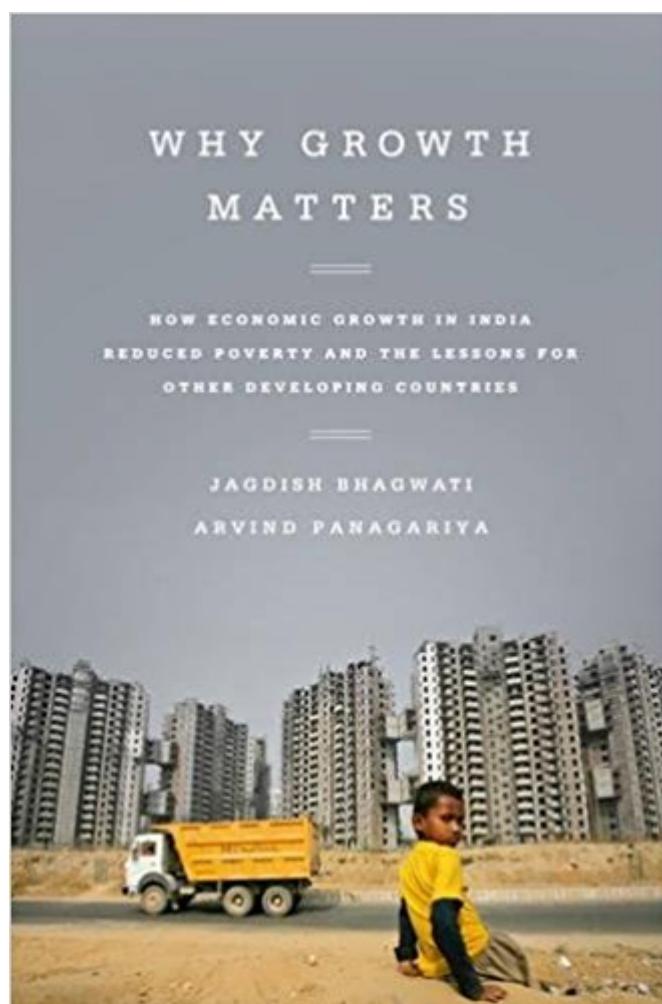


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# Why Growth Matters: How Economic Growth In India Reduced Poverty And The Lessons For Other Developing Countries



## Synopsis

In its history since Independence, India has seen widely different economic experiments: from Jawharlal Nehru's pragmatism to the rigid state socialism of Indira Gandhi to the brisk liberalization of the 1990s. So which strategy best addresses India's, and by extension the world's, greatest moral challenge: lifting a great number of extremely poor people out of poverty? Bhagwati and Panagariya argue forcefully that only one strategy will help the poor to any significant effect: economic growth, led by markets overseen and encouraged by liberal state policies. Their radical message has huge consequences for economists, development NGOs and anti-poverty campaigners worldwide. There are vital lessons here not only for Southeast Asia, but for Africa, Eastern Europe, and anyone who cares that the effort to eradicate poverty is more than just good intentions. If you want it to work, you need growth. With all that implies.

## Book Information

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## Customer Reviews

George A. Akerlof, Nobel Laureate in Economics, 2001; Jagdish Bhagwati and Arvind Panagariya are two of the great intellectual lights behind one of the greatest miracles of economic history: the economic reform of India, and its subsequent takeoff. It is not just the well-to-do who have benefited, but, especially, the poor. The lessons from the spirit of 1991 are not just relevant for India today; they are also of prime importance for the billions of citizens of low income countries around the globe. Martin Feldstein, George F. Baker Professor of Economics at Harvard University and president emeritus of the National Bureau of Economic Research; In this important book the two leading experts on India's economy refute the claims of those

who reject pro-growth policies in favor of redistribution schemes. India's experience in the past two decades shows how a nation's economic growth reduces poverty and improves the well-being of disadvantaged groups. Bhagwati and Panagariya explain what India needs to do now and how other countries can learn from India's experience.

Hernando de Soto, economist and author of *The Mystery of Capital*; Assembling reams of evidence from India's astonishing economic success story, Bhagwati & Panagariya make an unbeatable case for why market reforms are essential to economic growth; and improving the lives of the poor. Serious reformers throughout the developing world cannot ignore this book or Bhagwati's work throughout the years.

