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**India After the Global Crisis: Shankar Acharya; Orient Blackswan, Hyderabad, 2012, Rs. 425.**

The book titled 'India after the Global Crisis' by Prof. Acharya is a collection of short essays, originally appeared in various columns of 'Business Standard', focusing on India's performance right from the emergence of the US crisis in 2008 and till now when the world economy is facing the brunt of the EU Sovereign debt crisis. In this book, the author draws a vivid picture of India's resilience in the face of global economic and financial crisis in 2008 following a robust growth, a gradualist and conservative approach of Reserve Bank of India (RBI) towards capital account convertibility and domestic regulation of banks and other financial intermediaries. With the resurgence of the sovereign debt crisis and the dismal performance of the advanced countries, there is a remote chance of the crisis being over in the near future. Given this overall economic outlook, the book draws attention to the fact that it would be a serious error to think that India could revert back to its growth performance as in the pre-crisis years in the medium term as there is a clear indication of worsening macroeconomic performance in terms of low growth, high inflation, high current account deficit and fiscal deficit and a fall in the rate of domestic investment. For India, to ensure a high growth momentum, the government must have the political will and intention to face and meet up the challenges specifically in areas of reduction of fiscal and current account deficits, enhancing domestic saving and investment, expansion of job opportunities and reforming the stringent labour laws, improving efficiency of the education and healthcare system, acceleration of agricultural growth, bringing norms and transparency in the allocation and conservation of land, water and other natural resources, providing infrastructure for further development of manufacturing and service sector of the economy.

The aforementioned issues have been discussed in a comprehensive and analytical way in each of the chapters in the book. The author divides the book into seven broad parts, each part consisting of a collection of short essays focusing on the concerned issue of that part.

In part I, the author talks about the ‘Global crisis aftermath’ which consists of eight essays and focuses on the immediate impact of the global crisis. The first essay gives a summary of a lecture by Andrew Sheng, Convener, International Advisory Panel to China’s Regulatory Council (CRBC), which emphasised on the financial dimension of the crisis ranging from excess liquidity, leverage, complexity in creating derivative products and excess greed. In the second essay, author gives a view of the scenario after the US crisis and discusses why even after a slow recovery, both in the West and Asia, the crisis is far from over and there is a long way to go to ensure strong global recovery. The impediments in the global recovery, according to the author, lies in the nature of recovery in major economies, with BOP deficit countries spending more as fiscal stimuli, the weakness of the banking system in the US and other western nations. For India also, a falling IIP and merchandise export along with dismal performances of other sectors makes recovery a challenging task. In the third essay, the author brings attention to the need for a single principle forum like the G20 rather than continuing with multiple forums to deal with the global economic issues more effectively and at a faster pace. The fourth essay is all about the “exit” timing that each nation has to decide after the crisis of 2008. The author argues that time has come for India to exit its expansionary fiscal and monetary policy and points out to the fact that although there has been a progress in the tightening of the monetary policy, government of India is still in the need to do so in terms of fiscal deficit reduction by reduction in subsidies and upward revision of excise rates and implementation of GST. The fifth essay is again a summary of a lecture by Martin Wolf who discusses the issues that led to the global crisis ranging from liberal monetary policy, innovations in financial sector, failure of financial regulation, global imbalances in external accounts of countries. He pointed out the forthcoming threat to globalisation and the possible shift of economic power from West towards Asia. The sixth essay, provides a detailed description of Greek problems and the emergence of the Euro crisis and argues that in both the cases of European recovery and the larger sovereign debt crisis India will have to face large macroeconomic challenges the extent of which is difficult to assess now. One way to face this challenge is to “exit” from the expansionary policy towards a more contractionary one, which he argues, marks the departure from the so called Keynesian economics and this is illustrated in the seventh essay. The final essay in this part focuses on the

fact that one reason for such global imbalances in the current set up is due to the gradual shifting of power from Western countries, who ruled the world for decades, and the gradual emergence of China and Asian economies.

