

# The Enigma of India's Arrival: A Review of Arvind Virmani's *Propelling India: From Socialist Stagnation to Global Power*

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*India's high growth over the last fifteen years has inspired several recent books and papers to examine the growth's source and sustainability—the two-volume study by Arvind Virmani being a case in point. This paper evaluates these recent works. It is argued that the cause of the take-off does not fit into any easy ideological category as suggested by Virmani. The current high growth has been achieved in several steps, with distinct factors of propulsion behind each step. There is reason to expect the growth to be sustainable, although destabilizing political tensions will arise from the increasing inequality. The paper also evaluates how India's growth relates to the global economy.*

## 1. Introduction

Judging by the rush of recent publications, both scholarly and popular, the Indian economy has become the object of much praise and optimism in the last few years. This is true not just of the book under review—Arvind Virmani's two-volume *Propelling India* (Academic Foundation 2006)—but also Rafiq Dossani's *India Arriving*, Stephen P. Cohen's *India: Emerging Power*, and Edward Luce's *In Spite of the Gods: The Strange Rise of Modern India*. There has also been a succession of papers with similar titles in recent years. What these studies convey is, above all, the enigma of the arrival of the Indian economy

on the global stage. The world has long been used to Japan growing rapidly (even though that growth seems to be behind us now), East Asia going from the Third to the First World in three decades, and China doing a sprint since 1978. But India inspires disbelief. Even a decade ago, hardly anybody believed that India could become one of the world's fastest growing economies (by some measures it is behind only China and Vietnam); and even now there is scope for doubt about whether this will last. One of the persons least skeptical on this matter is Virmani, whose book's subtitle elaborates on this vaulting optimism for India: *From Socialist Stagnation to Global Power*, with "Socialist Stagnation" in bright crimson on the cover to drive home his message not just in words but also by suggestion.

Virmani's credentials for taking on a mammoth study of this gargantuan economy

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are excellent. He received his Ph.D. from Harvard University and, under the supervision of Kenneth Arrow, was trained in the high art of economic theory. He has worked at the World Bank and in the most important departments of policy making of the Indian government—the Planning Commission and the Ministry of Finance. During much of the time that he was writing this book, he was Director of the Indian Council for Research on International Economic Relations (ICRIER), an influential think tank in New Delhi. At ICRIER, he had access to a wealth of data on the Indian economy, industrious research assistants, and a prodigious supply of working papers, of which a fair share were authored by Virmani. The book draws on this rich resource, and the many tables and charts that crowd the pages of this book constitute quite a compendium on the economy. The book traces the growth path of the Indian economy and the factors that provided the propulsion, and devotes a large share of pages to the global position of India and, in particular, to India's economic interconnections with China and the United States.

Being familiar with most of these debates and having participated in several of them, I found the monographs, especially, volume 1, interesting. Yet, if I had to pass an overall judgment on the work (that is, the two volumes), I would have to describe it as disappointing. As one reads through, one realizes that the two volumes are a collection of papers written by the author at different times. For one, different sets of people are thanked in footnotes at the start of different chapters. The end result is that the writing is uneven, contents are thin, and ideas are repeated from one chapter to another, with very little editing.

Let me turn to matters of content. Being a two-volume work, with over 900 pages, means that many different topics are covered in it. But there are two major organizing ideas that run through the pages. First, after establishing the indisputable fact that India is now growing much faster than it did

in the past and is among the fastest growing economies in the world, Virmani attributes the main cause of this to the abandonment of India's socialist policies. He goes on to argue that the widely accepted view that the break in India's growth occurred in the early 1990s—he calls this the “new conventional wisdom”—is incorrect and claims that the real break occurred in 1981. This point is driven home by being stated in almost the same words and sentences in several chapters, spread over both volumes.

The second overarching theme concerns India's position in the global economy. Virmani argues that the future world will be a tripolar one—with the United States, China, and (later) India being the three poles. This argument is built up slowly and the complexities that arise from this in terms of economic policy making in India are then analyzed. The idea of India heading to be a major global player would have appeared ludicrous a decade or two ago, but that it does not seem that way any more speaks volumes about how well the economy has done in the last decades and particularly the last five years. Virmani's analysis of globalization and the position of India in it is well done. I have quibbles on this but they are no more than just that. Let us begin by assessing his first major claim.

