BOOK REVIEW

Title	**:**	**Fifty Years of Development Economis: From Planning to Liberalization Essay in Honour of Prof. P.R.Brahmanande**
Authors	**:**	**Vesudevan, A., Nachare, D.M. & Karnik, A.V. (eds.)**
Publisher	**:**	**Himalaya Publishing House, Mumbai 400 004**
Year	**:**	**1999 (First Edition)**
Total Pages	**:**	**523**
Price	**:**	**Rupee 950**
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Fifty Years of Development Economics, Essays in Honour of Professor P.R. Brahmananda, Editors A. Vasedevan, D.M. Nachane, A.V. Karnik, Foreword Lord Meghnad Desai, Himalaya Publishing House, Mumbai 400 004, First Edition - 1999.

This Volume is a collection of 30 essays, written in honour of Professor P. R. Brahmananda, a distinguished economist in India. The essays in this book focus on a number of issues such as theory and measurement, Indian policy framework, sructural reforms, regional perspectives and provide rich insight on various subjects. The book also documents empirical studies researched by well-known economists.

The first part of the book with 8 chapters deals with theory and measurement of money, inflation etc.. In this part, Nachne's paper on "Commodity Standards: Resurrection of a Classical Theme" revisits the issues relating to the concept of money standard and questions, the role of the Govenment in controlling money. The author, while reviewing the role of government in controlling the monetary policy in historical retrospection, examines a umber of alternative proposals. He chooses, amongst others, commodity standard, and analyses it to find out its relevance to modetary policy. His contribution lies in explaining the Black-Fama-Hall (BFH) model-Commodity Basket Model. This model has been discounted as it does not take into account expextations and has difficulties in choosing the commodities for the basket. The BFH model has a few advantages like a stable unit of account, subjects the government to financial discipline, can stipulate financial innovations and can insulate the economy from cyclical fluctuations originating domestically. Nachne's contribution lies in simplifying the analysis on the difficult subject.

Inflation has been a long drawn riddle in many countries like Brazil, Turkey, India. Control of inflation has been enforced in many countries to bring macro economic stability with high economic growth. Vasudevan, Bhoy and D hall have tried to trace equilibrium between inflation and growth rate in the Indian context. They reached a conclusion that inflation, growth trends and their volatility, when analysed simultaneously, reveal that a moderate rate of inflation on an average centered between 6 to 8 per cent in Indian economy with low volatility, led to high growth rates. The authors have used regression robust error technique after taking recourse to a number alternative empirical modes as suggested in the literature. The findings of the present exercise indicate that the threshold rate of inflation in the Indian context could be about 6 per cent; the output neutral inflation could be 4 per cent. The output effects are positive but marginally different from one another for the 5, 6 and 7 per cent inflation regimes. The negative output effects occur after 10 per cent inflation rate.

D'Souza in his paper on "The Interlinkages Between Formal and Informal Credit Markets Unders Adverse Selection" examines the issue of difference in quality of information about the risks associated with borrowers in formal and informal sectors. According to him, because of lack of information to informal sector, monetary transmission process is not smooth. D'Souza comes out with a proposal of a new methodology to account for this differential inforation and obtains results identifying marked contrast to the views of the McKinnon School on the one hand and the New Structural School on the other.

Employment and growth have been prime targets for Indian planners. Since the Government was the pacesetter of growth, some distortions crept in the form of hidden unemployment and poverty. The paper of V. N. Kothari on "Reflections on Disguised Unemployment" tries to trace the reasons for neglect of the problem of disguised unemployment in the country. A.G. Karnik's article "Overcoming Economic Activism: Lessons from State; led Economic Development in India" concludes that the strategies used for development and growth in the country were not tailored to suit India's democratic set up. Instead, they encouraged overall control of the public sector and dominancy of bureaucrats where they were least desired. These are the hard facts and reflect organisational weaknesses in the management of the economic development of the country.

The second part of the book presents 6 papers focussing on issues in monetary and fiscal policies, agriculture, energy and external finance. Tarapore has tried to integrate his ideas on targeted inflation rate, Government's market borrowing, abolition of concessional finance with the philosophy of wages goods gap. The wage goods gap theory of Professor Brahmananda explains that in a developing economy cheap credit and deficit financing leads to higher demand for wages goods and less growth in wage goods output. In view of this Tarapore recommends reduction in inflation and government's market borrowing. Shah in his paper, "Finance companies at crossroads" offers a number of suggestions to strengthen the norms for enhancing the financial integrity of nonbanking financial companies (NBFCs) such as (1) deposit insurance (2) registration and classification of NBFCs (3) rating of NBFCs and (4) limitation on deposit mobilisation by NBFCs. However, the paper should have outlined some disclosure norms for NBFCs. It is the disclosure norms which can make depositors aware of the weaknesses of a NBFC. Radhakrishnan in his paper on "Food, Nutrition and PDS: Emerging Issues" analyses the impact of the Public Distribution System on nutritional status in India and concludes that nutritional status has marginally improved in the country, public distribution has not functioned to achieve the objective. The PDS system needs a review and reform. The exciting part of the paper pertains to his doubts about market oriented and outward looking micro policy. According to Radhahrishnan, the poor will be subjected to market uncertainties and would need adequate food supplies. Kula in his paper on "Economics on Nuclear Power" rejects the development of nuclear devices, as in the long term, the cost of nuclear energy and risks associated with it are not in favour of developing countries like India. the Asia crises have been analysed by S. S. Nayak's "Rupee Convertability Riddle". The author rejects the recommendations of S. S. Tarapore regarding the sequencing and the time frame for implementation of capital account concertability.