Part II deals with essays related to 'Economic Growth'. It comprises five short essays. The first essay portrays a gloomy picture of Indian economy and draws a comparison of the current economic condition with that of 1997. The recent time is more challenging given the worst global economic outlook and the high fiscal deficit. At the same time, some favourable conditions now are the good financial health of the Indian corporate sector and high domestic savings and investment. The author, however, argues that (Essay 10) that the negative impact of the crisis is more on the equity aspect than on the growth as it has affected many export oriented labour intensive industries and has resulted in loss of employment, income and consumption. The next two essays (Essay 11 & 12) discusses how the economy moved from a low growth rate of 6 per cent to 9 per cent owing to high investment, saving, fiscal consolidation and low interest rates. Thereafter, how the crisis led to the fall in growth rates and resulted in high 'twin deficits' of fiscal and current account balance has been elaborated. He further argues that growth is further dampened due to lack of agricultural development which has grown at an average rate of 3-4 per cent. This is, however, not reflective of the true agricultural performance as some states like Gujarat have done consistently well recording an average growth rate of 8-9 per cent. Thus, it is possible to improve agricultural growth following Gujarat's model but it requires vision, commitment, political will, inter-departmental cooperation and coordination about which the author appears to be skeptical.

Part III of the book focuses on the 'Reform and Economic Policies' where the author discusses the current policies and related problems and underscores the need for reform to improve growth performance. The first two essays (Essay 14 and 15) deal with the political set up of the government and the much needed priorities for the government before the general election and how the government responded to the problems in the post election phase of 2009. As the author points out, the government was expected to address certain issues in the post crisis period like a reduction in fiscal deficit, reform measures to encourage investment intentions, deregulating oil prices, encouraging financial inclusion, reforms in education system to tap

‘demographic dividend’ and provision of urban infrastructure. There was, however, lack of reform initiative of the elected government in these fronts as pointed by the author. According to him, a true signal of reform would have been a relaxation of the stringent labour laws and stimulus to private investment to start with. Continuing with his argument about the current performance of the elected government and its policy priorities in essay 16, he states that the elected government has put forward quite an extensive reform package including security, communal harmony, growth, infrastructure, social uplift, governance reform etc. But there are some major loopholes and lack of initiatives in the formulation and implementation of these reforms. In the next essay he takes a different perspective altogether and highlights the role played by the Reserve Bank of India (RBI), especially under the period of the then governor, Dr. Y.V. Reddy and the Deputy Governor, Dr. Rakesh Mohan, in protecting the Indian economy from the adverse impact of the crisis. The author appreciates the conservative and cautious approach followed by RBI despite pressures from various spheres to continue with financial liberalisation. In the eighteenth essay the author tries to break the ten most popular myths that govern the current economic policy formulation of India, *viz.*, higher minimum support prices are good for farmers, labour laws protect labour, subsidies help the poor, the middleman causes many economic problems, reducing fiscal deficit hurts growth, the exchange rate only matters to exporters and foreign capital inflows are always good for the economy. In the last essay of this part, the author explains the twelfth plan approach and states that there are major weaknesses despite serious policy effort, the weaknesses ranging from realism of 9 per cent economic growth rate, less emphasis on employment challenges and more emphasis on policy impediments and finally lack of innovative reforms in the social sector.

The part IV of the book is devoted to employment and health related issues in the Indian economy. In this part, most of the essays are primarily focused on the employment situation in India. The author argues that it is the unorganised informal sector which has experienced increase in employment while there has been a fall in organised sector employment. Moreover, the share of agriculture in total employment has not declined much despite a fall in the share of agriculture in GDP which indicates a slow shift in the composition of labour force from the agricultural sector to the non-agricultural sector. As the cause for this mismatch, the author cites the inefficient labour

laws in India as a major reason which discourage further labour demand from the manufacturing sector. If this continues, as he argues in essay 22, the concept of demographic dividend will become a bane for the economy. He draws reference from the 'India Labour Report 2009' which shows that much of the work force increase will happen in the backward states with low employment opportunities. This will give rise to migration pressures and illegal activities. This situation has arisen and problems may persist in the future due to the wrong approach of the current government in the name of 'inclusive growth' (essay 24). The author argues that restrictive labour laws and high government expenditure on programme like NREGA have done little to improve inclusive growth, compared to other Asian countries. In fact, such policies have led to prevalence of unorganised sector employment and high government expenditure.