## 2. *Breakpoint, Cause, and Controversy*

We know that, through the 1950s and 1960s, India's per capita income grew at just over 1 percent per annum. This rate seemed so stable that it came to be known as the “Hindu rate of growth”<sup>1</sup>—something written in the scriptures of the nation, and so inescapable. But India did eventually escape this predicament and now we find an India where the per capita income is growing at over 7 percent per annum. Foreign exchange reserves are likely to breach the 300 billion

<sup>1</sup> This memorable phrase was coined by the late Raj Krishna one of the deepest and wittiest commentators on the Indian Economy (see Vijay Krishna 2007).

dollar mark any time now and foreign capital is flowing into the bourses causing the nation's major stock indexes, Sensex and Nifty, to scale new heights.

So the big question that has exercised the minds of lots of analysts is: When did the break occur?<sup>2</sup> This is an important question since in its answer must lie some of the clues about the causes of India's current performance and hints at what the future policy changes ought to be and that, in turn, means that readers inevitably look for ideological clues in the answer that one gives to this question.

I do not find Virmani's argument that the break year was 1980–81 convincing and remain persuaded that the most major break for India since its independence was during the market-oriented reforms of 1991–93, although the growth rate of GDP rose to its present level in more than one step.

It is true that there were changes in the early 1980s when Indira Gandhi returned to power and was, by then, deeply influenced by her younger son, Sanjay Gandhi, who wanted to rid the nation of its early Fabian influence, which, interestingly, came to India primarily through Sanjay's grandfather and India's first Prime Minister, Jawaharlal Nehru. As Ramachandra Guha (2007), in his celebrated history of independent India, remarks "It is tempting to view Mrs. Gandhi's political career as being divided into two phases, with the Emergency and Sanjay Gandhi providing the dividing line" (p. 517). But these changes of the 1980s moved India not toward a more effective market economy or rule-based capitalism but toward crony capitalism, conceived largely by "Sanjay's malign influence," to use Guha's (p. 517) apt expression.

There was heightened growth in the 1980s but this was achieved by borrowing from

the future, as several commentators rightly pointed out (see Willem H. Buiter and Ujjit R. Patel 1992 and Jagdish Bhagwati 1998<sup>3</sup>). By 1990, India's fiscal deficit was unmanageably high, its short-term debt as a percentage of foreign reserves was 129 percent, and the debt-service ratio was at 35 percent (Kaushik Basu and Annemie Maertens 2007). The changes of the 1980s were clearly unsustainable and, while the slump that occurred in 1991 and 1992 may have had its proximate cause in the first Gulf War, clearly the bloated economy and uncontrolled fiscal deficit contributed to it. The reforms of 1991–93 initiated by Manmohan Singh were much more imaginative than the earlier reforms. The draconian industrial licensing system was abolished, trade was liberalized, and exchange controls were eased. This is what placed India on the path of sustained growth.

But in a complex mechanism, such as a large national economy, there is seldom a single cause for a major shift in growth pattern. And in India's case it will be foolish not to recognize that there were other factors. The clues lie in the breaks in the growth pattern. One way of locating the breaks is by a purely statistical method; that is, to look for shifts in trends of the GDP numbers without concern for underlying processes and policy changes. This was done most systematically by Balakrishnan and Parameswaran (2007) using a method pioneered by Jushan Bai and Pierre Perron (1998) and, on the basis of this, they pinned the break year as 1978–79. One could, however, argue that this is a statistical construct without much policy significance. It is caused by the fact that 1979–80 was the worst year for India since the nation's independence. That year the GDP *shrank* by 5.2 percent. Never after that has the GDP had

<sup>2</sup> There have been many contributions to this debate; see Montek S. Ahluwalia (2002), John Williamson and Roberto Zaghera (2002), J. Bradford DeLong (2003), Dani Rodrik and Arvind Subramanian (2004), Arvind Panagariya (2004), Pulapre Balakrishnan and M. Parameswaran (2007), and Kunal Sen (2007).

