

# THE WALL STREET JOURNAL.

## Debating the Tiger's Rise

*India would have had 175 million fewer poor people by 2008 had it embarked upon free-market reforms in 1971 instead of 1991.*

By: Sadanand Dhume – April 16, 2013

---

For the first time since the advent of economic reforms in 1991, a question mark looms over India's development prospects. Growth this year is less than half the tigerish high of 9.8% six years ago, and Prime Minister Manmohan Singh's reputation as a reformer lies in tatters. The government he heads has become synonymous with corruption scandals, reckless populism and policy torpor.

Columbia University economists Jagdish Bhagwati and Arvind Panagariya believe that bad ideas and economic mismanagement are mostly responsible for India's current slowdown. In "Why Growth Matters," they trace India's economic trajectory since independence in 1947 and offer a comprehensive to-do list for reformers. At the heart of this book lies a simple message. The country's post-1991 transformation "from a basket case into a powerful engine of growth," the authors say, unambiguously proves something that many on the Indian left remain in denial about: that a rapidly expanding economy is the best antidote to poverty.

Over the past two decades, India's economic reforms—especially scrapping industrial licensing, in which bureaucrats set production targets for firms, and lowering tariff barriers to trade—have pulled nearly 200 million people out of poverty. Yet the country's public discourse remains littered with myths: that only the rich have benefited from growth; that ending poverty depends on redistribution; and that the country's wealth has little to do with its health and education standards. Taken together, they add up to the absurd notion that India has reformed too fast rather than not fast enough. Indeed, the present government first came to power in 2004 by championing the dodgy slogan "inclusive growth," which suggests that somehow growth by itself was exclusive or anti-poor.

In fact, it is the bloated and suffocating socialist model unveiled by Jawaharlal Nehru at independence in 1947 that deserves such ignominious labels. Messrs. Bhagwati and Panagariya contrast the heavy hand of Indian central planning with the private-sector-led growth that allowed East Asia's nimble economies, such as South Korea and Taiwan, to prosper from the 1960s onward. By contrast, India grew at an anemic 3.5% per year on average in the three decades to 1980, thanks to government control over private investment, the steady expansion of the public sector, an obsession with self-sufficiency and restraints on foreign investment. In short, as the authors write, after independence "India's economics quickly collapsed into the disaster range."

Nonetheless, the villain of the book isn't Nehru, a hapless idealist born to extreme privilege—his father sent his shirts to Paris to be laundered. It's Nehru's daughter, Indira Gandhi, who led the country from 1966 to 1984 (minus a three-year spell in opposition). She doubled down on her father's mistakes even as the benefits of an unshackled private sector were fast becoming obvious in East Asia. On her watch, India nationalized mines,

general insurance companies and the 14 largest banks. She forced the dilution of foreign equity in Indian companies, reserved production in vast swaths of the economy for small firms, limited the size of urban land holdings and made it virtually impossible to fire workers.

Between 1965 and 1975, per capita income in India rose by a minuscule 0.3% annually. If you were to draw up a list of post-colonial leaders responsible for economic crimes against their people, Indira Gandhi's name would figure near the top. By one Cato Institute estimate, India would have had 175 million fewer poor people by 2008 had it embarked upon reforms in 1971 instead of 1991.

Only then, prodded by a balance of payments crisis that threatened to halt imports and tip the government into debt default, did India decisively change course. The government ended industrial licensing and slashed import duties, at the time among the highest in Asia. Since 1991, the trade-to-GDP ratio has risen from 17% to above 50%. Foreign investment soared from \$100 million in 1991 to \$60 billion in 2007. Over roughly the same period, the number of phones in India skyrocketed from a total of five million to 895 million today, with an average of 15 million *new* connections each month. Annual automobile production rose from 180,000 to two million in 2010. As for poverty, in the mid-1980s nearly one in two Indians lived below the poverty line. A generation later that proportion is closer to one in four.

And yet, paradoxically, the intellectual debate about reforms in India is untethered from the dictates of common sense. For this Messrs. Bhagwati and Panagariya squarely blame leftist economists, such as their Columbia colleague Joseph Stiglitz, Belgian-born Jean Drèze and Harvard's Amartya Sen, for being "intellectually lazy and unwilling to learn from the ruin they had visited on India and its poor." In the bazaar of ideas, leftists consistently question the efficacy of markets, exaggerate the extent of poverty and oppose the privatization of inefficient public services. In a country once steeped in socialism, these arguments continue to find buyers.

To the outside observer, it may seem strange that Indians are still squabbling over whether growth really matters or over how to define the poverty line. When the data unambiguously point to all social groups, including the lowest castes, having benefited from reforms, then why is this even a topic for discussion? Indeed, the most depressing aspect of this book is the fact that two eminent economists felt the need to write it in the first place. Shouldn't such fundamental questions have passed by now from contention to consensus?

Nonetheless, the authors' deep compassion for the poor, gimlet-eyed view of India's checkered economic past and genuine concern for its future shine through on every page. For the reader interested in the big policy questions facing the world's largest democracy—and, by extension, much of the rest of the developing world—"Why Growth Matters" is as good a place to start as any.