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THE BOOK REVIEW

VOLUME XLVI NUMBER 1 JANUARY 2022

An Alternative Theory

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REFORM AND THE STRUCTURE OF THE INDIAN ECONOMY: OUTPUT-VALUE ADDED SYMBIOSIS
By Madhusudan Datta
Cambridge University Press, 2020, pp. 180, ₹750.00

The Indian growth story attracted global attention first, on account of the spurt in growth from the 1990s, and second, on account of its deviation from one of the most widely replicated patterns of the evolution of sectoral shares of agriculture, manufacturing and services in the gross domestic product (GDP) over time. This thumb rule, stylized by Kuznets, Chenery and Taylor (KCT), was found to closely fit the evidence gathered from advanced countries and also developing ones outside the socialist bloc, over two whole centuries. In an attempt to reconcile this confounding paradox, Madhusudan Datta offers a somewhat unorthodox but thought-provoking explanation for the disproportionate rise of the service sector relative to manufacturing by rooting it in the larger problem of value-added accounting of sectoral growth.

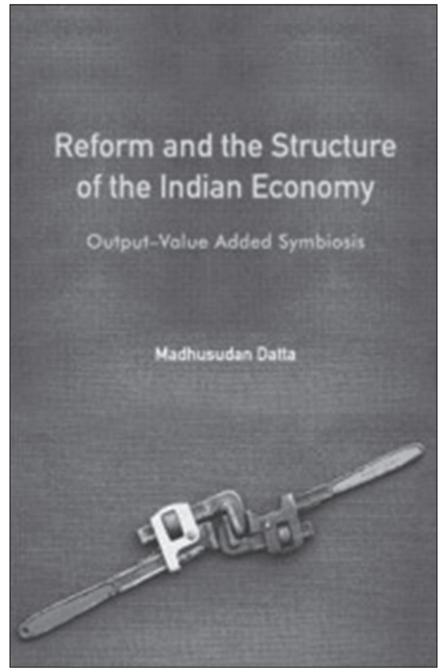
India transitioned from a slow growing (3.5% pa) to a decent (~5% pa) rate economy in the years prior to 1978-79 before a devastating shock to its savings, foreign exchange reserves and other parameters pulled down GDP growth to -5.2%. Following the liberalizing reforms of 1991 Indian GDP growth picked up pace that has been the subject of many studies. The book, *Reform and the Structure of the Indian Economy* largely concerns itself with examining the growth effects of structural changes that occurred in the economy in the three decades since 1978-79. The choice of year was motivated by the fact that it was up to this point that the behaviour of sectoral shares was consistent with KCT norms, after which it started deviating somewhat dramatically as service sector growth began outstripping growth of the manufacturing sector. This dismal growth of manufacturing came as a shock, more so as this was despite the focus of five-year plans on pursuing a soviet-style heavy industries model of growth in the initial years.

Like all good advocates of an alternative theory, Datta begins his analysis by first expounding reasons that cast a shadow of doubt in the reader's mind about the authenticity of theory itself: has the manufacturing sector really lagged behind or has data been misleading them all along? He debunks the argument that the growth in the share of the service sector is due to export-led growth of information technology enabled services. He argues that this growth did not occur until the economic liberalization in 1991 and can thus only partially explain the manufacturing sector's relative decline from 17% until the 1970s to a persistent 15-16% share later.

Through evidence that gross fixed capital formation as a proportion of GDP in the manufacturing sector more than doubled in the four decades after 1970s, Datta lays the groundwork to establish that it could not possibly be true that the manufacturing sector output suddenly started falling short. The central argument of his hypothesis rests on explanations derived from the Baumol unbalanced growth model, demonstrating that it is changes in relative prices and not real output that cause sectoral shares of the two sectors (manufacturing and services) to diverge due to differential responses to changes in technology.