<sup>3</sup> Virmani, in his list of references, wrongly attributes this paper to Bhagwati and T. N. Srinivasan; but this implies serendipity because Srinivasan (2000) does make the same point vehemently: "Clearly, the reckless fiscal expansionism of the 1980s was unsustainable" (p. 34).

negative growth.<sup>4</sup> Hence, fitting in linear segments to fit the fluctuating growth would mean that there will be a propensity for the break to show up just before 1979–80, and that is probably what gets picked up by this statistical analysis.

If we discount this one-year decline in GDP, it turns out that the break in trend occurred in 1975–76. That year the GDP grew by 9 percent and, in any moving average of growth rates, that year marks a break from the past. The huge growth in that particular year may well have something to do with the Emergency declared by Indira Gandhi in June 1975, after which she promptly took dictatorial control of the nation for two years. As happens in the first flush of a dictatorship, trains did run on time that year. But it is unlikely that the *sustained* high growth that occurred from that year on had any connection with the Emergency. In any case, the dictatorship ended in 1977 when Indira Gandhi called an election and was voted out of power.

So to understand the trend break of 1975 one has to look beyond the Emergency. Far from corroborating Virmani's thesis that the boom came from an abandonment of earlier Nehruvian policy, an analysis of that period suggests that the break was probably prompted by a specific instance of Nehruvian intervention. The most significant change that occurred through the 1970s was the rise in India's savings and investment rates. Having stagnated until the late 1960s, these climbed sharply over the next ten years. In 1968–69, India's gross domestic savings rate was 12.2 percent; ten years later it was 21.5 percent. And gross domestic capital formation closely mirrored this. Evidently, in keeping with standard economic theory, it was this that caused the growth rate to rise.

But that leads us to the natural prior question: What caused savings to rise so sharply? On this there is no getting away from the

fact that the savings increase was triggered by the nationalization of banks in 1969 and the founding of the state-owned Unit Trust of India in 1964. The bank nationalization undertaken by Indira Gandhi at the height of her political power mandated that the newly nationalized banks open branches in remote rural areas. This was written into the Bank Company Acquisition Act, 1969. There are laws that exist on paper but do not get implemented. So is there evidence that this provision was effective? In Basu and Maertens (2007), we make calculations that show that the answer is clearly in the affirmative. In 1969, the number of branches of commercial banks in India was 9,051. This had risen to 38,047 by 1981. The rate of increase during these twelve years has been greater than ever before or after. So it does seem very likely that the bank nationalization contributed to the first break in growth rate, via a boost to savings and investment.

It is important not to get caught up in ideological stereotypes. The economy is too complex for such straightjackets. Virmani's characterization of the resurgence of India caused by its break from socialism does not survive scrutiny.<sup>5</sup> The primary reason for this is that India never practiced socialism. It is only some conservative commentators and Indian politicians who thought India was socialist. It is true that, up to the 1970s and occasionally even in the 1980s, Indian policymakers used the rhetoric of socialism but that was merely a prerequisite of political correctness. The thriving stock markets and the fact that the overwhelming majority of production occurred in the private sector (the share of GDP coming out of state owned enterprises in India in the 1980s was comparable to South Korea) meant that socialism was preached but not practiced.

<sup>5</sup> Usually these broad brush causalities of growth are nothing but retrospective justifications of one's prior beliefs or near-tautological statements. As Ha-Joon Chang (2007) pertinently observes, "Given India's recent economic success, we will soon see books that say how Hindu culture . . . is helping India grow" (p. 198).

<sup>4</sup> Per capita GDP did see negative growth once after that, in 1991–92, when GDP growth was 1.3 percent.

What India did was regulate the private sector with a strong (and irrational) arm and, in some limited areas, have direct state ownership, such as in banking, railways, and the airlines. State ownership was nowhere comparable to what occurred in Eastern European nations and in China.

Such are the conundrums of the economy that India's policy often did not work, but at times it did. As described above, bank nationalization, in the early stages, did have the salutary effect of boosting savings and investment. As has been pointed out by India's leading software entrepreneur, N. R. Narayana Murthy (2000), the initial boost to India's computer and software industry came from an act of closing the economy—the Indian government in 1977 asking IBM to leave the nation because it would not dilute its ownership of the subsidiaries. This, in the classic manner of the infant industry argument, enabled the Indian information-technology sector to develop. Equally important, as again pointed out by Murthy (2004), was the later opening up and the market liberalization of the Indian economy as happened through the reforms of 1991–93. These two contrary policies were both critical for the huge take off that occurred in India's software and information-technology sectors subsequently.

