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REVIEWS

India's Economic Reforms: 1991–2001. By JOSHI (VIJAY) and LITTLE (I. M. D.). (Oxford and New York: Clarendon Press, 1996. Pp. xiii+282 ISBN 0 19 829078 0.)

India: Economic Development and Social Opportunity. By DREZE (JEAN) and SEN (AMARTYA). (Oxford and New York: Clarendon Press, 1996. Pp. xiv+292. £25.00 hardback. ISBN 0 19 829012 8.)

Political scientists have always been interested in India: her democracy remains the 'exceptional', favourable event in the postwar experience in the Third World, invariably attracting scrutiny and research from the theorists of democratisation. But India's economic planning and performance, regarded with admiration in the 1950s and early 1960s, became the object of neglect as India slipped from the 1960s into persistently low growth rates and her policy framework began to be seen widely as a role model for no one seriously interested in development, with attention then shifting among economists largely to analysing the 'success stories' in the Far East.

But now, with India beginning serious economic reforms since 1991, attention has shifted back to India. Given India's excessively late entry into the reforms game, the focus this time is on an assessment of what went wrong and then of the speed and strategy of India's attempted reforms, as also on the prospects for fullscale transition. There is in fact a growing tide of books now on the subject, including an insider's account by the economist Ashok Desai (*My Economic Affair*, Wiley Eastern, New Delhi, 1993) who was part of the team that worked with the Finance Minister Manmohan Singh on the reforms, and two recent books, one by the bureaucrat-economist Bimal Jalan (*India's Economic Crisis: The Way Ahead*, Oxford University Press, 1991) and then this reviewer's 1992 Radhakrishnan Lectures at Oxford (*India in Transition*, 1993).

The splendid book by Vijay Joshi and Ian Little is the latest in this vein. Standing on the shoulders of the earlier books including their own pioneering analysis of India's macroeconomic policies (*India: Macroeconomics and Political Economy, 1964–1991*, Oxford University Press, 1994), the authors attempt an intensive analysis of how far India's reforms have proceeded, what remains to be done, and what prospects there are for the unfinished agenda to be completed. Writing graceful prose, and combining sophisticated economic analysis and a mastery of detail with insightful political judgment, they succeed admirably.

The contours of what India was doing wrongly and how precisely it needed to be fixed, have long been agreed upon. India had an excruciatingly extensive and stifling system of industrial licensing, lack of currency convertibility, an autarkic import substituting (IS) strategy that handicapped both efficiency and export performance, an unwillingness and then an inability to attract direct foreign investment (DFI) which had become almost negligible, a dominant set of public enterprises that were hugely inefficient, and a general deterioration in the state of technology brought on by the absence of DFI and the general inability to import technology embodied in new vintage equipment because the export earnings were stagnant.

Although the problems afflicting this policy framework had been known since the early criticisms advanced by economists such as Padma Desai and T. N. Srinivasan in the mid-1960s and early 1970s working within and outside the well-known OECD and NBER projects on trade and industrial policies in developing countries, led by Little himself, Maurice Scott and Tibor Scitovsky in the former instance and by this reviewer and Anne Krueger in the latter instance, the Indian economic regime had remained impervious to real change.

While the evidence of the folly of sticking to these policies mounted, both in comparative studies and in India's slippage from respectful attention despite her status as a Middle Power, there were a few jabs (that by Prime Minister Rajiv Gandhi starting in 1985 being the latest) at fixing one or another element of the picture and a few ameliorative moves. But a fullscale assault was never mounted; and the key features listed above survived the aborted reform efforts.

In the end, what prompted the modern period of full-scale reforms in 1991 was the simple fact that these structural inefficiencies, not merely sapped India's growth; they also increasingly decimated her finances. Traditionally a model of fiscal prudence, India found that low growth rates meant low revenue increases; and the many and increasing public sector enterprises were also producing losses and cutting into public savings, not contributing to them. By 1990, as described succinctly in chapter 2 by Joshi and Little, the result of the strained finances, supported by domestic and foreign borrowing, was a fullblown payments crisis with reserves down to only a fortnight's worth of imports and with the prospect of further outflows of earlier short-term capital inflows.

