India: Recent Developments and Medium Term Issues. **By James A. Hansen.** A World Bank Country Study. Washington, D.C.: The World Bank, December 1989. xxv, 171 pp.

India: Poverty, Employment and Social Services. **By James A. Hansen and Samuel S. Lieberman.** A World Bank Country Study. A World Bank Country Study. Washington, D.C.: The World Bank, December 1989. xxxix, 288 pp.

These country studies were produced initially for use in the Bank's annual review of the economy with Indian officials. Although they bear the same publication date, the volume on recent developments and medium term issues reflects data as of early 1988 while the volume on poverty, employment and social services reflects data as of 1 May 1989. Both volumes include a macro-economic overview, a thematically focused discussion and analysis, a bibliography, and an extensive statistical appendix. The first volume is more macro-economic and financial in focus while the second, more lengthy volume, looks at Indian economic performance through the prism of the "people" concerns of poverty, employment and social services.

The macro-economic overviews of both volumes follow a common underlying theme. Limited doses of economic liberalization appear to have moved India to a higher growth path from that experienced in the 1960s and 1970s and slightly reduced the incidence of poverty, but not the absolute numbers of poor. These gains are threatened by severe, interrelated problems. These include a runaway fiscal crisis, which according to the Ninth Finance Commission's report for 1989/90 "has gradually worsened to an alarming extent" (Poverty, p. 14); lagging agricultural growth, averaging only 2.4 per cent per annum over the past 25 years — barely ahead of the population growth rate — and tending to fall off since the mid-1980s; a major balance of payments deficit, with imports exceeding exports by two-to-one in recent years; and low manufacturing efficiency. While manufacturing output has grown at a 9 per cent annual growth rate in the past few years, the state-dominated heavy industrial sector is sluggish and unprofitable, and the efficiency of both state-owned and private enterprises is dragged down by protectionism and overregulation.

While reinvigorating agriculture and increasing manufacturing efficiency are the most urgent requirements for higher growth, the twin fiscal and trade deficits represent India's most urgent problems. Borrowing to finance the Central Government's operating budget began in the late 1970s, and has increased over the past decade to alarming proportions, with the overall budget deficit running in the range of 8–9 per cent of Gross Domestic Product (GDP) in recent years. India's external debt is estimated at more than $60 billion (including undisbursed loans) and its debt service ratio, a high 27 per cent. The foreign debt can only be made manageable through concessionary lending.

The domestic expenditure-tax revenue gap has arisen primarily as a result of the ever increasing drain of money-losing state enterprises and the growing budget deficits in the states, where current spending has been rising at about 17 per cent per annum in recent years. Tax policy changes have failed to generate more direct revenues, and the burden falls on excise taxes and customs duties, respectively contributing 33 and 48 per cent of the Centre's net tax receipts. Both of these sources tend to be a drag on economic modernization. Agriculture, on the other hand, remains constitutionally immune from Central taxation (Poverty, pp. 18–22).

The basic characteristics of the modern Indian economy have been shaped by a number of realities, all of which operate under the framework of a political economy shaped by democratic populism and a quasi-socialist ideology. By taking some liberties with the two volumes, which are models of tact, the following factors can be discerned that appear to establish the parameters of the Indian economic problem. First, the pre-emption by the state of the so-called "commanding heights" of the economy, that is the heavy industrial sector; second, the existence of a potentially vast continental market and the insulation of private sector producers of consumer goods behind high walls of protectionism; third, a high degree of regulation of private business in the avowed interest of preventing the growth of monopolies or the exploitation of labour — both goals which have been largely frustrated by loopholes and abuses; and fourth, the generally ineffective effort to promote social welfare and income redistribution policies with inadequate and too thinly spread resources.

