

Agenda for Transforming the Lumbering Elephant to a Charging Tiger

Book Review of *India Unlimited: Reclaiming the Lost Glory* by Arvind Panagariya

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India Unlimited: Reclaiming the Lost Glory (published as *New India: Reclaiming the Lost Glory* by the Oxford University Press for rest of the world), is yet another White Horse (meaning a balance of wisdom and power) from the stable of Arvind Panagariya. The first part of his academic life was spent in working on theory of international trade and his foray into Indian economic policy discussion in a systematic manner began with his seminal work, *India, the Emerging Giant* in 2008. The first book was comprehensive in its coverage of the economy and went into great lengths to unravel the pitfalls of inward looking policies and unravelled the great potential that awaits the economy when liberalisation and openness policies are pursued. In the next book on Indian policy treatise (with his illustrious collaborator, Jagdish Bhagwati), *India's Tryst with Destiny*, he systematically showed that growth as the single most important instrument to alleviate poverty. In the new book, *India Unlimited: Reclaiming the Lost Glory* provides comprehensive reform proposals to achieve sustained rapid growth for two to three decades to transform itself into a modern industrial, urban economy and competitive from the traditional agrarian economy. The book is an evolution in his thinking bears evidence to his experience as a policy maker as the first Vice Chairman of the NITI Aayog.

The motivation for the book is to identify the constraints on growth and advance policy reforms reclaim the lost glory. Panagariya recounts Angus Maddison's estimates that by 1700 AD India claimed almost a fifth of world's GDP, but by the time the British left the shores of India after 200 years of rule, India's share had shrunk to 4.2 per cent. Even by 1973, as India continued to grow slower than rest of the world, its share shrunk to 3.1 per cent. However, after the reforms were initiated in 1991, the growth acceleration helped it to marginally recovered to 5.4 per cent by 2001. The story is similar to that of China which had 33 per cent of world GDP in 1820, to 4.6 per cent in 1973, but rose much faster than India to claim 12.3 per cent of the share in world GDP in 2001. After recounting the glorious past and stagnation during the British Raj, the author refers to the chequered growth in the first four decades after Independence and the period of rapid growth after liberalisation to highlight what worked and what didn't. Reclaiming the lost glory requires accelerating the growth and sustaining it for two-three decades and creating productive jobs to the vast workforce with limited skills. This requires upgrading the skills and transforming the traditional agricultural and rural economy to a modern urban and industrial economy.

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The book recounts the lessons from the East Asian Miracle Economies in demonstrating the importance of leveraging the world markets by adopting export led growth strategy. This requires the India industry to be competitive which can be achieved only through right set of reforms. While the book gives credit to the reforms undertaken by the Narasimha Rao government in 1991 which was continued and deepened by the Vajpayee government, it is critical of the socialisation of policies by the subsequent government, particularly during the second UPA government tenure. It highlights the policy mistakes of the UPA government which includes policy paralysis, socialisation of policies with the introduction and expansion of programmes like MGNREGA, food security act, right to education act, retrospective taxation and abandonment of fiscal discipline. Thus, the emphasis of the book is on accelerating growth as a strategy of alleviating poverty.

Unsurprisingly, the book highlights the various reform initiatives of the Modi government and these include, key reforms of Modi government enactment of Insolvency and Bankruptcy Act (IBC) , introduction of direct benefit transfers, implementation of Goods and Services Tax, assault on corruption through measures like demonetisation of high denomination notes, speeding up environmental clearances, introduction of fixed labour contracts and greater flexibility in employment, higher education reform with greater autonomy to well ranked universities, inflation targeting regime in monetary policy, stricter rules governing defaults by bank borrowers, creation of digital platforms using UPI, near universalisation of toilets in rural households. Indeed, the list is impressive though, some of the reforms are still a work in progress like implementation of bankruptcy reforms, some of the wrong policies of the past are yet to be reversed (retrospective taxation) some have seen some reversal (bankruptcy reforms and rules governing defaults by bank borrowers) and in respect of demonetisation, there are many who disagree to consider it as a reform.

