



## A “Myth-Buster of a Book”

BY PRAVIN KRISHNA

### A review of

**Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries**, by Jagdish Bhagwati and Arvind Panagariya, PublicAffairs, 2013

**T**he freeing of India’s economy from the shackles of governmental restrictions, through a process of market-oriented reforms initiated in the early 1990s, constitutes a momentous turning point in modern economic history. Despite the failures of the prior economic regime to bring any real progress and the obvious chokehold that the accretion of socialist policies had exerted on the Indian economy, the reforms were born out of neither an intellectual consensus nor a political one. Instead, they had been occasioned by the 1991 balance-of-payments crisis that necessitated International Monetary Fund support with its associated pro-market conditionalities.

More surprisingly, even today—despite the two decades of robust economic growth that have followed the reforms—no consensus view prevails. Instead, we are witness to a high-decibel discourse awash in myth, ossified ideologies, and an often-willful ignorance of the facts. Central to the anti-reform narratives runs the conceptual claim that economic growth is neither necessary nor sufficient to alleviate poverty and that what is needed instead is a redistribution of incomes from the rich to poor. In parallel runs the complaint that, in practice, the Indian reforms have lacked any “human” element: that they have not reduced the ranks of the poor, that they have bypassed and possibly worsened the condition of socially disadvantaged groups, and that they have led to a widening inequality of incomes and wealth.

Enter Professors Jagdish Bhagwati and Arvind Panagariya, two major scholars specializing in international

economics and development, with *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries*. In this splendid myth-buster of a book, the authors, both widely regarded as the leading intellectual forces behind the Indian reforms, provide a comprehensive list of popular anti-reform and anti-market myths, which they then systematically demolish using an impressive array of statistics, economic reasoning, and fact-laden discussions of the economic and institutional history of modern India.

First, some numbers. As Bhagwati and Panagariya point out, the annual growth rate of GDP increased significantly in the years following the reforms, from an average of around 4 percent (the infamous “Hindu” rate of growth) in the pre-reform decades (1951–1990) to around 8 percent in the last decade (2003–2012). The poverty ratio (the fraction of people living below the poverty line) in both urban and rural India fell from nearly 40 percent in the immediate pre-reform years, 1987–1988, to just around 20 percent in 2009–2010, with the absolute numbers of the poor falling by around 200 million people in this time period. Moreover, this sustained period of economic growth alongside the liberalizing reforms reduced poverty among all broadly defined social groups, including among the socially disadvantaged groups, the “scheduled castes” and “scheduled tribes” of India. Uniform progress was also recorded on a number of socioeconomic indicators, ranging from literacy rates to life expectancy and malnutrition rates.

Furthermore, if development fundamentally consists of the removal of “un-freedoms,” as Professor Amartya Sen has often reminded us, India can certainly count much developmental success since the reforms. Consider, for

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instance, the miracle of the cellular phone, which the largely private providers of telecommunications services in India have placed in the hands of over three-quarters of a billion subscribers within just more than a decade. From farmers in rural areas, who can check the reference prices of their outputs with their phones and thus are less likely to be defrauded by intermediaries, to bank customers, who receive instant transaction notifications via SMS, to migrant workers in urban areas who are able to make remittances to their rural families through mobile banking and payments services offered by domestic entrepreneurs, cell phone technology has created more economic freedom and redistributed economic power, often to the benefit of the poor. As Bhagwati and Panagariya convincingly argue, the manifestations of such innovation and progress are pervasive, with improvements in the provision of a wide range of private and public services that are readily evident to even the most casual of observers.

## India has provided the world with a textbook example of the benefits of economic liberalization.

For countries such as India, which achieved independence with an overwhelming proportion of their populations living in abject poverty, there were “too few from whom the government could take” and “too many in need to whom the government needed to give.” Lacking growth, redistribution itself could never have done the job. As the authors point out, this was the essential wisdom in Jawaharlal Nehru’s insistence that for poverty to be reduced, “national income had to be greatly increased.” It is also clear from their analysis that without the burst in India’s growth rates during the post-reform years and the revenues it generated, large-scale redistributive programs such as the National Rural Employment Guarantee Scheme would have never been possible.

Without a doubt, much remains to be done. India’s labor laws remain highly restrictive. For instance, the Industrial Disputes Act of 1947 makes it nearly impossible for firms with a workforce of more than a hundred people to lay off workers under any circumstances, with similar

restrictions applying to firms with more than fifty workers. This has led to nearly 85 percent of workers in Indian manufacturing firms being employed in small-scale (lower productivity, lower wage) firms with fewer than fifty workers (in sharp contrast with China, where the corresponding figure is a mere 25

percent). Infrastructure improvements are badly needed. Vast numbers of Indians remain stuck in poverty, despite all the progress that has been made. Education and health services are in need of dramatic improvement. Inefficiencies and corruption still pervade most levels of government. And the rapaciousness of the country’s political and business elite remains in full evidence.

Bhagwati and Panagariya call for future reforms to proceed along two tracks, with “Track I” reforms aimed at accelerating and sustaining economic growth and “Track II” reforms focused on making redistributive programs more effective. The book offers a number of valuable suggestions on how government programs may be better designed and better implemented, for instance, by the suitable use of conditional cash transfers and a combination of public and private supply of necessary services.

For all of the challenges that lie ahead, India has provided the world with a textbook example of the benefits of economic liberalization. And Bhagwati and Panagariya have provided us with the essential textbook with which to understand the Indian reform experience and the vast benefit to humanity that has been achieved as a consequence. This important book, masterfully written in a sophisticated and playful, yet punchy, debating style and peppered with sparkling wit throughout, serves to expose the intellectual clichés and compromises of the romantic left, while itself occupying the pragmatic and experientially informed center. It is required reading for anyone concerned with the dominant moral imperative of our times—the task of eliminating poverty worldwide. ◆

