (Khan 2015; Kulkarni 2016). Maruti-Suzuki started off amid heavy protection (85% tariff) conditional upon time-bound local content requirements (Khan 2015). Since then, expansion in the automobile sector has led to development of credible linkages such as emergence of large number of world-class auto-component manufacturers (ibid.).

**Ingredients of growth and plight of informal workers**

Dr Joshi argues that despite the ingredients—macroeconomic stability, no serious conflicts and non-extractive governance—India grapples with suboptimal mostly jobless economic growth and even poorer development outcomes. Most economic research including this work observes that India has missed the labour-intensive industrialisation bus due to factors like, *inter alia*, India's restrictive labour laws (Besley and Burgess 2004). This line of research, while widely cited, has been contested suggesting that laws may not be a binding constraint for a country like India (Bardhan 2015). Indeed, much of those employed, over 80 percent, are in the informal sector. Despite churning out half the industrial output, the informal sector workers, other than being miserably paid, are vulnerable and voiceless (Chapter 5). The current exploitative order that has persisted rather dangerously in India, perhaps solely benefits capital albeit only in the short-termist narrow sense. The adverse rent seeking dynamics perhaps explain the burgeoning inequality and the fact the major capitalist houses in 1947 continue to be prominent capitalists of today (Rangarajan and Dev 2018).

**Industrial policy**

Dr. Joshi contends that India's inability to expand labour-intensive manufacturing is to do with constraints like poor infrastructure, lack of credible skills among workers, poor credit access, minimally conducive business environment (corrupt tax officials) and the employment protection laws (that require firms above a certain size to obtain permission for, *inter alia,* laying off workers, Chapter 6). On whether credible industrial policy interventions are a potential policy measure, the author suggests that such interventions –

‘requires a smart, dispassionate and benevolent state which can ‘pick winners’ (See Chapter. 6).

Dr Joshi goes on to argue that countries like India should avoid the primrose path of such policies because such policies have a thin ‘empirical case’ (Chapter 6). Dr. Joshi’s brief observation on industrial policy is rather narrow and in fact reflects a poor understanding of, for instance, the centrality of industrial policy-induced learning to acquire production capabilities and how such capabilities are critical for firms to produce competitively (Andreoni and Chang 2016). Indeed, with deindustrialization in developed countries and minimal attainments in industrialization in the developing countries, increasingly, industrial policies are now widely considered critical to economic development (ibid.). Is Dr Joshi’s aversion ideological, which equates industrial policy with nothing more than rent-seeking (which is extremely shaky scholarship to suggest the least)? Potentially, but this position contradicts the author’s philosophical premise that dispassionate and objective (read rational) approaches are the most effective.

**Social development and public health**

While there have been improvements, India continues to fare poorly in social development outcomes such as nutrition, infant and maternal mortality and open defecation rates (Coffey and Spears 2017). India’s performance compares poorly to several of its regional peers who have significantly lower per capita incomes (ibid.). Though debated on technical grounds such as high stillbirth numbers in Bangladesh offsetting its lower infant mortality rate compared to India, it is widely agreed (including in this work) that social development has problematic in India (See Bhagwati and Panagariya 2013 for the technical grounds; Chapter 9). Dr. Joshi insightfully dwells into how public health interventions such as immunization, basic sanitation, nutrition and other preventive and promotional healthcare measures—evidenced to impact overall health outcomes significantly—are largely neglected and underfunded (less than 10% of state health expenditure, Chapter 9). In explaining the public health neglect, the author refers to into history and political economy. Dr Joshi observes that a powerful medical lobby got public health merged into medical services in the early years after independence (p 189). In a display of his erudition, Dr. Joshi evidences that the Indian state of Tamilnadu, which has relatively better health and overall social development outcomes, bucked the broader trend by retaining a dedicated public health service. For a host of reasons including an inappropriate incentive structure, medical services, associated largely with curative health, addresses only partially the overall health-related challenges (Chapter 9).

**Subsidies and deprivation**

Widespread multidimensional deprivation has been common in India despite dozens of targeted subsidies and welfare programs. While welfare entitlements have indeed played a role in tackling extreme deprivation and hunger, chronic poverty is rampant. Nearly half the labor force is into low productivity agriculture and over 200 million people are below the poverty line (Chapter:10). To alleviate extreme deprivation and bring about reasonable living standards, the author proposes a universal basic income (UBI), which can raise incomes to the poverty line level.

UBI, the author estimates, will require funding at around 4 per cent of the GDP and that the fiscal space can be created by freeing up resources from existing subsidy programs which, as is widely evidenced, have not been effective (Sen 2014). In building the case for UBI, Dr. Joshi evidences that targeted subsidies such as the Public Distribution System (PDS, subsidized food grains), are exploited by unintended beneficiaries (though this lot perhaps is not necessarily well-off); often by diverting grains to the black market (Chapter 10). The author documents cases in the state of Chhattisgarh where over 90% households are enlisted as Below Poverty Line (BPL) while the number of BPL cards issued exceeds the overall population. The section on UBI documents the failures of targeted subsidies but also highlights intricacies in designing public policy. In Tamilnadu, unlike Chhattisgarh, the leakages in targeted PDS are under 10 percent (Chpater:10). The author evidences similar complexities in other welfare programs like National Rural Employment Guarantee (NREGA) where, despite problems like delayed payments and leakages, it is relatively efficient and benefits the poorest due to attributes like self-selection where only the poorest turn-up.

**Confronting rent-seeking**

To tackle the leakages in targeted PDS, Dr Joshi suggests, *inter alia*, replacing the multitude of subsidies (in-kind) with Aadhar (National Biometric Identity Card) linked cash transfers (p 206). Indeed, and as Dr Joshi notes correctly, India certainly has the technology to implement cash transfers. On resources, the author argues, largely correctly, that much of the subsidies—for instance, on fertilizer, coal, electricity and railway fares—largely benefit the thriving and often promote, for instance, unsustainable overuse. The author estimates that non-merit subsidies are roughly 12%, of the GDP and that resources can (and must be) freed up to finance the UBI (Chapter 10). However, the proposition that non-merit subsidies can be reduced to fund a UBI, indeed a reasonable proposal which has been proposed repeatedly, raises a host of fundamental questions.

Subsidies such as in fertilizer or agriculture being tax-free, are essentially rents and redistribution mechanisms to powerful factions which can destabilize the regime (Khan 2010). The rents, distributed through legal as well as non-legal means, fuel the patronage network and ensure their loyalty. The rents are a necessary element to ensure the political equilibrium, in absence of which there may not be political stability. Owing to these intricate dynamics of governance, recently outlined also in the World Development Report 2017, the subsidies are here to stay till major structural transformation takes place where there are several competitive sectors that enable arms-length based functioning. After all, several governments have come and gone by but the competitive-clientelist order, certain variants of which have and continue to produce growth-enhancing stability, remains intact.

**Conclusion**

For India’s continental size and heterogeneities among, for example, the states and their level of development, it is indeed a challenge for any scholar to provide a macro perspective on development policy and at the same time, address numerous heterogeneities. In this sense, the book, with nearly 500 works in the bibliography, does well to address several questions it asks. However, and as can be established from Hume's law, no normative prescription is derived from a positive analysis unless there is a normative idea as an assumption. It is for readers to infer for themselves the normative assumptions in this extremely useful scholarly work.

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