The Political Economy of Reforms in India Since 1991

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ABSTRACT *This paper focus on the political economy of India's economic growth is an issue of abiding interest. Higher and sustained economic growth has, all over the world, been the surest and most time tested means of raising living standards and reducing poverty. Further, given that it is a functioning democracy; economic policy in India can often be dictated by political expediency as political parties indulge in competitive populismin the face of improvements in social indicators such as literacy, infant mortality and the like lagging behind rises in the rate of economic growth. the impact of Political Economy and ideational factors such as formative experiences of a State, ideas of strategic thinkers and history on the strategic economic choices made by nation-states? While many authors have used the political economy framework to analyse global and domestic change, it is surprising that not many scholars have adequately explored the impact of political economy and ideational factors on economic strategy making in the Indian context. This article seeks to build on existing research by studying the interaction between political, social, historical, economic and ideational factors to explain India's economic strategy making in the post-independence period until the 1991 reforms.Thus the political economy of policy formulation is an important area of concern. Finally, an analysis of what policies can beundertaken given these constraints is an important indicator of potential welfare implications ofpolicies for such a large section of humanity.*

Keywords: *liberalisation, privatization, political economy reform*

Introduction

India has been acclaimed in recent years as an information technology (IT) superpower and perhaps even as a major new player in the world economy. The Indian economy has been growing at around 5 or 6% per annum since 2003, adjusted for population growth, and there are good reasons to suppose that similar rates of growth of gross domestic product (GDP) per capita might be sustainable over the next twenty years. Savings rates are very high in India. Indeed, at just over 30% of GDP, gross domestic savings are approaching East Asian levels. The economy sits well inside its total factor productivity frontier, in large part because of low levelsof human capital formation, and the country now has the chance to reap a demographic dividend: the ratio of dependents to workers is set to decline from just over 0.6 in 2000 to just under 0.5 in 2025.

The launch in January 2008 of the Tata Nano seemed like icing onthis cake of economic success. Much was made in the West about a car selling for $2,500,but in India the marketing of a car for one lakh (100,000) rupees spoke to the existence ofa mass middle class. It also signalled the rise of a small group of Indian capitalists and entrepreneurs who could bestride the global stage. Four-lane highways packed with Nanos offered a vision of India far removed from one of pot-holed roads shared by bullock carts, scooters and state-built Ambassador cars.

In the words of Gurcharan Das, India had been unbound.It had escaped from a Kafkaesque world of bureaucratic red-tape to take its place in the global information age. Now, there are clearly nuggets of truth inaccounts of India's political economy that hinge around 1991, Yet the notion that all was bad or sick before "the reforms" or that all has been goodor healthy since, fails to provide a nuanced picture of economic development in India since Independence. Recent academic work points out those high rates of economic growth are now being achieved in India in part because of past legacies, some more intended than others, and not whollyin spite of them.

Investments in higher education and basic industries are two cases in point.Recent work also points out that economic reform did not begin overnight in 1991, but was prefigured in important respects by the pro-business agendas pursued by Prime Ministers Indira Gandhi and Rajiv Gandhi in the 1980s. In any case, the real turning point in India's trend rate of economic growth was 1980-81, not the early-1990s, although there are signs that the trend rate has improved again since 2003-04.

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As ever, it is not difficult to recognize the truth of some of these claims. But what this narrative of rise, decline and recovery cannot account for is the upturn in India's rate of economic growth post-1980. The fact is thatper capita incomes in India grew on average at 3.8% in the 1980s or at more or less the same rate as they grew in the 1990s. There are three main reasons why this was so. To begin with, as AtulKohli has argued, the governments of Indira Gandhi and Rajiv Gandhi(1980-89) began to tilt economic policy more clearly in the direction of big business.

The courting of foreign direct investment was still not a priority through the 1980s, although a few joint ventures were brokered in the autos sector. Nevertheless, the strongly anti-capital (especially, anti-foreign capital) rhetoric that Indira Gandhi had deployed inthe 1970s was toned down. New initiatives were introduced that favoured established Indian producers. In place of garibihatao (end poverty), the political platform on which Indira Gandhi made her name in the early 1970s, the Congress governments of the 1980s retired those parts of the Monopolies and Trade Practices Act which made it hard for big business to expand in core sectors like chemicals and cement. Some efforts were also made to liberalize credit for large companies. Perhaps most importantly, both Indira and Rajiv Gandhitook steps to tame labour activism in the organized sector, and to encourage private sector investments with limited tax concessions.

Kohli argues that a major effect of these policy changes was to shift the balance of capital formation in India through the 1980s. Albeit at the margin, it was the private corporate sector that now began to contribute more to economic development, while capital formation in the public sector stabilized after a period of rapid growth in the 1970s. It seems likely, too, that the growth-inducing effects of a pro-business tilt were augmented by the gradual diffusion of Green Revolutiontechnologies out of Punjab, Haryana and parts of south India. West Bengal now became a Green Revolution heartland, following significant government investment in irrigation and electricity supply.

