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### Title

Guest Editor's Introduction: India's Economy: Growth, Governance, and Reform

### Permalink

<https://escholarship.org/uc/item/295641jc>

### Journal

India Review, 14(1)

### ISSN

1473-6489

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### Publication Date

2015-03-03

### DOI

10.1080/14736489.2015.1001265

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Peer reviewed

## **India's Economy: Growth, Governance and Reform Introduction to the Special Issue**

Nirvikar Singh  
December 11, 2014

“*India Review* publishes social science research across disciplines on Indian politics, economics, society and international relations.” This is the avowed aim of the journal in which appears this introduction and the collection of articles that follow. Yet there has been a powerful and long-running trend toward specialization, so that journals focus on particular fields and sub-fields. Among the social sciences, economics is prominent as a representative of these forces, though by no means the only discipline to follow such a route. However, this has not led to a distribution of attention and access that comes even close to matching what might seem to be consistent with the origins of economics as “An Inquiry into the Nature and Causes of the Wealth of Nations.” For example, Das et al.<sup>1</sup> examined articles published in the top-five economics journals from 1985 to 2004 (a 20-year span) and found 2,383 papers on the US, 65 papers on China, 39 papers on India, and 34 papers on all of Sub-Saharan Africa. The latter three countries and regions, of course, are significant in encompassing the great majority of the world’s population that are attempting to bring their material well-being to levels that might be considered morally acceptable in the modern world. So the geographic bias of economics journals is one reason for conceiving and putting together this special issue of *India Review*.

However, it might be argued that the Indian economy has already generated a large number of overviews, analyses and narratives from among the large and distinguished cadre of (mainly Indian) economists who think about the subject, published in the form of books rather than in journals. This is indeed true. Some of these books are single-authored or co-authored,<sup>2</sup> which would differentiate the collection being introduced here. But there are also significant and important collections of essays on the Indian economy, each with its own group of multiple, prominent contributors.<sup>3</sup> The current collection is indeed close to the last category. What differentiates this set of articles from all the other collections that have come before? Perhaps the main factor here is timeliness, and the novelty that comes with it. Many collections of papers on a topic such as the Indian economy undergo a long process (often beginning with a conference) of finding a publisher, getting reviews and revisions and winding their way through the

conventional book publishing process. Journals operate on a somewhat more compressed time scale.

The precise timing of this collection is also relevant for why it exists and why it might be valuable. The editor of the *India Review* looked ahead, just over a year ago, to the looming elections in India, and asked me to take on this task. Authors were selected, and begged and cajoled into writing for this special issue, precisely in the context of what seemed to be, and probably will be, a major inflection point in the trajectory of the Indian economy – and its polity. Not everyone I asked felt able to accept, and there are certainly some holes in the current set of pieces, but I think this collection brings together a remarkable – and diverse – group of perspectives on India’s economy, as well as some of its politics. I would like to think that this diversity, reflecting a range of expertise as well, also differentiates the current collection from previous ones on the Indian economy. The authors include senior scholars, both pure academics and those who have also served in important policymaking roles. They have also brought in rising younger scholars as co-authors in some cases. Most of the contributors are economists, naturally, but there are also political scientists and a management science expert.

To continue with the theme of motivating the current collection of analyses, one can frame the basic issues in terms of some straightforward questions. The fundamental concern, of course, is the trajectory of improvements in material well-being for the nation of India. The focus is therefore narrower than a more comprehensive measure of well-being,<sup>4</sup> and while the Human Development Index has drawn attention to outcomes in health, education and access to basic needs as worthy of independent attention, there is a certain simplicity in concentrating on Gross Domestic Product and its growth as a summary measure of progress. Some aspects of broader concerns about measuring welfare can still be captured through attention to the distribution of the fruits of growth, and this is now often framed in terms of the inclusiveness of the observed average growth of the entire nation.<sup>5</sup> Nevertheless, the pieces in this collection, while often addressing inclusiveness, mostly sidestep deeper philosophical questions of measurement of progress, and are unified by a desire to answer the question of “how can Indian GDP grow faster?”<sup>6</sup>

