

Institutions & Markets in India's Development, Essays for K. N. Raj, Ed., A. Vaidyanathan and K. L. Krishna, New Delhi: Oxford University Press, Rs. 595

State, Markets and Inequalities: Human Development in Rural India, Ed., Abusaleh Shariff and Maithreyi Krishnaraj, New Delhi: Orient Longman, Rs. 975

These are unprecedented times for the Indian economy. Stock markets are booming, foreign funds are pouring dollars, Indian firms are acquiring overseas firms, and outsourcing is, well, identifiably Indian. Whole sections of the economy – financial markets, telecom, aviation, and automobiles – bear no resemblance to what they were barely one and half decades ago. With such rapid change, should one really grudge the epithet of India Shining? If it means that we lose sight of the economic and social deprivation of hundreds of millions of Indians, then the answer is obvious.

It is immediate that the poor have no interest in the latest models of automobiles, the competition among domestic airlines or in the stock market. On the other hand, they might have some use for cheap cell phones and communications. This is, however, a rather slender basis for expecting our express growth to dramatically affect the lives of most Indians. But perhaps there might be some indirect impacts? Greater demand for their services as machine operators, packaging goods, and artisans or more familiarly as couriers, drivers, cooks, security guards and so on? Or could it be that the rising prosperity propels government tax revenues as well that in turn leads to greater spending on infrastructure, health and education? Or maybe there are some other yet to be documented channels?

These are important questions not just for India but also for other countries in the fast lane. Answers that persuade are not available yet. The books under review do not pose these questions either. But they could claim to provide clues.

Of the two books, Shariff and Krishnaraj is more concerned with immediate economic issues. The theme is human development. The papers in the volume are empirical investigations and almost all of them use a common data set that elicits information from households across India about variables concerning education, health, income and wealth. The virtue of this book is therefore that it reports new research. At nearly 800 pages, the book is massive. I doubt that the editors intended the research to be weighty in this sense. Dividing it into two volumes would have been a reader-friendly move but the editors probably do not have much of a say in the matter.

The editors provide a lengthy introduction in which the description of the NCAER-HDI survey that forms the basis for most of the papers is essential reading. The paper by Lanjouw and Shariff comes closest to answering the big questions of the impact of growth process on poverty. They find that non-farm incomes account for about a third of the income of rural households. However, the non-farm economy is heterogenous and the poor largely rely on casual wage labour. While such wage labour does not offer significantly higher returns than agricultural activities, it does tighten labour markets and

increases agricultural wages in general. However, access to non-farm jobs is conditional on education and even a modest amount helps. The policy implications are clear.

One limitation of the Lanjouw-Shariff paper is that, much like the literature, it restricts attention to rural non-farm employment – a variable whose relationship to economic development is ambiguous because of changes in the spatial distribution of economic activity. This is the subject of the paper by Kundu, Pradhan and Subramanian. Their analysis consists of estimating relationships between distance (to nearest town) and economic outcomes such as income, literacy and infant mortality. Their major point is that there is no linear monotonic relationship between distance and economic outcomes. However, their analysis does not include an explanation of this relationship.

The Lanjouw-Shariff paper points to education as the key to understanding the impacts on economic growth on the poor. Fittingly therefore, education is the theme of six papers in the volume. Tilak shows that household expenditures on education are sizeable – even for government schools. Interestingly, the bulk of expenditures in such schools are on books, stationary and uniforms. In fact, as a proportion of total household income, poor households spend more on education than the rich. The clear implication is that lowering these costs would increase enrollment. Tilak also contends that household expenditure on education complements government expenditure, that is, increasing government outlays would have a multiplier effect as it induces households to spend more. It is not clear, however, why this is so. Despite the rapid growth of private schooling, Tilak and Sudarshan in a companion paper, are pessimistic about its role in plugging the education deficit. Duraisamy's paper highlights the "nowhere" children – those who are neither enrolled and nor working in market activities – who account for 30 per cent of the sample.

