

Creative Economy

Kazuo Mino
Tadashi Yagi *Editors*

Cultural Basis of Economic Growth in India

 Springer

Creative Economy


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This book series covers research on creative economies based on humanity and spirituality to enhance the competitiveness, sustainability, peace, and fairness of international society. We define a creative economy as a socio-economic system that promotes those creative activities with a high market value and leads to the improvement of society's overall well-being.

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Kazuo Mino · Tadashi Yagi
Editors

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Preface

This book is based on a joint research project conducted by the authors from 2016 to 2018. Our research was financially supported by the Japan Society for the Promotion of Science (JSPS Grant-in Aid for Scientific Research, project number: 16KT0089). The central purpose of our project is to study economic growth in India from a broader perspective than that of conventional economics research. In particular, we focus on the cultural basis behind the recent remarkable growth of the Indian economy. The standard growth economics usually ignores cultural differences in economies to focus on the general mechanics of economic growth. We maintain that such an approach may be insufficient for exploring economic growth in India because the Indian economy has distinctive cultural features that are not observed in other Asian countries. The traditions related to value judgment on various life matters such as marriage, religion, gender, and so on affect consumers' behavior and working environment. They also affect the competitiveness of the economy and the well-being of people. Since our study needs an interdisciplinary investigation, the participants of the project are economics researchers in various fields such as public economics, fiscal policy, macroeconomics, industrial organization, and socio-economics, as well as an expert in anthropological and historical studies on South Asia in general and on India in particular.

In the Chap. 1, Akio Tanabe characterizes economic development in South Asia, with a particular focus on India from the post-World War II period to the present. The author emphasizes that India is a diverse society in which various individuals and groups from different social backgrounds interact with each other. Hence, unlike efficiency-oriented development in Western and East Asian countries, India and other South Asian countries have experienced diversity-driven development. Tanabe first discusses Indian history in the early modern era as a process of diversification. He argues that India, after experiencing colonial and postcolonial diversions, reconverged to this development path from the 1990s when democratization and continuing growth were simultaneously realized.

The Chap. 2, written by Kazuo Mino, studies the linkage between economic growth and industrial structural transformation in India. As in other developing economies, the income share of the agricultural sector in India continues to

decrease as the economy grows. However, compared to other developing economies such as China, the employment share of the agricultural sector in India has not decreased much. Since the standard neoclassical growth models fail to explain such a phenomenon, Mino constructs a multisector growth model in which there are frictions in labor markets that may prevent a smooth sectoral shift of workers who possess heterogeneous abilities. It is shown that the model may capture the patterns of structural change in India. The author also considers cultural and institutional factors that may give rise to labor market frictions.

While the first two chapters discuss the baseline features of India's economic growth, the subsequent chapters use micro-level information to characterize the behavior of the Indian people. Specifically, those chapters reconsider the standard view that well-being mostly depends on the level of consumption, so that the per capita income and consumption are the most important criteria to evaluate the growth performance of an economy. In Chap. 3, Yoshio Itaba first presents an overview of the large-scale survey on well-being in India conducted by our project in 2017. This survey pays particular attention to the evaluation of external and environmental factors represented as social capital. Itaba empirically analyzes the key determinants of social capital and confirms that the level of social capital has statistically significant effects on the happiness and life satisfaction of the Indian people.

In Chap. 4, Tadashi Yagi studies the differences in the determinants of well-being between India and Japan. Based on the World Value Survey, Yagi first compares the values emphasized by people in major regions and examines the relevant determinants of well-being in India. Then, he utilizes the survey data of our project and his foregoing research on happiness in Japan to compare the determinants of happiness in India and Japan. His econometric study reveals that the major determinants of happiness for the Japanese people are income, wealth, and length of leisure time, whereas in India, social status and a high level of activity in the community are relevant determinants of happiness.