Both of these volumes avoid direct criticism of India's mixed economy, but focus instead on ills of protectionism, the heavy losses of public sector enterprises, and the failure of the manufacturing sector to generate the higher employment growth rates that might be expected to follow from India's factor endowments. Indian policy-makers receive good marks for recent measures of deregulation and liberalization, but on the whole these have not gone far enough to reduce the dead hand of the bureaucracy or open up the economy to the healthy stimulus of competition from imports. India has a remarkably high rate of savings and investment, but Pakistan and Thailand have gotten better GDP growth rates on lower rates of investment, while China and Korea have achieved substantially higher growth rates on somewhat higher rates of investment. (Recent Developments, p. 5)

A basic argument of these studies is that protectionism has encouraged excessive capital-intensity and tended to steer investment away from less protected, more labour intensive sectors. The highly protected sectors use about two-thirds more capital and power inputs per unit of output than industries having low protection. Under a less protectionist regime, it is argued, India would have seen more rapid GNP growth, generated more foreign exchange earnings through more rapid export growth, and produced susbtantially more rapid growth in manufacturing employment. (Recent Developments, pp. 32–33; and Poverty, pp. 108–09)

As a result of the best monsoon in recent decades, Indian agriculture in 1988/89 rebounded from the effects of the severe 1987 drought. The effects of the drought had been ameliorated by government actions, including public works and relief measures, distribution of food buffer stocks through ration shops and imports of edible oils and pulses. Finding a long term higher agricultural growth curve presents daunting problems. The earlier effects of the "green revolution" appear largely to have spent themselves, and were largely confined to cereals in any event. According to the Bank's analysts, "improving agriculture's performance will entail improvements in irrigation; raising the productivity of rain-fed agriculture and its resistance to drought through reorientation of research and extension; better water management; and adjustments in the price-subsidy framework of incentives." (Recent Developments, p. 26)

India maintains an alphabet soup assortment of anti-poverty programmes, and poverty alleviation has a prominent place in India's development strategy. In several respects, the relevant numbers are improving. Gains have been made in reducing the incidence of poverty although absolute numbers of persons below the poverty line are rising; literacy is rising and infant mortality is falling, though the figures pointedly favour males over females, and the well-off over the poor; malnutrition stalks the land. All of the data show marked regional differences, with a general tendency of the Eastern and Central states to fall further behind the rest of the country. Anti-poverty programmes reach a substantial proportion of the population, but their long term effects are questionable. For instance, the Integrated Rural Development Program (IRDP), which supplies subsidized credit for investments in minor irrigation, livestock purchases and the like, "has already reached 27% of India's rural households," but studies show that "by the end of the fourth year over 40% of the beneficiaries had liquidated or otherwise lost their investments." (Poverty, p. 69). Meanwhile, India's state owned banks are among the world's most undercapitalized and operate under rules that make them tie up some three-fourths of their deposits in compulsory purchases of government debt paper or concessional lending programmes, such as the IRDP. (*Far Eastern Economic Review*, 8 November 1990; p. 59)

The authors of these reports see the most critical issue for India as that of attaining and sustaining at least 10 per cent per annum growth in its exports; otherwise the country will not have enough hard currency to acquire needed imports of modern capital goods and technology to sustain acceptable economic growth rates. Strikingly absent from this analysis is any reference to the utility of foreign investment as a source of imported inputs. One can only conclude that the authors did not find it politic to weigh in against India's long standing obstacles to foreign participation in the consumer goods sector. Still, the issue is so obviously important, even in the negative, that its omission would appear to be a major analytical shortcoming. So long as India's imports of capital goods and technology are limited by the hard currency it can generate through exports or borrowing, its prospects for modernizing its economy or attaining rapid export growth would appear quite limited.

Ultimately, these volumes are directed at the aid donor community and the need to mobilize external resources to cover India's risng balance of payments gap. The more recent volume projects a current account deficit of US$6.2 billion for 1989/90, of which some US$5.1 billion was expected to be covered by concessional inflows from the Aid-India Consortium of multilateral and bilateral donors. A significant factor in recent years has been a growing shortfall between domestic oil production and consumption.

Actually, as of early 1990 India's hard currency position had already deteriorated from that anticipated in the most recent volume, and can be expected to become even more severe as a result of the Iraq/Kuwait crisis and the resultant decline in remittances from expatriate workers and the brief but sharp rise in oil prices. Internal political instability, which intensified in late 1990 and early 1991, can be expected to make needed economic and fiscal reforms all the more difficult, at least in the short run.

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