IGC perspectives on growth in India

2013-7-26

Last week, the International Growth Centre's India-Central team hosted the 2013 South Asia Growth Conference in Delhi, in conjunction with the teams from the Bangladesh, India-Bihar and Pakistan programmes. The conference provided a platform for the presentation of research undertaken by the IGC South Asia country programmes and promoted regional dialogue on related issues. This post summarises India-related research findings presented at the conference. Click here and here for summaries of all the sessions, including research findings from Pakistan and Bangladesh.

Schooling

In the session on schooling, presentations examined the challenge of converting increases in schooling inputs into learning outcomes. Nishith Prakash (University of Connecticut) discussed Bihar's cycle programme, which aims to increase access to high school for girls in Bihar, and showed that it was successful at creating incentives for enrolment, but not for achievement. Prakash also proposed that the conditionality aspects of the programme were not critical to its success, and that, beyond education, it might have broader impacts on female empowerment by improving teenage girls' mobility and independence.

Karthik Muralidharan (University of California, San Diego), presented on the impacts of Andra Pradesh's School Choice Project, a school voucher programme, and demonstrated that private schools appear to be a lot more productive than public schools. Despite not leading to better test scores in Telegu and mathematics, private school attendance appears to lead to higher scores in Hindi, English and social sciences. Furthermore, and going against oft-mentioned public concerns, the spillover effects of this project appear to be negligible both for students who remained in public schools as well as for those who were already attending private schools prior to the programme.

Public sector and programme design

This session looked at design aspects of development projects in the public sector. Maitreesh Ghatak (LSE and IGC India-Bihar) and Chinmaya Kumar (IGC India-Bihar) discussed different design aspects of the Bihar cycle programme for high school children. They showed that despite high levels of inclusion and limited levels of detectable corruption, the majority of beneficiaries would have preferred to receive a bike (an "in-kind" transfer) rather than cash. Whilst the implementation of the scheme – particularly having to submit a receipt prior to receiving cash – played a role in this, the reasons behind this preference were predominantly on the demand-side; such as income levels, access to credit, and the distance to a bike store.

Rohini Somanathan (Delhi School of Economics and IGC India-Bihar) examined how to incorporate the differing availability of public goods into the measurement of poverty, which is primarily based on private consumption data. The research uses survey data on the availability of schooling, healthcare and subsidised food grains from Bihar to show that accounting for the provision of public services results in a fall in overall poverty. However, it also leads to an increased spatial dispersion in poverty rates due to poor regional targeting of public spending.

Macroeconomics and finance

Pronab Sen (IGC India-Central) discussed the incorporation of the Indian financial sector into the planning models of the Government of India, focussing on the relationship between savings and investments. He proposed that the increasing segmentation of the financial sector has some important effects on the macroeconomy. Sen's main takeaway was that if the system is investment constrained (rather than savings constrained), opening up the capital account is more desirable than the Keynesian cure of increasing deficit financed public investment.

Arvinder S Sachdeva (Ministry of Finance, Government of India) agreed that all these issues remain relevant in policymaking today. He clarified definitions around intra-sectoral mobility, and questioned whether the propositions would change given that a high proportion of savings are in the form of physical – rather than financial – savings, or if the assumption of no asymmetric information was relaxed, or if the current account is partly, or fully, opened.

Firms and investment

Chaired by Rakesh Sarwal (Planning Commission), this session focused on the role of firms and investment in the growth process. Nirvikar Singh (University of California, Santa Cruz)presented research arguing that foreign investors do not destabilise the local Indian stock market and instead can bring additional capital into the economy during boom times. Singh also suggested that there is no evidence for foreign portfolio investors bringing crises with them into the local Indian stock market. While they can exacerbate extreme movements in stock price returns, they can also help to stabilise prices and bring capital to the market.

Ila Patnaik (National Institute for Public Finance and Policy) presented her research findings about the investment technology of foreign institutional investors (FIIs) and domestic institutional investors (DIIs) in India. As part of her research, she compared stock selection patterns of FIIs and DIIs and found surprisingly large differences. Among others, FIIs appear to select firms do not have a large promoter ownership, are young and have small physical assets; the pattern for DIIs is the opposite. The most interesting, and perhaps most surprising result is that FIIs seem to be much less successful than DIIs at selecting stock yielding a high market return. Overall, high FII investment is a relatively poor predictor of growth, which implies that tweaks and improvements to the organisation of the investment regime in India might be warranted.

Anupam Khanna (Chief Economist and Director-General Policy Outreach at NASSCOM) presented his policy perspective on Singh and Patnaik's research papers, raising questions about the concentration and benefits of FDI. He also stressed the importance of taking a look at the FDI impact of average firms, as well as the growth impact of investors that do not fall under the FII and DII categories.

Health

Chander Kumar Singh (TERI) and Prabhat Barnwal (Columbia University) examined the business of reducing the arsenic poisoning of millions across rural India. Their research suggests that a semi-commercial approach to testing can reduce arsenic poisoning. After delivering a public-health message describing the risks of high-arsenic groundwater, field staff offered testing at a fixed price to each household. They found that the proportion of households buying a test gradually declined as the price increased from Rs10 to Rs50. The researchers found that if it was priced at Rs20, more than two-thirds of villagers were willing to pay for the test. This would be sufficient to cover the costs (salary and transportation) of a tester with secondary education, assuming they conducted 10-20 tests per day.

The policy perspective was provided by Sheela Prasad (Ministry of Health and Family Welfare) who said that this study was very timely, especially considering 34 per cent of the wells in the study had arsenic levels above 50 micrograms per litre (10 is the recommended maximum). She argued that awareness needed to be generated about the negative health implications of arsenic in well water, and that a graded fee structure may be necessary so that households paid more according to their wealth. Finally, she recommended that supply-side issues also needed to be addressed so that disadvantaged groups have access to clean water.

Nidhiya Menon (Brandeis University) discussed the seasonal effects of water quality on infant and child health, focusing on the impact of fertiliser use as part of the green revolution. A dramatic explosion in the use of fertiliser in India from the 1960s led to children being exposed, both in utero and after birth to fertilisers, as women themselves are continually exposed due to their work at the forefront of farming activities. Her research has found that the presence of agrichemicals in water in the month of conception significantly increases infant and neo-natal mortality. In addition, exposure to agrichemicals in the month of conception has significantly negative impacts on height-for-age and weight-for-age at age five. It is noteworthy that month of conception exposure to agrichemicals in water has effects on both short- and long-term outcomes. Her findings highlight the tension between greater fertiliser use to improve yields and the negative health impacts of such use.