To answer the basic question just posed, it is, of course, crucial to understand the country’s past growth experience, and several of the pieces in this collection provide useful summaries and

analyses. Understandably, I am also partial to my own analytical narrative,<sup>7</sup> which draws on several major earlier studies, including those referenced in endnote 2. Elements of the argument in my earlier piece include the standard issues of the boundaries between and relative roles of the state and the market, the interaction between economics and politics, and the challenges posed by India's heterogeneity and social stratification.<sup>8</sup> Despite recent and continuing debates about social insurance schemes and the provision of basic public goods, my impression is that there is much greater consensus now than there was a couple of decades ago, with respect to economic policies for India and the directions in which they should change. No one can imagine an India with the kind of restrictions on international trade or industrial investment that once existed, although there are still major concerns and questions about the best ways to protect the weak or disadvantaged when capital has freer rein. Instead of grand debates, much of the discussion is about the devilish details of reforms that will help the Indian economy to grow faster, while also promoting a broad sharing of the fruits of rapid growth. This nitty-gritty approach underlies or even dominates all the papers in this special issue.

There are nine papers in this volume. Barry Bosworth and Susan Collins provide a growth accounting analysis of India's recent experience, building on their extensive previous work, including some with Arvind Virmani. They examine trends in total factor productivity growth, and possible reasons for India's recent growth slowdown, especially structural constraints, macroeconomics imbalances, and the "failure to maintain the prior pace of economic reform." Bosworth and Collins' paper provides an excellent overview of India's growth record as well as some discussion of prospects, covering some familiar ground, but setting the stage for the papers that follow.

The second paper, by Maitreesh Ghatak and Sanchari Roy, also examines growth experiences, but in a very focused way. Building on their own earlier work, and motivated by the election campaign rhetoric lauding the now-Prime Minister's record as Chief Minister of the state of Gujarat, the authors perform an econometric analysis to see if Gujarat's growth and poverty reduction records under Narendra Modi differed significantly from earlier periods. The key here is controlling for other factors, and the authors have done so carefully, as a result, finding no difference. On the other hand, they do find a significant improvement in growth performance in Bihar under Nitish Kumar as Chief Minister. The authors are careful not to claim any causal

links, but their work certainly deserves to be extended, as another step in understanding how political leadership in India relates to economic performance.

The paper by Ashok Kotwal and Arka Roy Chaudhuri also examines the issue of leadership and economic performance. After summarizing some aspects of India's recent growth record, and arguing that the previous government's performance was not obviously so poor as to explain voter dissatisfaction, they discuss the changing nature of citizens' aspirations, perceptions of corruption (something addressed by Bosworth and Collins as well), governance institutions more generally, and especially the nature of leadership selection within the previous Congress-led government. The novelty of their treatment is to relate the Indian experience to the more general conceptual frameworks of Daron Acemoglu, Simon Johnson and James Robinson on the one hand, and Douglas North, John Joseph Wallis and Barry Weingast on the other. The former have made a distinction between "extractive" and "inclusive" governance institutions, while the latter emphasize the different impacts of "closed access" and "open access" institutions. Kotwal and Roy Chaudhuri favor the latter framework as capturing well the recent political logic of India at the national level, and argue for an improved political selection process.<sup>9</sup>

M. Govinda Rao's paper on the political economy of government finance in India continues with the theme of governance, but very specifically in the context of government revenues and expenditures. He notes various perspectives on the role and capabilities of government, and distinguishes the demands placed on fiscal policy in the context of a developing country, as opposed to more advanced economies. This is followed by excellent and up-to-date summaries of India's national government's record in tax policy and administration, as well as what has been happening on the expenditure side, in each case marshalling the numbers as well as providing qualitative assessments of what we can learn from them. Another section examines the joint impact of revenue and expenditure policies and outcomes, in the form of deficits, as well as the intertemporal implications of the financing of deficits through borrowing and public debt accumulation. Rao's main message, in addition to summarizing the state of play of Indian public finances, is that the nation's institutions for government finance have deficiencies that are understandable in terms of the political economy of special interests, but that recognizing these shortcomings and their causes provides the intellectual underpinnings for beneficial institutional reforms.

Devesh Kapur and Prakirti Nangia go into detail with respect to an important aspect of Indian public expenditure. They distinguish between basic public goods (including services) such as health, education and sanitation on the one hand, and social protection on the other. Social protection is conceived of as actions to mitigate certain types of risk, especially to income and physical well-being. One class of social protection consists of risk coping programs such as food subsidies and the national employment guarantee scheme, each the subject of recent major expansion efforts in India. Another type are risk mitigation schemes such as life and health insurance. A twenty-fold increase in social protection expenditures over about two decades has involved an enormous expansion in coverage of the country's population. Kapur and Nangia consider explanations from European historical experience, including the progression of rights of citizenship, defense against the vagaries of market forces, distributive conflicts and preservation of social order. The authors argue that none of these are adequate in the Indian context, particularly with respect to the relative evolution of spending on public goods and social protection. Instead, they focus on the visibility of social protection schemes and the fact that the latter are nationally driven, whereas basic public goods are more of a state responsibility.<sup>10</sup> These dimensions of political economy deserve to be highlighted, as this paper has done. How these factors evolve under the new government remains to be seen.