Part three of the book contains 5 papers with structural aspects encompassing the liberalisation and stabilisation of economy, financial reforms and reforms in other sectors. Among them is Rao's paper on "Liberalisation with Stabilisation", which extensively covers issues of monetary reform, stabilisation and control, integration of domestic and financial markets, capital account convertability and financial liberalisation etc., and argues that stabilisation is a necessary precondition for the implementation of full-fledged liberalisation. His paper also recommends that collection lag for a taxes should be reduced substantially in order to augment government revenue. According to his paper , if collection lag had been eliminated fully, fiscal deficit for 1997-98 could have been reduced to 5.5 per cent of GDP from its actual level of 6.1 per cent which underscores the fact there is a need for eliminating collection lag if the government wants to contain the fiscal erosion. These findings are valuable. The author has dealth with issues of financial liberalisation and suggests that financial libralisation should come after domestic real liberalisation before external financial liberalisation. Rao recommends a well planned stabilisation and growth oriented structual adjustment programme. According to rao, if financial crisis in spite of full liberalisaiton.

Bhole's contribution, "A perspective on financial reforms in India" presents features of the Indian financial system, and the major objectives of financial reforms. Bhole concludes that there is little liberalisation in the country, and on account of financial problems and volatility in the market, there has been a tightening of regulations. According to the author, there is a the possibilty of a combined effort by the private sector (to augment profits) and the public sector (to enhance power). In a nutshell, an umplanned financial de-regulation is resulting in private oligopoly in place of state monopoly. The author, using a number of examples, has tried to establish that deregulation has not been introduced in India in its proper form. Even today there is regulation proper, drigiste policies, state intervention and indicative directions. The author argues that a deregulated stystem or a competitive system is incapable of promoting stability and growth unless it is supported by other complementary policies of predential regulations. The author has recommended the centralisation of financial mega banks, expansion of unit banks, micro credit agencies and informal credit arrangements.

Sharma and Mehta on "External sector Reforms in India: Exporters, Perception and Strategy", while surveying 162 exporters, have discussed elaborately bottlenecks of transport, power, small size of exporters, costly credit, ineffective export friendly policies, procedural and regulatory constraints, which have frustated the export growth of the country. On the basis of data collected they have concluded that the liberalisation of the external sector and the new policies introduced by the government have benefited trader exporters rathers rather than manufacturer exporters. Another interesting conclusion derived from the analysis is that there has been mutual inconsistencies between different export incentive schemes. Infrastructural botlenecks is found to be a severe handicap in the growth of exports.

A paper on globalisation by Bhalla "The Impact of Globalisation on China and India" finds that foreign direct investment, which has been of significant magnitude in the case of china, was particularly on account of overseas Chinese whereas in the case of India it was routed through multinationals. The FDI contribution to growth and productivity has been higher for China than in India. However, the adverse impact of FDI's could be the increase in unemployment and inequalities in the distribution of income in both countries in the long run. These conclusions are of greater significance because modernisation and development of an economy should result in large income with its spill over effect on a large number of people. In a way, if FDI lads to large scale production by using labour replacing technologies, there will be always inconsistencies between the objectives of FDI and the objectives of employment of the receiving or domestic country.

The paper on "Causality between Govenment Expenditure and Revenue from the Malaysian Case" attracts attention. Commonsense guides to reflect that if increase in expenditure results in fiscal deficit, there is an automatic stimulus to raise tax revenue. Mithani dan Khon however reached the conclusion that the Malaysian Govenment has resorted to adjustment in public sector expenditure to reduce fiscal deficit. In this exercise the authors have attempted to test three hypotheses, viz. 91) taxes adjust to expenditure (2) Government expenditure is tailoed to revenue from taxes and (3) budget is balanced at a level reflecting citizens' prederences. The authors used root and cointegration techniques to test the hypotheses. They found that there is no co-integration between expenditure and tax revenue in the long run but there is a cointegration if the hypothesis is tested on a bi-annual frequency basis or in the short term. Basis on the error correction model, the authors found that revenue responds to budgetary disquilibrium and there is a unidirectoral causality relationship from expenditure to revenue. In our view it is the degree of excess of expenditure over revenue which activates the government to levy new tax or raise existing tax rates to mobilize additional revenue. Thus taxes may also respond to expenditure if non-tax revenue is not adequate.

"Determinants of Real Exchange Rate in India: Fundamentals and Policies" is a useful paper by Trivedi. While identifying terms of trade, capital inflows and degree of openness in the economy as main fundamentals determining long run real exchange rate. The author reveals in her study improved/deteriorated terms of trade have caused depreciation/appreciation in real exchange rate. The increase which is income generated by favourable terms of trade in India has been nullified by increase in expenditure or imports which implies that improvement in terms of trade results in higher demand for foreign goods, thus leading to trade deficit and later on depreciation of the rupee. Similarly, capital inflows in the first instance appear to have resulted in appreciation of exchange rate but in the long run through positive income effects they result in high imports and finally in depreciation of the Indian rupee. A greater openness of economy has also resulted in depreciation of the rupee. The policy implication of the impact of terms of trade, openness of economy and capital inflows is that India should improve productivity rates in the economy and manage exchange rate in such a way that benefits of terms of trade, opennes of economy and capital inflows are not wiped out.The intention is not to recommend massive intervantion of the Central Bank but the management of exchange rate. Trivedi has successfully explained the 1991 economic debacle in India and also taht Targetting of exchange rate has been achieved via operating the nominal exchange rate. However, one my differ from this conclusion. There was no targetting of real exchange rate. Exchange rate has been determined by market forces. The Reserve Bank has done some balancing act.