



Book Review

Vijay Joshi. *India's Long Road: The Search for Prosperity*

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Vijay Joshi, *India's Long Road: The Search for Prosperity*, Gurgaon: Penguin. pp. ix + 420. Rs. 699. ISBN: 9780670086825

Vijay Joshi's *India's Long Road: The Search for Prosperity* is an important addition to the list of books on the Indian economy – Jean Dréze and Amartya Sen's *An Uncertain Glory: India and its Contradictions* and Jagdish Bhagwati and Arvind Panagariya's *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries* – written for the interested general reader as well as the specialist. In addition, those readers familiar with the literature assessing and evaluating India's economic reforms will remember Joshi as the co-author of *India: Macroeconomics and Political Economy, 1964-1991* (1994) and *India's Economic Reforms, 1991-2001* (1996) along with the late I. M. D. Little.

Overall Scheme of the Book

India's Long Road is divided into five parts. Part I sets the stage by taking a "tour d'horizon" of India's post-independence economic performance and outlines the means – via the market and the state – to achieve the following end: "rapid, inclusive, stable and sustainable growth of national income within a political framework of liberal democracy" (p. 34). In part II of the book, which consists of four chapters, Joshi puts forth the key factors that constrain economic growth in India: inadequate capital accumulation, insufficient productivity growth, unavailability of adequate

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physical infrastructure, and state ownership of business. The growth-environment relationship is also discussed in this part (pp. 123-34). Part III deals with macroeconomic policies – maximizing aggregate output, keeping inflation low, managing the exchange rate, controlling capital flows, reducing the government debt, and restructuring the tax structure and government spending – and the ways to ensure inclusive growth by ‘reforming’ education, health care, “food subsidies and rural employment guarantees” (pp. 168-91, 193-203) through the “technology of cash transfers” (pp. 203-214). Part IV is titled “political economy” and it deals with the nature of the Indian state and “the implications thereof for economic policy” (p. 217) as well as “the evolution and extent of India’s global engagement in recent years” (p. 239). Part V, which contains only one chapter, concludes the book by undertaking a summary of the key policy recommendations, a brief assessment of the Modi government’s economic policy vis-à-vis the book’s recommendations, and reiterates the various policy measures which, according to Joshi, will take India on the “long road” to “prosperity”.

Indian Economy: An Assessment

Through simple economical calculations, Joshi argues that unless India lowers its capital-output ratio, i.e. raises “the productivity of investment” (p. 18), India will not be able to sustain its current growth rate. In particular, Joshi notes that this was the reason for the low growth rate (3.5 per cent GDP growth and 1.4 per cent per capita GDP growth annually) during the three decades after independence (roughly the 1950-80 period). The low productivity in turn was caused by “inappropriate and excessive state intervention in markets; the dominant role of the public sector; and neglect of critical social sectors” (p. 18). Subsequently, Joshi identifies the primary reasons for the moderate annual growth of 5.2 per cent between 1980-81 and 1992-93: “higher and more stable investment; an increase in efficiency as a result of some liberalization; and rampantly expansionary macroeconomic policies” (p. 22). From 1992-93 until 2002-03, the decadal annual growth rate was higher at 6 per cent. According to Joshi, this was a consequence of the “roll back [of] controls in trade, industry, and finance, thereby increasing the market orientation of the economy.

Quantitative import controls on capital goods and raw materials were abolished, import tariffs were slashed, investment licensing was scrapped in most industries, and significant moves were made to open up the economy to foreign direct and portfolio investment" (p. 26). From 2003-04 to 2010-11, the Indian economy grew at 8.5 per cent a year which Joshi sees as an outcome of "the cumulative effects of the reforms since 1991" (p. 26). Poverty is falling, albeit very unevenly across caste, gender, and regions, and not at a satisfactory rate (pp. 27-9, 33). The Gini coefficient for India during 1950-60 was 35 per cent. In 2011-12, it stood at a stubbornly high rate of 35.9 per cent (p. 33).

A Theoretical Problem: Supply-side Growth Theory

Why is a high rate of economic growth important? It is because, as Joshi writes, "rapid growth not only improves the living standards of ordinary people *directly* through more employment and higher wages but also does so *indirectly* by providing the government with tax revenue that can be used to supplement their incomes" (p. 49). The following excerpt makes it clear that Joshi's growth theory is supply-side in nature (along the lines of Solow's growth theory). "At a proximate level, growth of income and output needs rising supplies of basic resources ('factors of production') such as labour, physical capital, and human capital (i.e. education and skills), combined with improvements in 'total factor productivity'" (p. 50).