The next two papers in this collection are different in nature from the preceding ones, giving detailed attention to specific sectors. Ila Patnaik and Ajay Shah provide an overview of efforts to design a comprehensive reform of financial laws in India. Both authors led a team that provided detailed technical inputs to the Financial Sector Legislative Reforms Commission (FSLRC), and their paper essentially summarizes the motivation and scope of what the FSLRC has undertaken and recommended. The authors note that the initial reform period in India saw the creation of new regulatory and infrastructure institutions for the financial sector, as well as some liberalization, but that the sector remained plagued by various inefficiencies and distortions. They also summarize recent financial scandals, and the scope of several committees on aspects of financial sector reform. They then go on to discuss the weaknesses in India's public administration institutions that have affected regulatory performance, before going on to provide a systematic conceptual framework for new financial sector regulatory institutions emphasizing how to achieve accountability in the face of pervasive incentive problems. The core of the paper is a careful summary of financial sector legislative reform in nine areas: consumer protection,

micro-prudential regulation, resolution, systemic risk regulation, capital controls, monetary policy, public debt management, development and redistribution, and lastly, contracts, trading and market abuse. The paper is rounded out with a survey of the envisaged new regulatory architecture, and the state of the implementation process. This paper, therefore, provides important insight into the intellectual and practical aspects of a major dimension of Indian economic reform that began under a government that was often viewed as not doing much, or focusing on the wrong things.

If finance is the lifeblood of a modern economy, manufacturing might be thought of as the muscles, embodying innovation and powering growth. This collection has no piece specifically on agriculture or services, though they receive discussion in several of the papers. However, Pankaj Chandra provides an important analysis of the state of the Indian manufacturing sector,<sup>11</sup> in the context of the new government's "Make in India" push. Significantly, while acknowledging India's deficiencies in "infrastructure, utilities, labor laws and practices that govern doing business," all of which have contributed to the sector's anemic long-term performance, the author argues that there is a basic misalignment between capabilities, as defined by existing conditions, and strategies in this sector. For example, small firms in India are often engaged in making things that should be produced in large-scale factories, but they lack the management expertise, skilled workers and access to finance that would allow them to upgrade or modify their production focus. From this volume-variety issue, Chandra goes on to surface confusions about labor intensity of manufacturing, arguing that the real issue is of value added: appropriate strategic deployments of capital (minor automation devices, sensors, and so on) enhance labor productivity and employment. Essentially, he argues that complementarities of labor and capital have been neglected in India's manufacturing policy debates.<sup>12</sup> This leads directly to the author's third point, that Indian manufacturing needs to recognize where the world's technology frontier is currently, and to focus on moving toward that frontier in manufacturing. This will require an enormous push in educating and skilling the workforce, and Chandra explores some implications of his analysis for policy initiatives that integrate skilling efforts and manufacturing policy, as well as the imperative of integrating Indian firms more closely into global and regional production networks. All of this is in addition, of course, to the low-hanging fruit of overcoming basic deficiencies in the environment for doing business.

The final two papers in the collection return to more comprehensive views of the Indian economy, including some retrospective observations, as in Bosworth and Collins' piece, but spending more ink on future prospects. The paper by Rakesh Mohan and Muneesh Kapur grows partly out of the first author's work as chair of the National Transport Development Policy Committee (NTDPC), which submitted a comprehensive and technically detailed report in 2014.<sup>13</sup> The key contribution of this paper is a simulation exercise, which incorporates basic requirements of material and financial balances (savings and investment, exports and imports, etc.) into projections of possible future paths of the economy. Different target growth rates yield different implications for needed savings and investment rates, and the composition of savings. This exercise then provides a basis for thinking about detailed policy decisions to support achievement of these goals. An important focus of the paper is on infrastructure investment in general, and transport infrastructure in particular, with several specific reforms being briefly discussed. There is also a detailed discussion of macroeconomic issues, and public finances. Hence the Mohan and Kapur paper ties in well with the pieces by Bosworth and Collins and by Rao, emphasizing many of the same issues, though written independently. It also connects to the sector-specific analyses of Patnaik and Shah and Chandra, providing some aggregate quantitative underpinnings for their institutional perspectives.