At this point it is pertinent to note an interesting observation (subsequently used to further the Baumol model-based theory) that gross value added (GVA) and aggregate output in an economy can differ at the sectoral level, despite preserving the national income accounting identity at the aggregate level. Chapter 3 and many sections in later chapters make use of estimates gathered from National Account Statistics (NAS) and Input-Output Transactions Tables (IOTTs) to show deviation of the two parameters at current prices due to asymmetries in deflation methods used. Thus, Datta rounds up his theory arguing that the manufacturing sector output continued to grow in real terms even after the late 1970s to cater to the final demand for goods by consumers and intermediate demand for inputs by the expanded and deepened manufacturing sector itself. But this growth gets eroded away and does not show up in GVA estimates of sectoral shares due to the superimposing effect of lower relative prices.

The book also discusses the relationship between the services and manufacturing sector growth rates from 1978-79 onwards. Departing from the practice of clubbing all kinds of services together, Datta analyses services under two heads, namely, 'Services I' that make up material services like trade, transportations, communications and finance that are also inputs into manufacturing,



and 'Services II' which make up services intended for final use such as construction, and education. In other words, services more integrated in the economy through forward and backward linkages are grouped in category I and analysed in greater detail. The text moves with the assumption that demand for material services is essentially a derived demand arising out of final demand for goods produced in the manufacturing sector, and terms these as TT (trade and transport) services. Services II are shown to have remained largely constant. This debunking of the claim that the service sector, with its derived demand nature, has outstripped growth of the manufacturing sector is underscored through a careful examination of data on IT services throughout the period of the service sector boom.

A rather pertinent highlight of this book, besides its contribution in reinstating the faith of the average reader in the consistency of NAS figures and IOTT format data, is the way it uses the above insights into the structure of the Indian economy to compare it with international experiences, particularly that of China. For the purpose of better international comparison, Datta corrects GDP figures from factor costs to market prices and unravels major differences in Indian and Chinese manufacturing sector shares in their respective GDPs. The Indian experience in sectoral shift stands out even on comparison with other developing countries but becomes very stark when China is included as a yardstick. Compared with other countries in East Asia, including China, the Indian record of the manufacturing sector's share in

GDP is particularly dismal and the book briefly delves into how the license raj, restrictive labour laws and attitudes towards private capital in the pre-liberalization era contributed to the phenomenon.

How sound and persuasive are the arguments of the author? The analysis put forward by the author in this book is broadly set against the backdrop of a closed economy and that is a major disadvantage. For instance, the modified version of the Baumol unbalanced growth model advanced by the author does a reasonable job in explaining how relative price changes can act to underestimate the sectoral share of manufacturing in GDP, but it does little to go beyond that and complete the chain of events. Keynesian macroeconomic intuitively tells us that the fall in relative prices of the manufacturing sector in an open economy setup would lead to the sector gaining competitive advantage in exports. Plugging this fact into the model, one can possibly see that the final demand for output of the manufacturing sector would have increased in this scenario thereby leading to an increased aggregate output of the sector even in real terms. Thus, the reader is left asking for more information on the export elasticity of output of the Indian manufacturing sector to ultimately conclude whether its sectoral share in GVA would have increased or decreased in these circumstances. Another loose end in the theory is the employment side of the picture. The text only makes a fleeting mention of the trend of jobless growth in the services sector but does not dwell in detail on how differential changes in labour productivity in the technology progressive and stagnant sectors would change relative wages and hiring and firing decisions. This would have a bearing on sectoral outputs.

Overall, the book is rather technical and data intensive, but nevertheless thought-provoking and arouses in the reader both an interest to study the fine print of data and simultaneously examine the robustness of theories based on traditional ways of interpreting data. It also stays true to the term 'reform' in the title as it seeks to transform the reader's understanding of many concepts, one of them being macroeconomic identities as we know them not holding at the sectoral level as they do in the aggregate.