In 1991, the new Government of Prime Minister Rao, with the Finance Minister Manmohan Singh (a former pupil of Ian Little at Oxford), had the opportunity to seize the moment to finally start dismantling India's policy regime, brick by brick, while stabilising the economy simultaneously. In fact, it had no choice if the necessary support of the World Bank and the IMF was to be secured. What proved to be remarkable was that Singh proceeded to mount a real offensive, clearly persuading most observers that the reforms were being driven by conviction, not just by conditionality.

But the task of changing the entire system is truly a heroic one. While Singh managed, as Joshi and Little document well leaving no warts out, virtually to kill the industrial licensing system, get current account convertibility, reduce some tariff rates, introduce competition from private investment in areas previously reserved for public enterprises, and dent the fiscal deficit while bringing inflation down from an annual rate of 13% when Singh took office, there were many important tasks left undone. In particular, consumer goods imports remained largely off the liberalisation list; privatisation of the public sector enterprises was barely begun; the introduction of flexibility in the labour market was equally shunned as a hot potato.

Joshi and Little document all this in nuanced depth, analysing fiscal and trade policy in chapter 3, financial reforms in chapter 4, and industrial and labour policy in chapter 5. Their sympathies are clearly with the reform team, even as they wish that reforms could go faster and wider, and even as they mince no words in attacking ill-conceived ideas guiding the reforms at times (as when they pretty much destroy the notion that the structure of protection after reforms be not uniform but be divided into seven basic rates guided by a rationale that meets no economic test; pages 73–76).

One can only hope that India's reformers have read this book and profited from it. The authors end on a note of 'mild pessimism', despite their enthusiasm for the Singh-led reforms, largely on political grounds. But the book was finished before the last election which has led to a formless multi-party coalition with even two communists in the cabinet. Surely, this has worsened the political prospects of getting reforms moving faster, though the ground-level support for the reforms already enacted cannot be doubted. There is a distinct possibility that, like a cart stuck in India's mud during the monsoon, reforms will neither go backward nor forward. Only time will tell.

Chapter 6 in the Joshi-Little book deals with what they call the 'social sectors' and 'poverty'. This is the area where the book by Jean Dreze and Amartya Sen fits into the vast landscape of the India books. These distinguished authors document well India's failings, both across different Indian states and in a comparative international context, on 'social opportunity' extending to health, basic education, gender questions *et al.* While it is therefore a useful source of information, all in one place, on these questions, and draws the reader's attention to a large amount of recent empirical work while drawing more fully on Dreze's own important research on questions such as child mortality and sex bias, the book is marred by a reluctance to acknowledge the importance of the economic reforms under way and indeed takes even a sneering attitude towards them.

Equally puzzling is the authors' tendency, despite occasional but inadequate nods in that direction, to ignore the fact that the social questions the authors discuss have been long analysed and their solutions sought in the Indian intellectual and policy context and that the really important question is why they have nonetheless been marked by abysmal achievement: a question that requires a far deeper political-economy-theoretic, structural, historical, and cultural analysis than the authors provide.

The authors' attitude to the economic reforms so fully discussed by Joshi and Little is typified by the following quote (p. vii): 'Debates on such questions as the details of tax concessions to multinationals, or whether Indians should drink Coca Cola, or whether the private sector should be allowed to operate city buses, tend to "crowd out" the time that is left to discuss the abysmal situation of basic education and elementary health care, or the persistence of debilitating social inequalities, or other issues that have a crucial bearing on the well-being and freedom of the population.'

Much is wrong here. No one can seriously argue that there is a crowding out when the articulation of Indians is manifest in multiplying newspapers, magazines, and books and expression of a whole spectrum of views on economics and politics; this reviewer has noticed no particular shyness in discussing social issues, including inequality and poverty in India. On the other hand, it is revealing that there appears for instance to be no reference to, leave aside a discussion of, the important report of the Mahalanobis Committee on income distribution and concentration of economic power that deliberated during 1962, after a heated discussion of these questions in Parliament and outside, and whose findings were widely debated in the country. As for literacy and gender bias in education and intra-family allocations of nutrition, the authors also forget that these issues were raised pointedly, as it happens by this reviewer, in 1973 in *World Development*, drawing on extensive sociological and survey literature on the subject. Also, the political representation of women in Indian elections is the subject of a 1975 contribution, analysing three Indian elections, by Padma Desai and this reviewer. None of these are cited; nor are the many other studies of these issues that doubtless have been made and were not 'crowded out' except from the authors' reading.