The final paper, by Era Dabla-Norris and Kalpana Kochhar, complements the Mohan and Kapur piece, asking what circumstances will allow India to sustain high growth in the future, but bringing to bear a more eclectic range of evidence and methodologies. Dabla-Norris and Kochhar also provide some important comparisons of India to other emerging economies. The breadth of their paper makes it a useful closing bookend to the collection, although one can profitably read the papers in several different orders. The cross-country comparisons allow the authors to bring out very clearly where India lags, and where there is future potential for catch-up. From a glass-half-full perspective, there are still so many areas where India can do better, whether it is sectors such as agriculture and manufacturing, or in economy-wide total factor productivity, or in structural shifts,<sup>14</sup> that there are many possible paths to sustained future growth. An important contribution of this paper is also to provide direct empirical support for the positive impact of economic reforms on growth performance, including reforms in the financial sector and the external sector. Financial deepening (which typically involves greater financial inclusion) and trade liberalization do seem to matter in ways that economists would predict.



Admittedly, this analysis does not address concerns about rising inequality or slow rates of poverty reduction, but the authors focus on policy reforms that will help to realize the identified potential for future growth of the Indian economy.

In some ways, the focus of the final paper in the collection returns attention to the debates about growth versus equity that have always been prominent in economists' (and others') writings on India. Several of the papers in this volume address India's economic and social inequalities, and policies to ameliorate them, head on. Nevertheless, it is fair to say that the primary focus of the papers in this collection is on the question posed earlier in this introduction, "how can India grow faster?" To the extent that answering that question also involves making the realized growth more inclusive, there is no first-order conflict between the goals of growth and equity. Indeed, I would argue that the previous government, despite its conceptualization of inclusive growth, was unable to operationalize it in a manner that could succeed. The current Indian leadership also seems to recognize the importance of inclusiveness of growth but is approaching the task of implementation with a somewhat different policy mix, and different rhetorical style. India has a long way to go in terms of providing many of its citizens with even basic aspects of material well-being. The importance of this collection is in contributing intellectually to making that enormous project more successful.

In concluding, I would like to thank the authors once again, for producing such compelling analyses of many facets of India's economy and polity in a very short time-frame. I would also like to acknowledge an outstanding group of reviewers, who provided excellent comments, also at very short notice. In alphabetical order, the reviewers for this issue were Jae Hoon Choi, Sankar De, Supriyo De, Poonam Gupta, Ramkishan Rajan, Jonathan Robinson, Abhijit Sen-Gupta, Gurbachan Singh, Lakhwinder Singh, and Milan Vaishnav. I am grateful to them beyond all words. Finally, I am indebted to the editor of India Review, Eswaran Sridharan, for letting me loose on this project, and to him and the managing editor, Anthony Cerulli, for their infinite patience and practical support.

1 See Jishnu Das and Quy Toan Do, with Karen Shaines and Sowmya Srinivasan (2013), “US and Them: The Geography of Academic Research,” *Journal of Development Economics*, 105: 112-130.

2 At the risk of offending those left out, one can mention Vijay Joshi and Ian Little (1996), *India's Economic Reforms, 1991-2001*, Oxford, UK: Oxford University Press; Pranab Bardhan (1999), *Political Economy of Development in India, Expanded Edition*, New Delhi: Oxford University Press; Arvind Panagariya (2008), *India: The Emerging Giant*, New York: Oxford University Press; Arvind Subramanian (2009), *India's Turn: Understanding the Economic Transformation*, New Delhi: Oxford University Press; Jean Drèze and Amartya Sen (2013), *An Uncertain Glory: India and its Contradictions*, Princeton, NJ: Princeton University Press; Jagdish Bhagwati and Arvind Panagariya (2014), *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries*, New York: Perseus Books Group. There are also books by political scientists, historians, sociologists and management experts, as well as journalists, each with its own take on India's reality and aspirations.