Here, it suffices to point out that there are theoretical and empirical problems with using total factor productivity as a variable to understand economic growth (cf. Joshi and Thomas 2013). Subsequently, Joshi appears to assume a version of the discredited Say's law: all that is saved is automatically invested. For instance, Joshi writes: "[c]apital accumulation depends on how much the nation is willing to save and invest out of current output" (p. 51). Moreover, Joshi's explanation of India's saving and investment rate is an accounting one but surprisingly there is no concomitant theoretical discussion. Domestic saving has declined because of lower public saving and household financial saving and lower domestic investment is due to a fall in public investment (due to fiscal compulsions) and corporate investment (owing to adverse global environment and supposedly crowding out) (pp. 55-7).

Despite identifying adverse global environment as one of the causes of low corporate investment, Joshi does not recognize, at least explicitly, the global slowdown in demand, and consequently, a depression in corporate sales, profitability, and investment as posing an important constraint on growth.. The causation runs from aggregate demand to profitability to corporate investment.

Joshi, in line with supply-side growth theory, writes that “[a]dvances in productivity are essential for achieving rapid growth of income and output” (p. 88). However, note that productivity growth without a corresponding growth in aggregate demand just means unsold commodities. In fact, the relationship between technology, demand, and growth is not a linear one.

Education is not a Commodity

Given Joshi’s training in mainstream neoclassical (more accurately, marginalist) economics, it is unsurprising that he believes that “the price of a good should equal the long-run (marginal) cost of producing it” (p. 89). There are ample theoretical and empirical studies which reveal that not only does the marginal pricing rule not reflect the reality (the classic work is Hall and Hitch 1939), but it is also not necessarily profit-maximizing (cf. Raju and Zhang 2010). According to marginalist economics, the equilibrium in a perfectly competitive market is the most efficient; any imperfections lead to ‘inefficiency’. And we know that perfect competition is a bad idea because it assumes away the most important aspect of competition – dynamism. After all, the firms in a perfectly competitive market are *passive* price takers.

In a nutshell, Joshi’s conceptual core is the allocative power of ‘free’ markets. It is this conceptual understanding which prompts Joshi to argue for a cut in government spending on subsidies (on food, diesel, electricity, kerosene, coal, fertilizers, etc.), public education, and parts of public health. Moreover, it is also this belief in the allocative power of ‘free’ markets, and the associated idea that more choice is better, which leads Joshi to argue for food coupons and for a universal basic income.

There is indeed merit in freeing the commodity markets but the labour market cannot be conceptualised or reformed in the same way. Similarly, education is not a commodity in the usual sense,

and therefore Joshi's proposals against the public provision of education and the call for introducing school vouchers (pp. 168-79) are based on weak economic foundations and on even weaker social and political foundations. Joshi calls for reduced public education and increased 'privatization' of education by citing a high degree of teacher absenteeism in government schools and "pervasive lack of teacher accountability" (pp. 176-7). A very recent study by the Azim Premji Foundation (2017) completely rejects this dominant narrative by pointing out that while the overall teacher absence is 18.9 per cent, the absence without legitimate reasons is only 2.5 per cent. While it is true that there exists a systemic problem with respect to the allocation of schoolteachers' time, the absenteeism cannot be attributed to the lack of effort by government teachers because of their 'secure' jobs.

Joshi also sees education, a component of human capital, as a financial investment which yields the investor a future stream of incomes (p. 51). Public education is not just about the transference of knowledge, but it is also about community building - bringing a community of students, parents, and teachers from different castes and classes together. Moreover, public schools are accountable to the taxpayers unlike private schools where school vouchers are used.

"The textbook virtue is that under certain well-defined conditions, in particular the prevalence of perfect competition, market interaction achieves economic efficiency" (p. 36). However, immediately, Joshi rightly recognises that efficiency is compatible with all configurations of income distributions (most notably, inequality). However, there is another concern: initial endowments matter and therefore history matters. How can markets ensure justice when certain castes have been historically oppressed and exploited? Here, Joshi's economism, or the excessive belief in the role of economic factors in India's progress, is completely exposed. Moreover, Joshi does not think inequality can damage, if not slow down, democratic processes and derail the well-designed economic policy.

Conclusion

Despite my criticism of Joshi's position on market efficiency, supply-side growth theory, and public education, *India's Long Road* is necessary reading for all those interested in India's economic performance and the available policy options. The book also bears testimony to Joshi's firm grasp of the contours and the inner workings of India's economic policy. Joshi puts forth his positions and the underlying economic logic very clearly. He subsequently lists the major criticisms of his position and tactfully puts them to rest. His understanding of India's policy constraints and choices is nuanced and his account of India's geopolitical strategies is invaluable. Parts of Joshi's book (for instance, the appendix on inflation targeting or chapter 8 on macroeconomic stability) can be useful supplementary reading in courses such as intermediate macroeconomics and Indian economy. I completely agree with Joshi that "the government lacks a well-thought-out vision for economic reform to guide its efforts" (p. 312), and his book, despite my caveats, provides *one* such "well-thought-out vision for economic reform".

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