Poor people in the countryside generally escape from poverty by migrating to towns or cities, or by winning more work in the countryside at higher real wage rates. There is some evidence that labour markets tightened in the 1980s in several states, including West Bengal, Andhra Pradesh and Karnataka. By 1989-90, the percentage of people in India living in absolute income poverty had reduced to just under 39% from 51% in 1977-78.

The GOI in the early-2000s liked to claim that the rate of poverty reduction accelerated again after the reforms of 1991. Most scholars, however, have discounted the suggestion of the 55thround of the National Sample Survey (NSS) that just 26% of people were absolutely poor in 1999-2000—an astonishing decline of 10% from just 6 years earlier. The 55th round of the NSS broke with the long established convention of estimating household spending on a uniform reporting period basis. Under this system, respondents recall their spending on all items over a period of thirty days. The 55th round instead introduced a mixed reporting period of weeks, months and years. This made sense for all sorts of reasons (greater accuracy of recall, most notably), but it undermined the GOI's efforts to track poverty trends on a consistent basis. Adjustments made to the 55th round data by Angus Deaton and Jean Drèzesuggests that the rate of poverty reduction in the 1990s was probably no greater than the rate of poverty reduction in the 1980s.

The Causes and Significances of Irregular Growth

The privatization of space is a necessary complement to the way the on-going process of economic reform in India is being negotiated. To date, that process has been focused on the non-agricultural economy, and in towns and cities. It is widely agreed that successive governments in India since 1991 have managed the reform process withlevels of determination and skill that evaded policy makers in the 1960s and 1970s. This in turn is causing observers of India to rethink their understandings of state-society relations. It is not simply that power is being leachedNew Delhi to state capitals, important though this is.

It is alsobecoming clear that a modernizing elite in India, pushed on no doubt by big business and the international community, but ably fronted by a band of far-sighted technocrats, first used the politics crisis and now uses the politics of success to create a climate for on-going reform that is nonetheless at odds still with market fundamentalism or the Washington Consensusis the real and considerable achievement ofthe CII and men like Manmohan Singh, Montek Singh Ahluwalia, and Palaniappan Chidambaram. If the reform agenda in Indiacan be criticized for its partiality and unevenness, even for its slow speed, it a hailed as a success story that has avoided the pitfalls of the big bang approaches to liberalization.

A lot of progress has been made bystealth, and this has involved all manner of deals between different members of India's business and political elites. But the reform process in India has also been advanced by the careful building of coalitions and the bringing on side of politicians as well as"rent-seeking" elites in the states those people, in other words, who had benefited most in the heyday of the Permit-License-QuRaj and who might have been expected to slow it down. Significantly, too, the on-going process of economic reform in India has led toa sharpening of the technical competency of some leading departments of government. 1950s or 1960s to support the Nehru Mahalanobis model of development. The net effect of the reforms has been to widen the gulf between rich and poor people in India, and between rich and poor regions, but that was always going to be the case. The strongest arguments in the pro-reform locker are these:

(a) that rates of averageper capita income growth in India have been rising since 2003-04 beyond the 3.5%-4.0% levels recorded in the 1980s and 1990s;

(b) That such rates of growth would not have been recorded without economic reform.

Put another way, low levels of economic growth are no friend of the poor, nor are forms ofeconomic management based on populist politics and deficit financing. In the short run, this argument has it; economic growth must promote higher levels of income inequality not those Indian levels are yet on a par with those of Brazil or China. Richer people will and scarce skills, as for example in the IT sector.

Conclusion

As things stand, all leading political parties in India support the agenda of economic reform. There is a growing sense that India's reform agenda is being driven by a culture of success, rather than by the politics offer or necessity. The fruits of that initial success have gone overwhelmingly to India's elites and its urban middle classes, and upper castes, as was always bound to be the case. The challenge now, however, is for India to move on from a reform agenda inspired by elites in revolt against the Permit License-Quota Raj. Opportunities need to be provided for poor and excluded people to participate in the new circuits of growth, not least if they are to be deterred in some regions from the paths of unrest, rebellion and/or secession.

The political enfranchisement of India's poorest groups might still be the country's long-term salvation, much as Nehru once imagined. It is equally possible, however, that the politics of exclusionary growth will be reinforced. As yet, rapid economic growth does not seem to be binding rich and poor Indians closer together. The privatization of space in India's cities surely hints at another future as well: that of the Latin America city, with all its glitz, crime, segregation and violence. Whichever way it goes, the future for economic development and social change in India is intimately bound up with its cities, and with the politics of urban management.

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