In the development literature, mother's literacy is regarded as the most important variable explaining many outcomes such as children's schooling, infant mortality and fertility. Barooah, however, finds that a broader set of factors including father's literacy matter. He finds that parental literacy is critical in one respect – that of determining educational outcomes. These dynamics are pursued in Mari Bhat's paper where he argues that rising enrollments are because of simultaneous household choices in (lower) fertility and education. As large family sizes particularly handicapped the education of female children, his analysis suggests that recent trends of declining fertility would be positive for them. The impact of community characteristics on educational outcomes is considered by Unni who looks at differences in returns to education between social groups.

The issues in health are in many respects similar to that of education – availability and utilization of facilities, scale and determinants of household and government expenditure, public versus private provision and the determinants of health outcomes. Education itself is frequently found to be a determinant of expenditure, choice of facility and health outcome. For lack of space, I do not attempt to review the research findings here although they are of as much interest as the findings from education research.

For a work of this nature that contains research papers on tightly focused themes sharing a common data base, the editors could have written or commissioned a paper that asks what all of this adds up to. The absence of such a paper would unfortunately limit the appeal of this book only to those researchers willing to do the hard work of wading through academic style papers.

The other book under review is a collection of papers that were originally presented at a conference that celebrated the eightieth birthday of K.N. Raj. He is one of the most prominent members of the cohort of Indian economists that came of age around the time of the country's independence. Besides being an influential thinker, he was also a leading faculty in the Delhi School of Economics during its "golden" period and later in establishing the Centre for Development Studies at Trivandrum.

Possibly because of its origins, the book has a retro feel. Krishnaswamy traces the changes in policy framework starting with the Nehruvian paradigm. The author is properly skeptical of policies and growth that matter only to the "movers and shakers". Ashoka Mody takes up the theme of inclusive growth and outlines how it was considered in early Indian thinking on economic growth. He uses Raj's concept of politically powerful intermediate classes (crudely speaking, all except big business and the marginalized poor) to see what economic policies were politically acceptable and their consequences for inclusion. This is an interesting essay and brings a welcome political economy perspective to issues that have otherwise been flogged to death. Other papers that take the "long" view are Shetty's review of India's saving performance, Chandrasekhar's analysis of India's industrial performance that updates some old debates, and the analysis of Bhaduri, Parikh and Skarstein that revisits the movement of terms of trade in dual economy models. Interestingly, Chandrasekhar as well as Bhaduri, Parikh and Skarstein conclude that pure supply driven models are inconsistent with the evidence.

K. N. Raj's work provides the raw material for three other papers. J. Krishnamurthy reviews Raj's contribution to the measurement of labour force and unemployment. He shows how Raj anticipated the difficulties about the concept of labor surplus assumed in the dual economy models of the day. Raj also contributed to the measurement of unemployment in India and in particular to the 'daily status' measure that has proved to be analytically appropriate to employment patterns in India.

The third category of papers in this volume are those that are more connected with recent issues in economic theory and policy. Nagaraj offers a highly illuminating comparison of industrial growth in China and India. Sundaram contributes a detailed analysis of growth of work opportunities between 1983 and 1999/00. Modern growth theory assigns a pivotal role to growth in total factor productivity (TFP) that is nothing but growth in output that is not simply due to greater use of inputs (labour, capital, land). TFP growth is therefore attributable to factors such as technological change and institutional innovations that lead to greater efficiency. A central result of modern growth theory is that growth will inevitably taper off unless TFP is a major component of growth. Empirical studies have shown that TFP growth is indeed the primary component of

economic growth in rich countries. In a masterly review, K. L. Krishna surveys the sources of economic growth in India. Input accumulation (and in particular, capital) is found to be the most important source of economic growth.

It is the last category of papers (and not all have been mentioned here) that will be of principal interest to researchers today. The other papers have high nostalgia value to the generations of economists who were educated before the economy's turn to the market. Overall, the volume is a fitting tribute to one of the pioneer scholar of economics in India.

Bharat Ramaswami  
Professor, Indian Statistical Institute