The book brings out the malice in the economy – the existence of widespread under employment and low productivity employment in all sectors of economy -agriculture, industry and services. It argues the imperativeness to move the low productive workforce from agriculture to expanding employment opportunities in industry and services which must be made more productive and expanding. The only way for this is to create environment for many more medium and large firms to emerge, especially in employment intensive sectors such as apparel, footwear, furniture and other light manufactures. It convincingly argues for removing the excessive protection for the small firms and the need to enable them to grow into more productive medium and large industries to improve the quality and take on global competition. Acceleration in growth and creation of quality employment opportunities require the country to gain a larger share of world market which entails export competitiveness.

The main thrust of the book is in identifying reform areas. In fact, 8 out of 13 chapters of the book are devoted to discussing various reforms needed to transform the economy from traditional, rural economy to modern urban economy with expanded industry and services sectors providing quality employment to absorb the labour from low productive agricultural sector. The reform package provided is comprehensive and include trade liberalisation, trade facilitation, labour and land reforms, urban development, development of securities market, banking reform, improvements in governance and a miscellaneous set of reforms such as privatisation, consolidation of rural subsidies into a single cash transfer, scaling down the Food Corporation of India and a set of macroeconomic reforms.

The list of recommended reforms is substantial and comprehensive. In agriculture, the recommended reforms include replacement of food subsidy (minimum support price and procurement through Food Corporation of India) with direct cash transfers, APMC reforms, removal of restrictions on the use genetically modified seeds, transparent land leasing laws and the end of MGNREGA. These reforms are

to be carried out as a package and not piecemeal. On industry, manufacturing must be made into a major engine of growth and employment, and large firms are crucial for the successfully operating in the global marketplace. This requires a change in the mindset. 'Small is not always beautiful' because they suffer from low productivity, poor quality and lack of standardisation. They should evolve themselves into medium and large industries and the constraints on this evolution must be removed. This requires ending decades of reservation in one form or another, reform of labour laws, numerous procedure related issues for large businesses, reform of minimum wage laws, ensuring ease of land acquisition and focus on export orientation.

The author laments that the Indian policy makers have not been able to fully shed their love affair with import substitution despite clear evidence of its failure. He cautions, "...If India is to relaunch itself into the 8 per cent-plus growth trajectory... the policy makers must disabuse themselves of the import substitution ideology" (p.118). It also highlights the need to avoid love for strong rupee because overvalued exchange rate works as a tax on exports. To impart export orientation, in addition to the above the book recommends that the tariff levels should be set at a uniform rate for industrial products within a span of 3 years. The revenue neutral (customs revenue) uniform rate would be 7 per cent and alternatively, the rate could be set at a uniform 10 per cent. In addition, it is necessary to ensure that all domestic indirect taxes are reimbursed on exports and there must be active trade facilitation. The most important is the recommendation to integrate India with global supply chains and become worlds manufacturing hub is to set up a few (not more than half a dozen) Autonomous Employment Zones (AEZs) comparable to Shenzhen in China located close to deep dredged ports in places like Gujarat or Andhra Pradesh. These should cover an area more than 500 sq. kilometres. These zones should be given virtually all powers to frame rules of economic engagement and ensure a flexible environment with respect to labour and land laws and allow flexibility in changing relocation of the factories, including labour and land laws and administration of customs. There are also recommendations on governance reforms and urban land ceiling and regulations and banking reforms.

It is often said, "crisis is the mother of reforms". At a time when the country is facing the unprecedented economic crisis caused by coronavirus pandemic and the contraction in the economy at 29 per cent in the first quarter of the fiscal is the worse than any other large emerging economy, it makes eminent sense for the government to implement the package of reform proposals put forward in the book. The government has already introduced series of reforms in the farm sector including the amendment of Essential Commodities Act, APMC reforms, enabling leasing of land and contract farming. It has also introduced legislation abolishing the Medical Council of India and setting up National medical Commission. The problem is that when the special interest groups or 'distributional coalitions' as Mancur Olson called them, are deeply entrenched in the system, reforms is not easy to implement in letter and spirit. The reforms identified in the book are extremely important and must be pursued with vigour to take the country to a higher growth trajectory and the time is opportune to initiate them. The policy makers in the country will do well to heed the reform recommendations. The book is a must read for all those who are interested in Indian economic policy.

***India Unlimited: Reclaiming the Lost Glory*, by Arvind Panagariya, Harper Collins Publishers India, Noida, 2020. Pages (i-xiii) and 370. Rs. 438 (Hardcover); Kindle Edition: Rs. 381.71.**