On the health issue, author emphasises the poor health condition of the country (Essay 21 and 23). In the first essay, he draws reference from a paper and argues that India suffers from the lack of 'population-wide preventive services' to reduce exposure to diseases. The reason for this has been the government policies to marginalize the health services into single focus programmes. One state, however, has not followed this policy and has been able to maintain a healthy situation of its health sector. Thus, the author argues that it is possible to bring reforms in the health sector within a limited budget provided there is speedy implementation of the reforms and strong political will. This is further strengthened in the essay 23 where he shows the dismal performance of India in health compared with other countries like Bangladesh in terms of inadequate health services, predominance of private healthcare, high medical expenses and lack of medical infrastructure.

Part V shifts focus to the government's budget and fiscal policies since 2009 and states that measures warranted to address high fiscal deficit were discernible in the Union Budget 2009-10. The same thing was observed in the next budget where although some bold steps were taken like priority to fiscal consolidation in terms of transparency in subsidy accounting but the idea of fiscal deficit reduction seemed farfetched especially since most of the projected revenue collection was from one-off items like disinvestment, 3G telecom auction proceeds, *etc.* Moreover, the budget plan to set up an independent council for macro prudential supervision raises concern about

the independence of the Reserve Bank. The author devotes one essay (essay 27) specifically to the draft of Direct Tax Code and comments that the recommendations in tax cuts are irrelevant in the present context and will do nothing but to add to the fiscal deficit with revenue falling significantly. The last two essays again focuses on the pre and post budget issues (essay 29 and 30) and as the author points out, the essays needed to address are high inflation, high current account deficit, employment problems, corruption in the system and agricultural reform. It is argued that although there have been efforts to deal with inflation and current account deficit through fiscal consolidation but is not very promising given the current scenario. As far as employment, governance and agriculture is concerned there is no such convincing reform strategy in the budget plan.

In Part VII, the focus is on the external sector policies in the backdrop of the rising current account deficit, appreciation of real effective exchange rate and the RBI's intervention policy in the exchange rate market. The author expresses concern over the twin problems of rising current account deficit and the appreciation of REER and states that to deal with these problems either RBI has to intervene in the currency market or it has to moderate capital inflows. He is wary of the fact that an appreciation of currency in today's time, when China and US are maintaining their currency at a lower value, will not only hamper external sector but will also affect domestic industries through weak exports (essay 35). As the author further argues, the current indifference or silence about the appreciation may be due to the 'dollar fixation' of policy makers who sees only dollar-rupee parity as an indicator. Author's concern of high external deficit is discussed in the next essay (essay 33) as well where he shows a greater rise in imports than exports leading to higher trade deficits. Moreover, this trade deficit is being financed by invisible earnings and portfolio inflows which are volatile in nature. With US and other advanced economies going for monetary expansion, capital inflows to EMEs like India and the following currency appreciation are unavoidable. This needs RBI intervention in the forex market and capital account management.

In the last part, the author gives a more general view of some of the important events in the world economy immediately after the global crisis in September 2009 starting from the emergence of G-20, China's rise to global

economic power, new elected government in Japan, election in Germany. He dedicates one essay on analyzing Obama's performance as President of the US and finds an impressive performance given the complex domestic and international inherited problems. Finally, he draws attention to some emerging African countries which are developing gradually owing to the various policy reforms, new technologies and rise of democracy and governance.

The book is a comprehensive collection of issues that India has been facing during the crisis years and in the years that followed and how India has shown resilience in the face of crisis. The author has also elaborated in a simple and analytical way the problems, both in the domestic and external fronts, that India is currently going through and the areas which needs immediate attention from the Government side as well as the central bank. In terms of structure of the book, however, since the essays were from different time points, the synchronisation and the context of the chapters sometime were getting lost. As far as the contents of the book is concerned, the author has very nicely presented an overall view of the crisis from the perspective of the Indian economy with some remarks which may be debatable like the intervention of central bank in the forex market to tame appreciation, reform of the labour laws, etc.

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