3 Again, a selective list includes Anne O. Krueger, ed. (2002), *Economic Policy Reforms and the Indian Economy*, Chicago: University of Chicago Press; Anne O. Krueger and Sajjid Chinoy, eds. (2003), *Reforming India's External, Financial, and Fiscal Policies (Studies in International Economics & Development)*, Stanford, CA: Stanford University Press; Jagdish Bhagwati and Arvind Panagariya, eds. (2012), *Reforms and Economic Transformation in India (Studies in Indian Economic Policies)*, New York: Oxford University Press; Nicholas C. Hope, Anjini Kochar, Roger Noll and T. N. Srinivasan, eds. (2013), *Economic Reform in India: Challenges, Prospects, and Lessons*, Cambridge UK: Cambridge University Press.

4 The most comprehensive and innovative approach to well-being that has been operationalized is, to my knowledge, that of John Helliwell, Richard Layard and Jeffrey Sachs, eds. (2013), *World Happiness Report*, New York: United Nations Sustainable Development Solutions Network. Unlike the Human Development Index, the measure of life satisfaction it develops is through direct surveys, and it does not directly incorporate GDP or even capabilities such as levels of education and health.

5 Inclusiveness can refer to income classes, ethnic or religious groups, regions, or gender, among the most significant possibilities for classifying social strata in any economy.

6 Some of the more contentious debates behind different answers to this question – as illustrated by some of the volumes referenced in endnotes 2 and 3 – have tended to conflate disagreements about objectives and instruments, or about ends and means, making it more difficult to reach consensus. See Nirvikar Singh (2013a), The Great Rights Debate, <http://archive.indianexpress.com/news/the-great-rights-debate/1151998/0>; Nirvikar Singh (2013b), Can India Grow Faster Again?, <http://archive.financialexpress.com/news/can-india-grow-faster-again-/1156918/0>; Nirvikar Singh (2013c), How Can Indians be Happier?, [http://ideasforindia.in/article.aspx?article\\_id=210](http://ideasforindia.in/article.aspx?article_id=210).

7 See Nirvikar Singh (2013), *Democracy, Diversity, and Development: India's Strategy and Outcomes*, Chapter 7 in A. K. Fosu, ed., *Achieving Development Success: Strategies and Lessons from the Developing World*, Oxford: Oxford University Press.

8 See also Nirvikar Singh (2003), Some Economic Consequences of India's Institutions of Governance: A Conceptual Framework, *India Review*, 3(2), 114-146; M. Govinda Rao and Nirvikar Singh (2005), *Political Economy of Federalism in India*, New Delhi: Oxford University Press.

9 This issue has, of course, been analyzed previously in works such as Donald Wittman (1989), Why Democracies Produce Efficient Results, *Journal of Political Economy*, 97(6), 1395-1424; Timothy Besley and Stephen Coate (1997), An Economic Model of Representative Democracy, *Quarterly Journal of Economics*, 112(1), 85–114; Timothy Besley (2005), Political Selection, *Journal of Economic Perspectives*, 19(3), 43–60. The work of Richard Musgrave, James Buchanan and Mancur Olson referenced by M. Govinda Rao in his paper in this volume is also clearly connected to these concerns. See also Rao and Singh (2005) for additional discussion in the context of Indian governance and federalism.

10 Interestingly, while the authors do not emphasize this, the national government has also tried to encroach on states' responsibilities in education and health, with the Sarva Shiksha Abhiyan and National Rural Health Mission.

11 The challenges with respect to the precise nature of how manufacturing prowess will translate into superior growth in employment and output in the 21<sup>st</sup> century global economy, something brought out in Chandra's paper, are highlighted more broadly in Nirvikar Singh (2014), Promoting Profit-making, *Financial Express*, October 29<sup>th</sup>, <http://archive.financialexpress.com/news/columns-promoting-profitmaking/1302699/0>.

12 Similarly, in a detailed study of information technology (IT) use in Indian manufacturing, Shubhashis Gangopadhyay, Manisha G. Singh and Nirvikar Singh (2008), *Waiting To Connect: Indian IT Revolution Bypasses The Domestic Industry*, New Delhi: Lexis-Nexis-Butterworth, the authors found that IT use increased overall productivity as well as employment of both unskilled and skilled workers.

13 As in the case of financial sector reform, this massive intellectual effort was initiated under the previous government, illustrating some consistency of overall thinking about the economy that transcends political differences.

14 On structural change and growth in India, see also Orcan Cortuk and Nirvikar Singh (2011), Structural Change and Growth in India, *Economics Letters*, 110 (3), 178-181; Orcan Cortuk and Nirvikar Singh (2015), Analyzing the Structural Change and Growth Relationship in India: State-level Evidence, *Economic and Political Weekly* (forthcoming).