

Book Review

Nepal's Development Tragedy Threats and Possibilities

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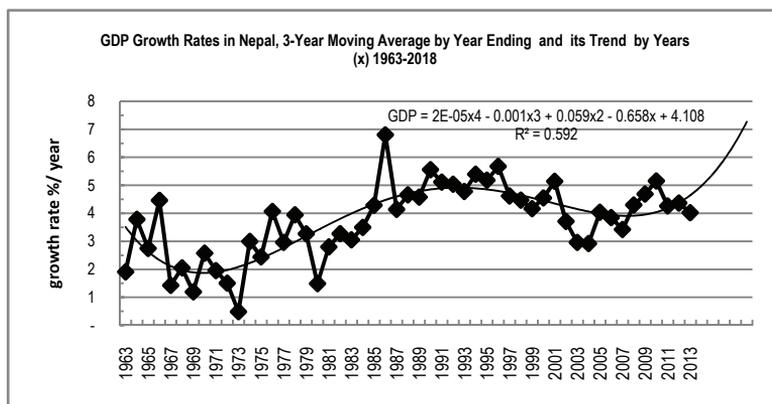
Prof. Bishwambher Pyakuryal has brought out a new book "Nepal's Development Tragedy: Threats and Possibilities" (Pages 338, Hard Bound. Kathmandu: Fine Print, 2013), which is an outcome of applied research on the role of factors like capital, policy, and institutions in the economic growth, income distribution, and stability during 1950-2013 catering to the needs of the policymakers, development managers, and researchers.

The book is organized in seven chapters: political economy of development experiments; agricultural growth opportunities and alternatives; food security concerns of the people and its methods; unemployment determinants and choices; infrastructure; state restructuring in respect of fiscal federalism and viability; and inclusive growth perspectives. The author correlates the performance outcomes of each industry-activity with their policy provisions and institutional functions, and offers a comparative assessments of these sectors in Nepal with the situation in countries at similar stages of growth and development; the book's conclusions and prescriptions are founded on Nepalese data, which are pooled from the international agencies, systems of national accounts, MDG-tracking indicators, national census or major surveys, and feasibility studies. The author has provided a concise executive summary, chapter-wise major conclusions and a rich list of references. But an additional chapter by pooling out the overall recommendations, and a subject/author index would have added to the quality of the book.

Chapter I on political economy traces evolution of indicators like GDP (agriculture and industry plus services), savings, investment, gross fixed capital formation, exports, budget deficit, FDI, inflation, employment, and poverty and human development indices (HDI) during the past 30-40 years, and relates the changes in these indicators' magnitude and direction with the contemporary political regimes, namely the NC-led government during late 1950s, absolute monarchy during the 1960s-1980s, constitutional monarchy and Maoist armed rebellion during the 1990s to early 2000s, and the republican regime around 2010s, and offers some recommendations for the (forthcoming) federal union of a welfare state. In line with the author's views, we redraw in Figure 1 below the trends of economic growth during the major political phases, and forecast them

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till the year 2018. According to Prof Pyakuryal, the development tragedy occurred because the GDP growth rates could not accelerate, and peoples' livelihoods and welfare got stifled.



Note: Figure contributed by the reviewer, based on the WDI dataset.

In the first chapter, the author argues that following the 12 - Point Peace Accord, the economic philosophy of the main political parties (Nepali Congress, NCP-UML, and NCP-Maoists) converged around the market-led economic policy, but these parties' disagreements on priority economic agenda have rendered the socio-economic development records less than satisfactory. Economic growth was constrained by an inadequate application of productivity-augmenting technology, persistence of hyperinflation, rise of leisure class and worsening income distribution, growth of capital flight and unemployment, corruption, crime and lawlessness, emerging structural problems in trade (deficit, geographic concentration, and narrow basket of exportable goods and services), the monetary policy's ineffectiveness in linking the real and financial sectors and in integrating the domestic with inter-national economies, fiscal federalism with chronic revenue deficits, the unfinished agenda about state restructuring and the norms for inclusive society about the social, political and cultural values. Thus the author has offered several possibilities to reverse the downturns or overcome the stagnancy, and accelerate the pace by removing economic inefficiencies and rebalancing structures of the economy.

In chapter 2, the author reiterates that the agricultural sector output is marginally operating on constant returns to scale with the elasticity coefficients of labor and capital as 0.53 and 0.43 (sum total 0.99<1.00) and hence it is difficult to expect surplus from Nepalese agriculture without substantial increase in productivity. The returns to agricultural growth from investment in public

goods and subsidies in India, 1960s-1990s apparently help draw analogies for Nepal's agricultural growth. Thus the recommendations to increase agricultural productivity include: 1) Establish linkages between macroeconomic policy reform (such as economic growth and price stability) and specific changes in agrarian sector (such as farm output and poverty); 2) As allowed in the WTO Accession Article 27 on Special and Differential Treatment, the budgetary exercises needs to replace subsidy with community-based agricultural development programmes; 3) There is a need to develop commercially viable farm sizes, and land management skills, application of innovations, productivity enhancement and surplus creation; 4) Make use of cooperatives and other institutions to involve the local (farm) beneficiaries in running the small and medium-sized community-level agro-processing industries; and 5) Reorient management practices for increasing crop and livestock productivity through increased use of MIS, infrastructure, and private agency research.