The fact of the matter is that India never had socialism for the lifting of socialism to qualify as the main cause of high growth. Moreover, China, even now, is a much more socialist economy and much more successful than India in terms of growth. I do not think there is a lesson in this for India but, as fact, this is undeniable. I shall return to India–China matters later.

It is true that the Indian government's control of the private sector was, by the late 1970s and 1980s, a bureaucratic nightmare and a stranglehold that was choking the economy.<sup>6</sup> The market-friendly reforms

of the early 1990s were essential to give the economy a boost. But India always had private property and the dominant mode of production, unlike in the case of China, was always private. Further, there is no compelling reason to believe that, if India undertook the reforms of the 1990s in the 1960s or the 1970s and opened up the economy aggressively, the nation would have been on the high growth path twenty or thirty years earlier. A nation, typically, needs to have a certain amount of sophistication before dealing successfully with multinational corporations. Major business and entrepreneurial deals are not like buying apples and oranges. They entail complex contracts that can bind signatory governments for decades. If a country is not in a position to fully understand these and does not have the legal and economic expertise to check the fine print, it can come out worse off at the end of such "voluntary" deals. We have seen examples of open economies in Latin America that spiral repeatedly into crisis.<sup>7</sup>

One can see some of this in the performance of India over the last four years. As Virmani rightly points out, India seems on course to join the set of major players in the world economy, such as the United States, Japan, and China. During the last four years, growth has moved up another notch, averaging around 9 percent per annum. It is arguable that an important factor behind this is related to India's global positioning. First, there was one unexpected boost that came from the last U.S. presidential elections. At that time, the outsourcing of back office work came under a lot of criticism, with American entrepreneurs who used these cost-saving restructurings being described as unpatriotic. Some prominent conservative television personalities, such as Lou

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the state is described vividly in Ratan Tata's account of the life and times of the house of Tatas (Tata 2007).

<sup>7</sup> Rodrik (1997) has cataloged how enhanced global interaction can cause internal turmoil and instability in developing nations.

<sup>6</sup> How these bureaucratic controls stifled enterprise and, more generally, the inhibiting and enabling role of

Dobbs, picked up on this theme and repeatedly attacked outsourcing. The net effect of this has been interesting. Small- to medium-sized firms and independent entrepreneurs in the United States woke up to this opportunity for additional profit. Little back-office outfits in India, South Africa, and elsewhere that could never have afforded to advertise on American television, effectively got it for free. This led to a second wave of outsourcing with smaller American firms that may have been unaware of these cost-cutting possibilities now joining the game. The sharp rise of business process outsourcing firms like Marketics during the last four years, and the arrival of new players such as TutorVista that provide long-distance tutoring to students (see Dossani 2008 for descriptions), are very likely an outcome of the heightened awareness caused by such television campaigns. Parenthetically, I should mention that this is good for both India and the United States, for it enables American companies to be more competitive internationally; and just as U.S. refusal to protect the automobile sector meant fewer auto-related jobs but a stronger economy, openness concerning back office work is causing some sector-specific job losses but net gains.

In the middle of volume 1, Virmani devotes a full chapter to China's economic performance. As an account of contemporary China, this is pithy and yet comprehensive. But its abrupt appearance and poor fit with the book enhances the sense of this being a hurried collection of working papers written at different times. The reason why this is a poor fit is that it takes a position contrary to what is asserted elsewhere. This easy turnaround is reminiscent of the story of the candidate, who on being asked at an interview for a teaching job at a conservative college, "Is the world flat or round?" nervously replies "I can teach it flat or round." In contrast to what was said in the first four chapters, the China chapter has copious illustrations of the role of state control and socialism and the success of the Chinese economy. Virmani points

out how the "socialist planning system still operates . . . . The labor responsibility system determines where a person can work legally and where it cannot" (p. 140) and "all land is owned and controlled by the State" (p. 143), how the Chinese Communist Party continues to vet all senior appointments in firms and "Even if the CEO is not a party member, there will be a party member (or group of members) ostensibly junior(s) in the organization who can over-rule him on 'ideological' grounds," (p. 142), "in the Communist State, capital has no price or cost. Even in China banks are not intermediaries but instruments of the State . . ." (p. 147). All this is true, but this is the flat earth thesis and coming on the heels of the round earth theory it catches the reader by surprise.