But, more important, the put-down of attention to multinationals misses the points that India's economic reforms require precisely that India join the Global Age and that India's inward direct investments were ridiculously small in 1991, around $100 million, and that this was an important deficiency that had to be fixed. The reference to Coca Cola is no better, serving as a cheap shot against multinational investment; it also betrays the assumption that Coca Cola is drunk by the elite or the Westernised middle class, not by the many poor. It is more likely however that the former derive their caffeine from espresso coffee as well whereas the poor are the ones who must depend on Coke instead. And, to left-wing Indian intellectuals, Coca Cola is also 'foreign', a 'consumer good', whose importation is a 'waste' that must be eliminated by proscriptions or by high trade and investment barriers by a government imposing arbitrarily on the population's consumption choices its 'meta preferences' (a grand concept that enables many to impose their own preferences on others, masking prejudice behind principle). It is comforting that, finally, these attitudes are on the run in India.

Instead of feeding the paranoia against economic reforms, by encouraging the unwarranted *non sequitur* that social issues will therefore be neglected, it is important now to agree on a few key ideas:

* the economic reforms under way will enhance efficiency and improve growth rates (for reasons now well understood);

* this will help in drawing more of the underemployed and poor population into gainful employment and hence, *ceteris paribus*, give them what the great Indian planner, Pitambar Pant, the architect of the Third Five Year Plan, called 'minimum incomes' when declaring that as Indian planners' principal objective;

* such a strategy for reducing India's abysmal poverty and undernourishment is, not a conservative, 'trickle-down' strategy but, an activist 'pull-up'

strategy; it is an 'indirect' anti-poverty strategy that the reforms will strengthen and deepen, yielding better 'returns'; and

* in addition, a 'direct' attack on poverty and social opportunity is also necessary, through implementing land reforms, ensuring that illiteracy is eliminated, providing basic health, education on better nutrition given the consumption level; and much else.

As it happens, much of the latter, 'direct' strategy for enhancing incomes and social opportunity requires 'social engineering' and political steering where it is somewhat heroic to assume, as Dreze and Sen are wont to do without persuasive analysis, that we already know what the effective solutions are. If only we did! But clearly economists, political scientists, and policymakers with field experience must keep exploring solutions; it is important.

But decrying or discounting the 'indirect' strategy, where economic reforms are the lynchpin, is simply counterproductive and, in the end, the most effective guarantor of poverty even as its elimination is claimed as one's objective. Not merely is there now much evidence that growth in India has helped to reduce poverty and therefore the lack of growth, due to bad economic policies, has been a major drag on the Nehru-Pant anti-poverty planning objective. But, without growth, the likelihood of having money to finance the 'direct' social programmes on a sustained basis is also compromised. For instance, India could certainly increase literacy given the existing schools since we have long known that many children drop out prematurely while, in many instances, the teachers are no-shows: clever social engineering might just manage to bring India closer to its potential output on literacy (with existing investment in schools) without spending more money. But once that is done, the Finance Minister must still find money to build more schools, even if he discards Prime Minister Rajiv Gandhi's ambition of having laptops in each school in every village. Putting down economic reforms is not going to help.

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Russian Unemployment and Enterprise Restructuring: Reviving Dead Souls. By STANDING (GUY). (London and Basingstoke: Macmillan, 1996. Pp. xxix+404. £45.00 hardback. ISBN 0 333 66872 3.)

Guy Standing presents the results of four rounds of the Russian labour force survey organised between 1991 and 1994 by the International Labour Office, where he is director for labour market policies. The surveys covered between 340 to 500 establishments, mostly factories, in Moscow, St. Petersburg, Nizhny Novgorod (believed to be a growth pole under a reformist governor), and the depressed textile city of Ivanovo. The surveys shed light upon the microeconomics of economic reform in Russia, including changes in the size of the labour force, capacity utilisation, unemployment, flexibility in working hours and wages, and corporate governance.