Ernesto Zedillo, director of the Yale Center for the Study of Globalization and former president of Mexico; Every important developing country should be the subject of a masterful book like this. Bhagwati and Panagariya have paid a great service to India; and actually other emerging countries; by writing it. If it's a must read for scholars and practitioners of economic development, it should be absolutely mandatory for the Indian political leaders.

Pankaj Mishra, *New York Review of Books*; A passionate case for more privatization and liberalization, and less protection for labor; Bhagwati has provided intellectual authority and sustenance to those who think that India, by prioritizing wealth-creation over health and education, can become a role model for other developing nations.

Publishers Weekly; [Bhagwati and Panagariya] assert that India's economic development is relevant to the developing world as a whole, and, in lively fashion, rebut myths of growth and poverty under the Jawharlal Nehru and Indira Gandhi administrations; As much of the world struggles with elevated debt levels, the vision of India as a role model for reform today has applications reaching beyond the developing world.

Washington Examiner; All economic correlations are complex, and many factors are at play, but Why Growth Matters shows how the poor benefit from economic development and which regulations still stand in the way. As Pope Francis opens a discussion on reducing poverty, the book could not have come at a better time.

James Crabtree, *Financial Times*; This latest contribution from Jagdish Bhagwati and Arvind Panagariya, two Indian-born economists at Columbia University, is welcome. In Why Growth Matters, the duo provide perhaps the most full-throated defence to date of India's economic liberalisation, which began in 1991 and is widely understood to have led to a period of fast growth over the past decade.

Finance and Development (International Monetary Fund); For those who have followed India's recent growth story, Why Growth Matters is a useful summary of both the history of

economic reform in India and of the controversies these reforms have generated, as well as a detailed and practical explication of what is necessary for the future. **Global Asia** What are the secrets behind India's economic growth and poverty reduction for the past two decades?... The answer offered in this book is simple and straightforward; [Bhagwati and Panagariya] present a convincing, orthodox growth model of India. **Prospect magazine** The book is written with zest and confidence; the evidence they have collected is deployed effectively. **CHOICE** An excellent read for students and faculty of economic and international development as well as anyone involved in the nonprofit humanitarian industry; Highly recommended. **--**This text refers to an out of print or unavailable edition of this title.

Jagdish Bhagwati is university professor of economics at Columbia, and a long time fellow at the Council on Foreign Relations. A native of India, Professor Bhagwati studied at Cambridge University, MIT, and Oxford before returning to India in 1961 as professor of economics at the Indian Statistical Institute. He is the author of many books, among them *In Defense of Globalization*. Arvind Panagariya is Professor of Indian Economics at Columbia. He is a non-resident senior fellow at the Brookings Institution. He has been the chief economist of the Asian Development Bank and a professor of economics and co-director, Center for International Economics, University of Maryland at College Park. He is the author of, among other books, *India: The Emerging Giant*.

This book comes out at the perfect time. With US interest rates on the rise and capital harder to come by for emerging markets India is struggling to grow at anywhere near the growth rates from pre-financial crisis. Currently the debate is raging about what India needs to do to continue growing. The debate is more or less in two camps with those focusing on maximising growth and focusing on improving efficiency and those focusing on reducing inequality via redistribution and basic resource provision so as to be focusing on creating an environment for "inclusive growth". The authors fall into the first camp and argue that it will be growth that pulls India out of poverty and that redistribution in a constrained growth environment will be to the detriment of all. The book is split into 3 parts, Debunking the Myths, The New Challenges: Track I reforms for faster and broader growth, Moderate Effective and Inclusive Redistribution: Track II. The first part is a response to various issues the authors see as disruptive criticism of liberalizing India's markets. They discuss early stage development economics, how growth has improved livelihoods across the board and not substantially impacted the Gini coefficient. It discusses specific health initiatives and schooling