The fact of the matter is that China's superb economic performance is puzzling and its muzzling of individual freedom is not something that is to be commended. So Virmani's recommendation of liberal market policies for India is right, but his theory of what explains India's earlier stagnation is unpersuasive, as his own later chapter on China shows. China has managed to exercise centralized control over its large population in a way that has not been witnessed anywhere else. How it manages this is a puzzle. Maybe it is the four decades of orthodox Communism that made the population docile and reconciled to the fact that dissent will get them nowhere. So, when the reforms began in 1978, the population was more compliant than anywhere else in the world and certainly India. These separate histories mean that the same policy options may not exist in India. The Chinese example cannot be followed verbatim. All India can do is to elicit some broad lessons of development and adapt them suitably for its own very different political milieu.

### 3. *India, China, and the United States*

The second overarching theme of this book entails prescience. It predicts the

rise of India on the global scene as not just a major economy but a major power. The author's main instrument of analysis for this is what he calls the Virmani Index of Power Potential or VIP<sup>2</sup>—although I shall here drop the superscript 2 for typographical simplicity. The idea of having an index of power is enticing, since so much of what happens in the world is a matter of power play. But power is notoriously difficult to define; so an index for actually measuring it must be even more complex. This makes the index a matter of some intrigue. However, after one has gone through the little algebra to understand what this index captures, one cannot but be disappointed. VIP turns out to be a rather mechanical measure, whose properties are neither transparent nor explained. It is obtained by multiplying a nation's income and per capita income raised to the power  $\alpha$ , where  $\alpha$  takes values anywhere between 0 and 1. This is then normalized using the U.S. income and population, but of course that does not affect intercountry ranking. So let us ignore the normalization. Clearly if  $\alpha = 0$ , VIP coincides with national income. So the interesting cases occur when  $\alpha$  rises. So let us take the case where  $\alpha = 1$ . VIP then is nothing but national income raised to the power 2, divided by population. In other words, a rise in national income raises power, population (with national income held constant) lowers it, but the effect of income is greater than that of population.

It is not at all clear why this close variant of GDP is a measure of power. With a new measure, one would want to learn about its axiomatic properties or at least some conceptual discussion of why this measures power while national income or per capita income or national income plus military might or national income plus foreign exchange reserves and so on do not. Armed with this index, nations are ranked and the rankings discussed. But the rankings, not surprisingly, mirror GDP rankings so closely that it is not clear what the advantage of this new measure is.

When the book turns to a substantial discussion of global economics and what the author calls the “tripolar century,” the analysis gets interesting. Fortunately, for the most part, he dispenses with the analytical crutch of VIP and, when it is cited, it is more lip-service than actual reliance. Virmani's argument is that the world is evolving such that the second half of the twenty-first century will see the emergence of a tripolar world. He predicts that, in another fifteen years or so, the world will be bipolar, with China breaking the reign of America's unipolar innings—and India will elbow into this as a third pole by 2050.

This argument put forward ten years ago and, certainly, fifteen, would have been dismissed as a baseless pronouncement of some ultranationalist. It is interesting that this is no longer the case. The scenario predicted may or may not come to pass but it is within the realm of the possible. It is, however, possible to contest Virmani's forecast by arguing that, while India's rise as an economy seems likely and the Indian economy could well be among the world's largest three by the middle of the twenty-first century, its rise to political power is more doubtful. As Parag Khanna (2008) has recently argued, it is not clear that India has the “strategic appetite” for such global power play. In the theater of international political economy, India stands in sharp contrast to China, which has in recent times made aggressive strategic investments in Africa and taken steps to secure control over global energy sources.

On the other hand, national ambitions can change if one is thrust into a position of influence. There is some evidence that the United States, concerned about China's military rise, views India as “a key strategic partner” in the Asia Pacific region (Harsh V. Pant 2007). The 2006 *Quadrennial Defense Review Report* of the U.S. Department of Defense openly talks about this. This may well stir the strategic appetite of which, as yet, there is no evidence. All I can say is that this is a matter on which the jury has to be viewed as being out.