Chapter 3 deals with food security of the targeted people, where author argues that the erstwhile Three Year Interim Plan (TYIP) has listed 31 working policies under food security, but these are only the standard agricultural policies of the neighboring countries whereas what is needed is a commitment to bring complementary policies, namely the Food Security Act, and indicators of food security and risk mapping in districts. While offering recommendations along the major components of food security, the author concludes that to safeguard the poor from agricultural price volatility there is a need to raise agricultural productivity in a sustained manner. The challenge to increase agricultural productivity is to avoid constant returns to scale in food production by increasing per unit of labor and per unit of capital.

Chapters 4-6 are on economic growth in relation to employment, infrastructures, and fiscal federalism. Thus, Chapter 4 examines the aspects of New Labor Employment Policy 2006, remittance-driven BOP and symptoms of Dutch Diseases, employment elasticity across industry sectors and productivity wage relations and skill development, and social protection and constraints to job creation. In job creation, the ILO employment diagnostic study 2011 is referred to predict that "the productivity gains and the favorable age structure will remain the largest contributor to economic growth while the contribution from gains in activity rates and employment rates seems unlikely in the future" (page 179). Thus, the 4-5 elements crucial to the macroeconomic framework for job creation and poverty reduction include the domestic resources, ODA, deficit financing, expenditure efficiency, and monetary policy going beyond inflation targeting the borrowing constraints to growth and further the financial inclusion. The

formulation of employment policy is required to direct stimulus to support growth and jobs.

Chapter 5 reviews theories on the role of infrastructure for economic growth and development during the 1940s-2010s, and employs the HRV's diagnostic approach to economic growth on the Nepalese data. The 'growth diagnostics' maps GDP as a function of human capital and infrastructure, namely, road, health, education, electricity, and telephone. These results quantify the effect of one percent increase in these factors on the total GDP as follows: one percent improvement in education and health enhancing GDP by 14,299 and 3,418, respectively, and similarly the contribution of one percent increases in road (km) facility, electricity, and telephone on GDP to be 1.043%, 0.776%, and 0.001%, respectively. The author concludes that obstruction in the efficient supply of electricity is a binding constraint to growth, and inadequate rural roads are constraints to growth. These differential impacts call for a priority-based development planning and execution.

Chapter 6 on fiscal federalism examines the May 10, 2014 Agreement among the four major Political Parties to propose Nepal as a union of 11 federal states from the point of viability in accessing the basic social services. It is based on economic indicators such as resources, production, expenditure, revenue, compensation mechanism, and HDI in the local governments (district, municipality and village development councils). The proposed federal structure is found to create a high degree of horizontal imbalance among the states, which necessitates transfer of a disproportionately huge amount of central grant to the weaker states to make them financially viable. The horizontal imbalances arise from the existing expenditure per capita and revenue resources per capita across the states. The success in fiscal federalism would depend on decisions made in allocating financial equity grants to provincial and local governments based on their expenditure, capacity, and efforts for revenue collection.

Lastly, Chapter 7 examines perspectives of inclusiveness in terms of the growth elasticity of poverty alleviation and human development under some sort of 'capitalism-oriented social democratic model'. The author observes a strong link between social exclusion and economic poverty whereby the political parties have been advocating government spending on public goods like social security, roads, electricity, agricultural transformation, information technology, basic health services as well as primary education. The governments have also committed production-oriented budgetary allocation, employment-centered programs, and targeted-programs. Thus the main way out of poverty would depend on the government's economic policy which focuses on the provision of social security with competitive markets and secured property rights. However,

the political feud between the key political parties has stalled several legislations on reforms. Thus, an increase in political stability would be conducive for inclusive growth more through positive effects on total factor productivity growth, followed by increased physical and human capital formation. The author argues for increased political stability, balanced economic growth policy, cautious reliance on expansionary fiscal policy, higher revenue generation efforts, and efficient spending for social care, for inclusive development.

Overall, the book is an interesting polemic on the lessons of Nepal's development record during the past four decades for creating a federal social democratic union which presents the main messages from the economic thoughts and technical models in a lucid manner. It is rich in empirical aspects as well as developmental policy and management issues, which need to be continually updated. The author has done a timely service for the policymakers, development managers, researchers, advanced students, and media persons at an unusual time in Nepal's economic transformation.