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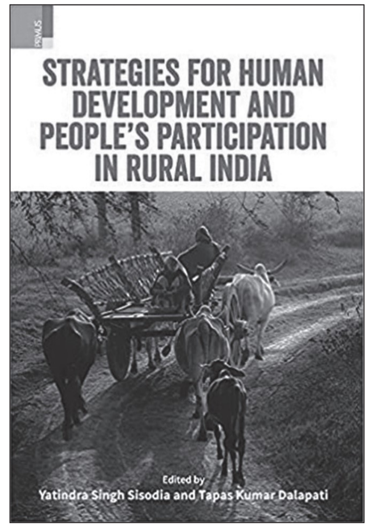
In Search of an Indigenous Rural Development Model

Pratip Chattopadhyay

STRATEGIES FOR HUMAN DEVELOPMENT AND PEOPLE'S PARTICIPATION IN RURAL INDIA
Edited by Yatindra Singh Sisodia and Tapas Kumar Dalapati
Primus Books, 2020, pp. 239, ₹1195.00



As India inches close to 75th anniversary of Independence, self-introspection about hurdles it has to overcome in policy and implementation domain needs to be debated. The book under review brings together fourteen well-researched papers based on field-level experiences of States across the country, interrogating critical dimensions of rural human development in contemporary India that need attention for percolation of developmental benefits to every corner of India. For that to happen, the editors argue in the introduction for 'enlarging of choices...(to have) an appropriate balance between capabilities and opportunities' (p. 2). For a methodical analysis of rural people's actual participation in planning and implementation process of human development programmes, the editors have arranged the papers into four sections, viz., contemporary perspectives; prospects and challenges; impacts and challenges of initiatives and challenges for people's participation.

Drawing on experiences of Kerala and Tamil Nadu of viewing rural human development as a process-oriented rather than a target-oriented task, G Palanithurai in his essay charts out a roadmap for increasing connectivity between higher learning institutions and communities at district level to ensure the 'you govern, you participate' approach so that 'human development and well-being become people's subjects and not only of experts' (p. 16). From the perspective of gerontology, SN Tripathy in his piece argues that in the context of experiences of old age dependency in rural areas, particularly in Maharashtra, Punjab, Kerala, a prudent step will be to have a comprehensive insurance system to tackle old age insecurity and vulnerability.

Questioning the conceptual apparatus of human development, Dev Nath Pathak in his comprehensive case study of primary education and health care system in Bihar reveals that 'involvement of local-cultural-contextual in development programmes is only rhetorical' (p. 44) and calls for erasing the gap between development doer and development seekers. Probing deep into the need for movement to save government schools to address educational inequality in an era of privatization, Radhakanta Barik drawing on experiences of rural Cuttack in Odisha notes the growing distract from vernacular village schools which was once 'the only public space where class and caste barriers were challenged creating conditions for building an inclusive society' (p. 68). Branding India as a 'capitalist state with constitutional democracy', Barik urges the Government of Odisha to equate compulsory primary education with a mission to preserve social harmony and the secular fabric. Contrary to this gloomy perception, Meenakshi Bose in her case study of rural areas of Keonjhar district of Odisha argues that Right to Education Act (2009) 'opens up the prospect for community taking ownership and participating directly in the management of schools' (p. 140) and encourages good practices like *shishu sabhas* (child club), *safai samitis* (hygiene and sanitation maintenance) and journal writings.

Neeta Tapan in her empirically rich case study of Self Help Groups (SHGs) formed under Swarnajayanti Gram Swarojgar Yojana (SGSY) in the Ujjain district of Madhya Pradesh reflects that positive perception about SHGs' role in health and education is 'more an expression of spelt out thoughts rather than action because of the inadequate role of Self-Help Promoting Institution (SHPI) and the facilitator' (p. 83) and suggests that SHGs must be evolved into agents to bring about overall human development. A similar essay by Vikas Batra based on a field-study of Mahindergarh, Ambala and Hisar districts of Haryana