The picture is much clearer when it comes to the economy. If the annual growth rate of ppp-corrected GDP is maintained by India at the current momentum, then India's per capita GDP will breach the 20,000 dollars mark before 2030. Now maintaining a growth rate of 9 percent per annum is not easy, but there are underlying changes that makes this feasible. The most significant change is the rise in India's savings rate over the last five years. As observed above, the savings rate crossed 21 percent by the late 1970s. After that it remained roughly there, fluctuating between 20 and 24 percent for over two decades. Then it rose sharply and is now 34 percent. From the point of view of growth, this is arguably the most important change that has occurred in India in the last few years, even though not having the lure of Sensex it is rarely mentioned in the media. This places India in the family of East Asian nations, which were known to be super-savers.

There is reason to believe that this savings rate will sustain for a while. First of all, savings is not a very volatile variable. Second, an important component of the recent rise in savings is the increase in government savings. The Indian government has changed from being a dissaver to a positive saver. An important cause of this is the Fiscal Responsibility and Budget Management Act, 2003. This new law requires the Union government to eliminate revenue deficit altogether by 2009 and reduce fiscal deficit to less than 3 percent by that time (see P. Chidambaram 2007). So, short of a parliamentary move to repeal this law, this will ensure that the government does not dissave the way it used to in the past. Finally, India is expected to have the "demographic dividend" of a rise in the ratio of working age population to total population over the next three decades. Working age people being the category that does the main saving in an economy, India's savings rate will get an upward push from this.

The other sustaining variable for the economy—one that Virmani discusses—is the critical position that India is coming

to occupy in the global polity. The United States has an interest in India in the short to medium term as an ally in combating terrorism and in the longer run as a counterpoise to China. To ensure that the world crosses over from the current unipolar world to a multipolar one, with as brief an interlude as possible of a bipolar situation with the United States witnessing a face-off with China in a playback of the Cold War days, is clearly of interest to the United States. This is a strategic advantage that India has. The downside is that this can create destabilizing tensions between India and China. The two nations still have to sort out some troublesome border demarcation issues and there are possible future tensions concerning the flow of water down Chinese rivers into India. The sharply rising trade between China and India may be an antidote to these friction points. In any case, if these political matters can be kept under control, the prediction of India joining the United States and China as a major global player within the next three or four decades is not unreal.

#### 4. *Poverty, Polity, and Society*

Despite the ambitious coverage of this book, there are some significant caveats. First, the book spends too little space on the weaknesses of the Indian economy and, second, it largely ignores the social and political foundations of economic development.

Among the weaknesses of the economy's recent performance must count the extensive and abysmal poverty and growing inequality. Nationalist writers try to gloss over these facts, treating the highlighting of them as conspiracies to slow down India's growth. I would disagree with this on two counts, one normative and one positive. The normative disagreement is with treating the aggregate GDP growth as the ultimate target. A nation's aim must be to help its poorest people achieve higher standards of living and greater freedoms. Much has been written on this (see Amartya Sen 1999). A simple

and easily operational way to achieve this (not in its entirety, but in significant ways) is to evaluate a nation's welfare in terms of the per capita income of the poorest 20 percent of the population. This does not mean we ignore growth, but it asks us to focus our attention on the growth of the incomes of the poorest segment of the population. This will typically require us to push on with the nation's aggregate growth but the *instrumental* nature of this target must not be forgotten (Basu 2006, S. Subramanian forthcoming). Second, ignoring the growing inequality and (declining but) unacceptably large poverty, as measured by the percentage of population below the poverty line (Guarav Datt and Martin Ravallion 2002, Angus Deaton and Jean Dreze 2002, Dreze and Sen 2002, Abhijit Sen and Himanshu 2004), is not just bad in itself but could well destabilize the growth process through political instability. According to the National Sample Survey's sixty-first round study in 2004–05, Indian poverty is between 22 percent and 27.8 percent.<sup>8</sup> The method that yields 27.8 percent when applied to 1993–94 gives a poverty estimate of 36 percent.<sup>9</sup> So poverty is clearly declining but nevertheless the absolute amount is shockingly high—between 230 and 280 million poor people.