Chapter 5 by Kanako Takimoto and Akihiko Kawaura is a study of happiness of women in India. The authors first point out that the gender gap in India is still quite large compared to the world average, and it has recently widened further. They conduct an empirical analysis based on data provided by Asia Barometer as well as by our survey to explore the determinants of Indian women's well-being. The authors find that other than income level, marital status, employment status, and health condition greatly affect the level of happiness of Indian women.

In the final chapter, Sayaka Sakoda, Ryuichi Fukuhara, and Pramod Tiwari focus on a traditional folk dance drama performed by a tribe in Rajasthan, India. It has often been claimed that the poor in India tend to spend too much money and time on local religious events, which is one of the reasons why they are still trapped in poverty. Based on their survey data and field research, the authors cast doubt on such a conventional view. Their econometric analysis on the specific event suggests that spending money and time on performing the drama does not stem from the short-term economic incentive but from the long-term incentive to make an investment in social capital within their tribal community as well as in the local

society that they belong to. The conclusion of this chapter is compatible with the outcomes of the studies on happiness in India presented in the previous chapters.

Economic growth is a complex phenomenon that can be explored from various viewpoints. Although our research has examined only a small portion of the diverse issues, we have made it clear that it is not appropriate to study the economic growth in India from the same perspective as when analyzing the growth in Western and East Asian countries.

This book could not have been completed without the financial support of the Grant-in-Aid for Scientific Research. We are grateful to Japan Society for the Promotion of Science. We also thank Juno Kawakami of Springer Nature Japan for her valuable editorial work.

Kyoto, Japan
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Kazuo Mino
Tadashi Yagi

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Tadashi Yagi is a professor in the Faculty of Economics at Doshisha University. He holds a Ph.D. in economics, awarded by Nagoya University in 1996. His research areas are wide-ranging, including public economics, human resources management, income distribution, welfare economics, and cultural economics. He has written many papers in refereed academic journals and chapters in edited volumes. His important papers include “Economic Growth and the Riskiness of Investment in Firm-Specific Skills” (with Taichi Maki and Koichi Yotsuya) *European Economic Review* (2005), “Income Redistribution through the Tax System: A Simulation Analysis of Tax Reform” (with Toshiaki Tachibanaki) *Review of Income and Wealth* (1998), and “Public Investment and Interregional Output-Income Inequalities” (with Nobuhiro Okuno) *Regional Science and Urban Economics* (1990). His recent works include “Moral, Trust and Happiness: Why does Trust Improve Happiness?” *Journal of Organizational Psychology* (2017), and “Happiness and Self-Determination: An Empirical Study in Japan” (with Kazuo Nishimura) *Review of Behavioral Economics* (2019).

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Chapter 1

The South Asian Path of Development: A Historical and Anthropological Perspective



Akio Tanabe

Abstract This chapter explores the cultural basis of economic development in the long-term history of India. India has always been a meeting place of diversities, where the development path is “diversity-driven”. It did not rely solely on enhancement of productivity, but more on diversification of knowledge leading to the multiplication of the kinds of products and services. Early-modern India developed a socio-economic system that adapted to seasonal and inter-annual variations in rainfall, managed risks through a system of shares, and accumulated the fruits of labor in the form of specialized skills in social groups. The colonial period saw a partial divergence from the development path when caste hierarchy was “traditionalized” and various social groups were “peasantized”. Today, we see a reconvergence to the diversity-driven path where the post-peasant masses are diversifying sources of income to secure livelihood and increase life chances. Also, there is a new reassembling of diversities where varied skills and knowledge meet and give rise to innovations. The agenda for the Indian economy lies in mediating and enabling a smooth linking between various sectors and modes of production with a balance between the rural and the urban, agricultural and non-agricultural, informal and formal, and livelihood and profit.