issues, in particular private vs public and the outcomes of student exam results. Many of these issues are very specific responses to criticisms voiced in newspapers hence for the reader they can seem a bit unnecessary- for example there is some argument about genetically modified seeds increasing farmer suicides. Part of this section seemed written directly for certain critics rather than a general audience. The second part of the book focuses on reforms. The major parts tackled include labour reform, land reform, infrastructure bottlenecks and higher education. These are the specific topics the authors believe India needs to focus on to increase potential growth. The authors see labour laws as excessively protective and outdated. It can be incredibly slow and costly to fire employees in medium and large enterprises and one cannot let employees go even in money losing businesses. This results in a lack of corporate and capital formation. Land laws make land transactions slow and arduous with concepts like eminent domain absent and hence critical infrastructure projects far more difficult. A simplification of valuation processes needs to be installed. The author's see infrastructure bottlenecks are a function of the restrictiveness on Indian business via its various factors and the lack of capital formation is slowing down India's ability to grow. Finally the authors detail how higher education is lacking as an opportunity for much of the population. Despite the IIT system as world famous, the university system is outdated and pay structures restrictive. The author's see India needing to make its higher education broader and more attractive for top researchers to work in. The authors then discuss specific policies for the human capital side of the equation. The focus on employment, food security, health and education. Some of these are discussed a bit in the first part but the authors discuss specific ideas about education the population about what kind of food to eat (the nutritional content of much of the population has deteriorated as they have gone to purchase more refined and less nutritional foods despite having more money). They discuss schooling system results and the over insulation of public school teachers from judgement. The authors also describe how to come up with more comprehensive healthcare that can be broad enough to be available to the population at large but still be a fraction of GDP. Why Growth Matters has come out at a very critical time for India. Some policies are more contentious than others and the authors arguments are not equally convincing but there is much to think about in this book. The strengths of it are the analysis of where India is going wrong and the solutions presented are seeds for future policies I should hope. The analysis of labour rigidity is of critical importance and the authors detailing of the specific laws that are getting in the way helps focus the issue. Parts of it are quite dry and aimed at specific people rather than a broader audience but all in all this was very worthwhile reading.

he first explanation of why India has done so terribly in attracting manufacturing that made any sense to me (it always astonished me that a low wage country like India would be afraid of the WTO - I understand job loss in high-wage countries). This book, though, is written as a response to Amartya Sen and Jean Dreze and reads a little oddly for that reason - there is a hidden opponent who is sometimes not mentioned explicitly. From my reading of both books, the big difference in analysis is that Bhagwati analyzes progress between India pre-liberalization and India post-liberalization (mid 80's to early 90's as he identifies it, rather than just 1991). Dreze and Sen though choose to compare India to other 'comparable' countries. They come to different conclusions because the 'control' for each of them is quite different, arguably chosen to satisfy their pre-existing arguments. Personally, though, I find the comparison with other countries completely unconvincing. India is not a 'country' in the sense that most other countries are - it is much more like a continent such as Europe in its diversity of language and history (China and Russia might be similar, but are now very capitalistic states without the cumulative, unchangeable laws in the way that India has). What was particularly interesting was the fact that (a) the cumulative nature of laws makes for a completely unwieldy and potentially contradictory set of rules (b) democracy forces populist rather than good economic solutions. Economically obvious solutions become impossible and (c) some of the destructive laws are really old - from British times even. In spite of growing up in India I had no idea that so much had carried over from pre-independence. Bhagwati is clear and convincing. I actually like his point-by-point style. But you do get the sense that he wants to claim credit for some of the reforms that happened (perhaps correctly - I have no idea). Furthermore, since he wants to be an advisor to the government in the future, he pulls his punches a little so that he is not too offensive to Indian political sensibilities. His attacks on hugely wasteful government programs are quite mild, though from an economic point of view these systems are almost certainly wrong-headed schemes that will beggar the government and deliver only a tiny fraction of the value to the people who need it. Highly recommend it - it left me depressed about India since many of the laws that need to change are hard to change in a democracy with entrenched interests. It also feels somewhat hopeless to try to address the other issues in India until the fundamental laws can be improved to liberalize the labor market in particular.

Bhagwati persuasively confronts socialist and Luddite myths about economic growth, while not quite persuading us that Indian democracy can spread the fruits of growth fairly.

Anyone concerned about the future of the world's largest democracy (1.350 billion and counting)

should read this book. It is a detailed analysis of the country's economic past, present and future, but written in language that can be easily understood by anyone who can understand The Economist of WSJ. My wife and I recently spent a month in India and fell in love with the country. We became familiar with how far they have come economically since they started to loosen the restrictions of the "license/permit raj" as they call it, but also of the enormous problems still facing the country and their current political stalemate. This book doesn't deal with the political problems, except to refute one by one the positions of the Left on the effectiveness of the partial dismantling of the socialist structure built by Nehru and his Congress party after freedom in '47.

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