Book Reviews

The Dynamics of Competition: Understanding India's Manufacturing Sector, K. Pushpangadan and N. Shanta, Oxford University Press, New Delhi, 2009. Price: Rs 550

The standard treatment of competition in textbooks is static. The conditions for the existence of perfect competition are enumerated and under certain cost conditions, it is shown that in long run equilibrium, firms in the industry would end up earning only normal profits, or zero economic profits. While the conditions for the existence of perfect competition are not expected to be met in any industry, it is assumed that they do embody long term trends. For example, while it may be difficult to identify any industry where all firms produce identical products, there is reason to believe that over time most products tend to become "commodities", demand for which are driven by price alone. The perfectly competitive model also highlights the importance of the ease of entry and exit into an industry for generating the zero profit condition.

For a long time, there has been an alternative view of competition as a dynamic process. In Schumpeter's visualization of the competitive process, firms innovate and gain temporary monopoly positions in the industry. But then new firms come in with new products and new techniques and displace the old firms. Therefore, monopoly profits are only temporary and can get dissipated quickly.

In their initial volume, Pushpangadan and Shanta, try to analyze the extent of competition in India's manufacturing sector and whether industries have become more competitive over time. They try to combine both static and dynamic aspects in their analysis. They first look at the question of mobility, i.e. they try to see how firms have interchanged their positions in terms of market shares. Then they look at market concentration measures. This is followed by an attempt to identify long term profit trends and decompose profits into competitive rates and short run and long run rents. The final issue taken up is whether domestic competition has affected performance on the export-import front.

The volume, therefore, performs a very useful function by raising the issue of competition and adopting a multi-faceted approach to analyze competition in the Indian manufacturing sector. It introduces a couple of measures that future investigators would find relevant for tackling the question of competition.

However, the book's treatment is only preliminary and incomplete. Some of the limitations of the study have to do with the mechanical approach that the authors have adopted. The results are presented but very little effort is expended in trying to explain the results. Thus, the policy changes after 1991 might lead one to expect that industries would, by and large, become more competitive. But the authors find that this is not true for all the industries selected for investigation. Chapter 3 uses various measures of concentration and finds that three industries – beverage and tobacco, non-metallic minerals and transport equipment witnessed increase in monopoly power. On the other hand, in food products, cotton textiles, synthetic textiles and electronics, large firms lost market shares to other firms. One then has to provide convincing explanations for the industries where the degree of competition seems to have been reduced. The book, in fact, provides no such clues.

The data limitations are of course crucial. The level of disaggregation of the data is simply not adequate to generate industry groups producing sufficiently similar products. Take, for example, the group *Beverages* and *Tobacco*. This contains both alcoholic drinks and tobacco products, and contains players like ITC and United Breweries. Therefore, when we look at the "churn" in the industry, then different firms may be making their exit and entry from the industry and interchanging their places in terms of market shares for quite different reasons unrelated to the forces of competition.

However, the authors do not analyze the patterns of entry and exit, even though they admit that "it may be emphasized that entry and exit of firms are at the heart of Schumpeter's process of creative destruction". In the absence of "reliable" data on entry and exit, the analysis is "…confined to incumbent firms only". In other words, when the authors talk about mobility, they are referring to changes in market shares and relative positions of the incumbent firms, *not* the ease of entry and exit. One can easily think of markets where a few firms have continued to operate for a very long time, and there has been no entry and exit though there has been an ebb and flow in the fortunes of the incumbents. The tobacco industry is a prime example of such an industry. The turnover index (which is modified by the authors to take care of changes in market shares in addition to changes in ranks) indicates competition among incumbent firms, but will obscure the existence of barriers to entry.

The authors use a model based on Mueller's work to test the convergence of profit rates. Following Mueller, the authors make no attempts to ensure that profits relate to economic profits rather than accounting profits. The profit rates are decomposed into the competitive rate prevailing in a sector, a long run rent for the i-th firm and a short run rent of the firm i in the t-th year. The competitive rate is found to be 5% while the average long run firm-specific rent is 4.2%. Of course, the long run rents differ from industry to industry, being the highest for Non-electrical machinery and the least in Electronics. There should be a story here to explain these differences, but no such story is told. The persistence of profits is found to be the highest for the Synthetic Textiles industry and the least for Beverages and Tobacco. Five industries (Cotton Textiles, Iron and Steel, Non-ferrous Metal and Non-metallic Minerals and Synthetic Textiles) take more than the average time for all industries for the profit rates to return to the competitive level. These are interesting findings, but in the absence of industry-specific details, the reader is unable to understand the reasons for the differences between industries. Just saying that findings indicate the presence/absence of competition leaves the reader with a feeling of dissatisfaction.

Chapter 5 deals with the important question of the link between domestic competition and trade performance. Stiff domestic competition can force firms to produce efficiently and this should stand them in good stead when they enter the international markets. The experience of China seems to provide support for this view. The authors use different measures of competition to test for such hypotheses and find that for two of these measures, there is some link between domestic competition and trade performance. Again, the methodology employed by the authors represents a first cut at the problem. A more satisfying treatment would introduce lags because more intense domestic competition would surely affect firms' ability to compete internationally only with a lag. The authors also try to go a step further and analyze whether competition brings down unit costs. We now know that the ability to compete abroad depends not only on cost factors; it depends on marketing and branding exercises, the ability to navigate country-specific rules, etc. One hopes that the authors will extend their analysis to provide a more complete picture of all these issues.

The book could also have done with more careful copy-editing by OUP. Several sentences make no sense and awkward expressions abound.

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The Intelligent Person's Guide to Good Governance, by Munshi, S, B.P. Abraham, and S. Chaudhuri, Sage Publications, New Delhi, 2009. Price: Rs 270

Deployed primarily to address the issue of eligibility of the developing countries to receive aid from international financial institutions such as the World Bank (WB) and International Monetary Fund (IMF), the concept of good governance acquired wide currency since the nineteen eighties with the neo-liberal policies of Reagan and Thatcher administrations providing that with the much required support. The volume of literature available on good governance or what is commonly known as a 'conditionality for aid' (p.3) is considerably large given its importance in a world where the never ending politics centered upon aid-doling and receiving is played out between peoples and nations. Indeed, it is in this arena of “unequal” partnerships that the concept of good governance comes to acquire a life of its own. Given its increasing relevance in the modern, neo-liberal world it is but natural that those in possession of adequate grey cells or what is generally termed as intelligence would display interest in embarking upon a guided (and quick) knowledge tour that would take them if not to the depths, then at least to the idea of good governance. This slim volume authored by three Munshi, Abraham, and Chaudhuri serves as an aid, a guide to those who are intelligent enough to grasp the significance of the concept, and consequently keen to explore that further. Divided into six chapters, this volume perhaps would have been like another “intelligent person's guide to god-knows-what” had it not been for its serious content, lucid prose and stylistic elegance.

The book opens with a short preface which among others, argues why concern with good governance is necessary in the contemporary world. As Munshi writes, 'Concern with good governance opens the possibility of rethinking the issues of governance that are relevant for our times. It helps us to go beyond the state and to think of different modes of partnerships that need to be worked out'. In fact, it is precisely because the issue of good governance is addressed in a possibilities-laden expanded sense by the authors that this book makes for such a relevant and interesting reading. The process of recovery of the concept from its 'self-inflicted narrow perspective' begins with Chapter I and it is this important chapter that I discuss in detail which situates good governance in the context of policies and programs of international organizations such as WB, IMF, Asian Development Bank (ADB), European Union (EU), United Nations (UN), and so forth. Having outlined the contextual (and motivated)