1.1 Introduction

This chapter explores the cultural basis of economic development in the long-term history of the South Asian region, focusing on India for the period from 1947 onwards. Today in India, many previously marginalized peoples and post-peasants are becoming active agents in the market economy and democratic politics, and diverse individuals and social groups are engaging in dialogues and interactions in the expanded lifeworld and the public sphere (Neyazi et al., 2014; Tanabe, 2017). I suggest that this dynamism can be understood as a contemporary evolution of

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the South Asian path of development (Sugihara, 2010; Tanabe, 2015). This chapter discusses the characteristics of the South Asian path of development and its historical unfolding, focusing on the entanglement of culture, nature, and economy.

Previous studies of Indian society tended to focus on discrimination and poverty, and to ask why democracy is dysfunctional and the economy underdeveloped in India. The answer given often pointed to the discriminatory social structure based on caste and Hinduism (cf. Dumont, 1970; Weber, 1958). Such an Orientalist view of India defined academic understanding of India until the 1980s. This view is based on the understanding of India as a caste society with a fixed hierarchy, which impedes the free movement of labor and capital and thus proper allocation of resources in the political economy.

Today, however, as India moves from the postcolonial to the global era, it can no longer be described as a closed caste society, plagued by poverty and discrimination. Rather, India is vibrant as an open and diverse society, displaying remarkable economic growth with decreasing poverty. Democracy is deepening as the diverse populace participate in political processes. India's influence in international politics is also growing significantly. It is important to note, however, that there is also a dark side to these changes. The gap between the rich and the poor is widening in the global economy, and discrimination and inequality based on religion, caste, and gender continue to pose grave problems. While democracy deepens and the economy grows, socio-economic disparities persist. Also, the grip of power by the majoritarian Hindu nationalists poses a serious threat to the pluralist democracy. For all that, we should not lose sight of the fact that a major driving force for these socio-politico-economic changes is the increasing participation of diverse post-peasant people in the market and democracy in search of improvement of life chances to overcome inequalities and to make their voices heard for the betterment of their positions.

In the face of major changes, a new paradigm is needed to rethink India's past and present. India is now economically developing without losing its cultural uniqueness. What is this cultural uniqueness, and how is it connected to the pattern of economic development in India? What are the issues that remain unresolved? In order to answer these questions, we should think of India not only as a hierarchical society, which divides and discriminates, but as a *diverse society*, which affirms people's differences (Tanabe, 2015, 2021a). If we look at India's history, we see that in this diverse society, various individuals and groups from different ecological and social backgrounds have interacted and exchanged dynamically through society, the market, and the state, and have developed different roles and entitlements based on their functions and positionalities. Today, the historical and cultural characteristics of India as a diverse society is taking a new form under the present democratic politics and market economy.

By seeing India as a diverse society, I try to overcome the Orientalist view of India that presupposes its essence as a hierarchical order in contrast to the supposedly egalitarian order of the West. I also attempt to understand the development path of India in a longer term and more comprehensive manner. "Path of development" here does not refer to a model for economic growth, but rather to the socio-cultural and politico-economic forms that have been created and evolved historically, based on

the region's ecological environment and inter-regional exchanges, in order to enrich the lives of people in the region.

Previous studies on the paths of economic development by Kaoru Sugihara, Kenneth Pomeranz, and R. Bin Wong among others have fruitfully discussed the capital-intensive, efficiency-driven Western path and the labor-intensive, resource-saving East Asian path (Austin & Sugihara, 2013; Pomeranz, 2000; Sugihara, 2003, 2020; Wong, 1997). They have taken comparative perspectives in measuring and depicting economic development in terms of increase in productivity in the context of regionally specific factor endowments, especially land/labor ratios. There have been important undertakings, especially by Tirthankar Roy and Kaoru Sugihara, to include South Asia in such a comparative framework (Pomeranz, 2004; Roy, 2004, 2005; Sugihara, 2004, 2008; Wong, 2004), and particular attention has been paid to the availability of water besides capital, land, and labor as one of the key production factors.¹

This chapter is an attempt to make a contribution in this endeavor of delineating the regional characteristics of the South Asian path of development.² I argue, as an extension of the comparative approach, which focuses on factor endowments and forms of productivity enhancement, that attention to the South Asian path of development opens up wider issues including the very definition and direction of development. The South Asian path of development is oriented towards livelihood security in an unstable environment and forms of life enrichment that include but are not limited to productive efficiency.