The rise in inequality—regional and inter-personal—is also well documented (Abhijit Banerjee and Thomas Piketty 2005, Pranab Bardhan 2007). Banerjee and Piketty have shown that the richest 0.01 percent of the Indian population saw a 348 percent rise in income between 1992 and 1999. Most measures applied to National Sample Survey

data show that overall inequality has risen between 1993 and 1999. A certain amount of inequality may be essential to mitigate poverty (Basu 2008) and it is reasonable to argue that inequality that is necessary to raise the income of the bottom segment of the population is worthwhile. But the extent of inequality in India seems to be well above that.

What is more significant is that there is, increasingly, a global dimension to inequality, which explains why inequality is on the rise not just in India, China, and the United States but also in the bastions of equity, like Japan and the Scandinavian nations. I have argued elsewhere that some of this inequality is beyond the reach of any single nation's control. If corporate taxes are low in other nations, one nation may have no option but to lower its corporate tax. So there is need for some international agency that can effect the global coordination of policy concerning inequality and the mitigation of poverty.

The second big omission is a discussion of second-generation reforms and, in particular, the problem of labor regulation. This is a contentious matter that politicians have tried to stay clear of for fear of a voter backlash but comes up in all serious academic discussions of India's policy prerogatives (see Bimal Jalan 1996, chapter 1, and Srinivasan 2000, chapter 1). For reasons of history and political compulsions, India has come to adopt an intricate system of labor legislation that is, on the face of it, highly protective of worker interest. But is it really? There is widespread perception today that these laws may have been well meaning but they have worked against the interests of the very people they were meant to help, to wit, the working classes (Timothy Besley and Robin Burgess 2004). The discussion of labor reform entails intricate issues of economic theory and econometrics and it is disappointing that the topic is barely mentioned in this book.

Finally, I believe that the book's lack of attention to the social and political underpinnings of economic policy and development is an important caveat. As a host of

<sup>8</sup> The reason for the nonuniqueness on this number is that the reported consumption per day of people is sensitive to the length of period for which people are asked to report their consumption. And in the sixty-first round people were asked (a) how much they consumed of each good in the last thirty days (the "uniform recall period" method) and (b) how much they consumed of a bunch of nonfood items in the last year and how much of the other goods they consumed in the last thirty days.

<sup>9</sup> The numbers reported in this paragraph are to be found in Government of India (2007).

recent research shows, economic progress depends on more than economic policy and economic variables; it depends critically on social and political factors (see, for instance, Stephen Knack and Philip Keefer 1997 and Karla Hoff and Arijit Sen 2006). A modern industrialized society can flourish only when it is endowed with an appropriate set of social and political norms. The story of the stagnation and rise of economies is not so much a tale of big and small government, as this book makes it out to be, as that of the absence and presence of enabling social norms, culture, and political conditions. We may not understand where and when these preconditions come into their own, but that is no reason to deny their importance.

One dramatic change in India is the improvement in corporate culture and the quality of corporate governance (Omkar Goswami 2003). The sudden rush of global takeovers by Indian firms is facilitated by the new professionalism in the Indian corporate sector. It is difficult to pin this change to any deliberate government policy. Much of this emerged from within the industry, thanks to the initiative of some individual entrepreneurs. This has had a transforming affect on industry and especially the services sector, in which India has been a world leader (Rupa Chanda 2007) but, more importantly, it is affecting the culture and mores of smaller businesses and traders.

Likewise, on politics. Earlier a lot depended on which party and politicians of which persuasion happened to be in power. What is new in India is the fact that politicians seem to be agreed on the basic tenets of what good policy is. Hence, despite changes in government, there has been remarkable stability of policy. Even the Communists, who use a very different rhetoric where they are not in power, have tried to use the same policies when they have been at the helm of government. In recent times, West Bengal is a case in point, where, over the last few years, government has been aggressive in wooing big businesses and multinationals and acquiring

land for private enterprise using the principle of eminent domain, as in the United States.

This is not as much a criticism of Virmani's books as lament for a missed opportunity. The relations between politics, society, and economics are as important as they are ill understood. So it would be foolish to expect a definitive treatise on this. Yet, one sees these interconnections at play in India and how the economy fares in the future will depend a lot on how India's society and polity evolve over the future. In a work of this span, it would have added great value if the author had ventured out to these larger themes, even if such an excursion yielded no final answers but conjectures and hints of interconnections.

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