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Barriers to growth

Understanding the economic liberalisation of 1991, the impact it had on industry and why disparities and concerns remain

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India completed a quarter of a century of "reforms" in 2016. There was an explosion of articles and books explaining the background to the reforms and how they came to be implemented. However, the larger question of their overall impact continues to be contentious. Even policymakers like Montek Singh Ahluwalia who initiated them conceded that "it is a work in progress."

The package of reforms had several components ranging from trade, tariff, industry and finance to fiscal management. The thrust was on deregulation and allowing "market" forces to play their role and freeing them from state interventionist policies. Dr. Manmohan Singh, the then Finance Minister, appealed to India Inc. to invoke their "animal spirits" and lift the economy to higher levels through investment. In retrospect, did reforms lift and promote industrial growth? The book under review seeks an answer to the question.

Deep impact: One of the arguments for reforms was that open markets and competition would lead to higher productivity. ▪S.R. RAGHUNATHAN

Path of reforms

It's a rigorous and intensive investigation on the impact of reforms on our industrial development. Its coverage is ambitious, both in theoretical constructs and statistical reach. Cautiously, it describes the pace of industrial development as "hastening slowly" which is a euphemism for stagnation.

Data suggest that manufacturing output grew 7%-8% annually since 1991, roughly the same as in the '80s before reforms. While there has been improvement in the variety and quality of goods produced, industry's share in GDP has stagnated with a sharp rise in imports. As Prof. Nagaraj put it, "...(India) stares at a quarter century of stagnation, in contrast to many Asian economies that have moved up the technology ladder with a rising share of manufacturing in domestic output and global trade." (Economic Reforms and Manufacturing Sector Growth, R. Nagaraj, *Economic & Political Weekly*, January 14, 2017) Babu's book unravels some of the reasons for this stagnation.

Reform conditions are based on neoclassical theoretical abstractions which are far removed from ground realities in developing countries. Supply/ demand elasticities are neither linear nor automatic. Initial conditions such as industrial structure, corporate ownership, infrastructure, etc. matter. Strong institutional structure for provision of finance, skilled manpower, etc. are also essential. These are subsumed under the rubric of "initial conditions."

Apart from these, policymakers have to reckon with the responses or strategies of the corporate sector to changes in government policies and how they try to protect their turf.

▪ **Hastening Slowly: India's Industrial Growth in the Era of Economic Reforms**
M. Suresh Babu
Orient BlackSwan
₹975

Prof. Babu bases his analysis on a study of corporate structures, organisation constructs and strategies adopted by corporates in response to or in the backdrop of alterations in economic policies. He tries to "capture change in market structure and changes in competition along with its main hindrance, entry barriers."

For him, 'mark- up' of prices is a measure of market power. Entry barriers are hindrances to competition and are of two types: institutional and strategic. Institutional barriers include licence-permit-raj imposed by regularity authorities; and strategic barriers are erected by corporates themselves to defend their interests. He takes the view that removal of institutional barriers alone may not be sufficient to increase competition.

In Chapter 3, he assesses the market power and degree of competition in the manufacturing sector, concluding that "the overall levels of concentration did not alter much since 1991 with the introduction of more liberal policy regime, certain industries did register decline in concentration." This is due to the prevalence of entry barriers.

Moreover, despite the end of the licence raj, "firms have been able to engage in entry-blocking strategies fuelled by market forces" and "dilution and dismantling of commands and controls intended to ease entry thus paved the way for the erection and strengthening of market barriers..."

Factory output

Babu also examines the impact of reforms on total factor productivity growth (TFPG). One of the arguments for reforms was that open markets and competition would lead to higher productivity. Sadly, this is not borne out by the analysis brought out in this book. It observes that TFPG declined in the period after reforms in almost all industries except two. Rather, the decline dates back to the late '80s.

Another hope related to reforms was that it would lead to wider industrial development. However,the geographical spread has been uneven and concentrated in a few States. The expectation that there would a 'level playing ground' for all States and result in better regional dispersal of industry is belied. Early movers continue to dominate and there is evidence of what economists term as "path dependence." States which had better infrastructure like Maharashtra and Gujarat attracted more investment. Similarly, States with pro-capital policies had a better deal than those with pro-labour policies.

In the last section titled 'Postlude', the author suggests alternative approaches to address industrial promotion at a micro level such as to remove institutional rigidities. He bemoans the weakening of sectoral links under current reforms and pleads for the creation of institutions which will promote industries and technical skills rather than dismantling existing ones.

On the whole, this is an outstanding contribution to an interesting and unexplored area of study. It tests the tenability of reforms and does it objectively with a rare degree of scholarship.