The characteristics of the South Asian environment cannot be grasped solely by factor endowments, such as land/labor ratios, as in the case of East Asia or the West. We must also take into account unpredictable and fluctuating precipitation, abrupt spread of infections, and natural disasters that affect not only production but also human life. The importance of the environment for understanding Indian economic history has been highlighted by Roy's research (2005). But his emphasis lies in "the environmental barrier to technical change", which impeded "improvements in living standards" (Roy, 2005: 6). I would like to argue, however, that there were particular ways in which the Indian social system adapted to such an environment and attempted to secure and enrich livelihoods. In other words, the natural environment provided *conditions* rather than barriers for a path of development in South Asia.

This consideration leads us to focus on another characteristic of South Asian society: i.e., the persistence of diverse social groups—castes and communities—with various lifeways. These groups have been a reservoir of distinct skills and knowledge for utilizing the different aspects of natural and cultural resources. Importantly, it was by multiplying social diversity, besides increasing productivity, that South Asia was enriched with multiplied products and services.

¹ Another important production factor recently paid attention to is energy (Kanda, 2015, 2017). Sugihara suggests five factors of production where water and energy are added besides capital, land, and labor (Sugihara, 2020). This is certainly a significant development in global economic history.

² This idea of the South Asian path of development is a result of ongoing discussions among Professors Kaoru Sugihara, Kohei Wakimura, myself, and others.

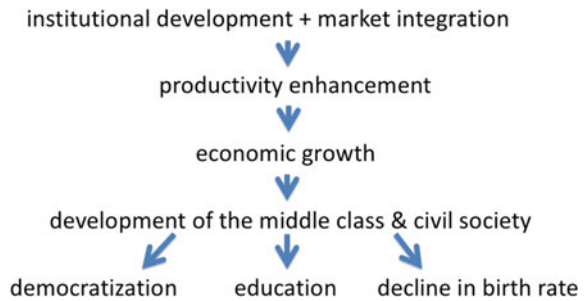
In this way, the key to understanding the South Asian path of development lies in focusing on how it has adapted to socio-ecological diversity and fluctuations, and managed to mitigate risk and secure livelihood amidst such an environment, and also on how it has evolved its unique form of enriching life (Sato & Sugihara, 2015; Sugihara, 2010; Tanabe, 2015). The South Asian path of development did not rely solely on enhancement of productivity, but more on diversification of skill and knowledge and consequently the multiplication of the kinds of products and services available for developing a richer society. Thus, the characteristics of the South Asian path of development may be summarized as “diversity-driven”.³ It is based on the affirmation, promotion, and combination of diversity in the pursuit of well-being.

In the following sections, I first suggest a shift in perspective on development in long-term history, followed by discussions on geographical, cultural, and historical characteristics of India, including socio-economic structure and change in early modern and colonial eras. Then I will go on to depict and argue how the contemporary economic development in India can be understood from the viewpoint of a diversity-driven path of development.

1.2 A Perspective on Development: From Productivity to Livelihood

In order to appreciate the significance of the South Asian path of development in world history, it is necessary to shift our focus *from productivity to livelihood* in understanding “development”. Previous views have presumed that overall historical development takes place when there is an increase in productive efficiency. Teleological history based on the production-centered framework of modernization and globalization assumes that the combination of institutional development and market integration brings about productivity enhancement, which in turn leads to economic growth (Fig. 1.1). According to this perspective, economic growth results in creation of a middle class-based civil society leading the way to democratization, concomitant with improved education and decline in birthrate.

Fig. 1.1 Productivity approach to history



³ The term “diversity-driven” was first suggested by Prof. Kaoru Sugihara.