Indian Economy under Neoliberal Reforms 1991-2013: The track record

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It is now more than 20 years since India began implementing the neoliberal policies of liberalization, privatization and globalization (LPG, for short). The reforms were initially defensively explained as unavoidable under the conditionality clauses of the loans that the country obtained from the International Monetary Fund (and its twin, the World Bank) to tide over a severe balance of payments crisis in 1991.Both the fiscal crisis and the balance of payments crisis of 1991 came at the end of a decade of import-intensive growth driven by import liberalization and by increases in government expenditure that were largely financed through both domestic and foreign borrowing. The growth of the economy was, by itself, impressive in the 1980s. The GDP grew at a compound annual rate of over 5 % in the first half of the decade and about 6 % in the second half. Agriculture grew at about 4% per annum, the highest ever since independence, industry at about 8 % and the service sector even faster, with its share of GDP rising from 36% to 39%. However, a combination of international and national circumstances, together with the logical consequences of the policies of loan-financed and import-liberalizing growth accompanied by relatively modest growth of exports, led to capital flight in the early months of 1991 and lent currency to the perception in ruling circles that India was facing an imminent foreign exchange and fiscal crisis. The IMF loan of 1981 and the new economic policies initiatedin 1985, with its resort to increasing external borrowing, had softened up the Indian state and had facilitated the placement of neoliberal ideologues in key positions in the government and the top echelons of the bureaucracy. The regime that came into office in June 1991 proceeded to initiate far reaching neoliberal reforms notwithstanding its minority status in parliament, citing the foreign exchange and fiscal crises. The changes in the balance of international forces, following the collapse of socialist regimes in Eastern Europe and the dismemberment of the USSR in 1991, also contributed to the Indian ruling classes abandoning efforts at self-reliant capitalist development and opting instead for a neoliberal path.As the unipolar world led to the strengthening of the ideological as well as political and economic domination of the advanced capitalist countries led by the USA, the world saw a major transformation, most dramatically illustrated by the shift from a call for a new international economic order at the 37th UN General Assembly in 1974 by developing countries supported by the socialist countries to the coming into being of the World Trade Organization (WTO) in 1995. Under these circumstances, the shift to neoliberalism was sought to be justified as the right move in terms of economic logic rather than as one imposed via unavoidable conditionalities at a particular conjuncture.

The three key elements of neoliberal policy were deregulation (more popularly referred to as liberalization), privatization and globalization. Deregulation entailed not just removal of unnecessary bureaucratic impediments to the functioning of markets, though that was how it was presented. In essence, it meant removing large private players, both domestic and foreign, from any norm of social accountability. In practice, this also meant looking the other way when such large private players violated the laws of the land with impunity in pursuit of profits. Likewise, privatization was not just about the government selling its shares in public sector enterprises, but about throwing open the spheres of education, health and infrastructure , hitherto regarded as the responsibility of the State, to private entities driven by the logic of profit maximization. Globalization meant not only almost complete liberalization of imports and exports of goods and services, but even more importantly, free movement of capital as finance into and out of the country. This introduced an element of vulnerability that was not there earlier, and has been critical in seriously restricting policy options for the ruling classes.

Under neoliberalism, it was not enough to open up the economy without any restriction, to large private capital, domestic and foreign. It was also considered essential to offer them 'incentives' in a world where they had the choice of going somewhere else than operating in India. Such concessions by way of tax reductions and the like entailed revenue losses which then had to be made up, in order to keep fiscal deficits within limits acceptable to international finance capital, by reducing subsidies to the poor and to energy, agriculture, education and health. The hope, expressed with confidence by neoliberal ideologues in charge of policy, was that all this would unleash the animal spirits of capitalists, bring into India huge amounts of foreign direct investment, and such investment by both domestic and international capital will lead to accelerated economic growth, rapid expansion of employment and therefore also accelerated decline in the proportion of people below the poverty line.

What have been the consequences on the ground as against these confident expectations of neoliberals? How have India and Indians fared during the two decades of neoliberal reforms?

First, the annual rate of growth of the gross domestic product (GDP) of the economy was already close to 6 per cent per year from the mid1980s. Between 1991 when the reforms were accelerated, widened and deepened, and 2003, the average annual growth rate of GDP was no higher than in the period from 1985 to 1990. However, from 2003-04 to 2007-08, the GDP grew more rapidly at about 8 per cent. With the global economic crisis of 2008, the growth rate between 2008-09 and 2011-12 is not likely to exceed 7 per cent.[1]

One can argue that even an average of 6 to 7 per cent growth rate of GDP is impressive when many countries, including the developed capitalist countries, are growing at much lower rates and only China is growing at between 9 and 10 per cent per year for over three decades now. *The issue, however, is not just the rate of growth, but the nature and composition of growth and its implications for different socio-economic classes. There are major concerns in this regard.*

First, it is the service sector that is growing most rapidly. The share of the service sector in India's GDP is now close to 60 per cent. The secondary sector has grown at much lower rates than the service sector and has also shown instability. Its share in GDP is only around 25 per cent, much lower than in China. The share of the primary sector –agriculture and allied activities, forestry and fishing, and mining and quarrying – has declined to somewhere around 17 per cent.

Second, while the decline in the share of the primary sector in GDP is to be expected as an economy modernizes and industrializes, the point to be noted with concern is that the share of the labour force in the primary sector, at almost 50 %, is much higher than its share in GDP. By contrast, services sector contributes close to 60 per cent of GDP, but its share of employment is less than 30 per cent.

Third, the last two decades have seen a huge and continuing agrarian crisis, with over 250,000 farmers committing suicide in just the decade from the late 1990s to the late 2000s. Growth in agriculture and in food grains has been the lowest since independence during this reform period, with the annual growth rate being just 0.6 per cent between 1994-95 and 2004-05. The recovery since 2004-05 has not been steady nor is it sustainable with present policies.

Agriculture and the rural economy have been devastated by neoliberal policies that have:

- Slashed subsidies to agricultural inputs including fertilizers, pesticides, credit, energy and transport, leading to sharp increases in input costs
- Removed restrictions on imports of agricultural produce, causing both a collapse of prices for farm produce at certain times and greatly increased price fluctuations throughout
- Reduced the supply and increased the costs of bank and cooperative credit to agriculture and allied activities
- Cut back on development expenditure to meet the demands of foreign finance capital for low budget deficits, in the process weakening rural infrastructure, farm extension, farm research and halting the expansion of irrigation critical to agricultural growth
- Weakened food security by imposing a targeted public distribution system, excluding millions of the poor from access to food at affordable costs.

An examination of the rates of growth of output and yield per acre for major agricultural crops over different

[1]GDP growth rates have fluctuated to some extent between 1991 and 2012, as shown below:

Period	*GDP Growth Rate, % (approx.)*
1991-1997	6.0 %
1998-2003	4.5 %
2003-2008	8.5 %
2008-2012	6.5 %

time periods brings out sharply the negative impact of neoliberal reforms on agriculture.Except in the case of cotton, the rates of growth of output fell sharply for all other crops between 1991 and 2010, the period of reforms, as compared to the decade 1981-1991. In the case of cereals and of food grain, the rates of growth between 1991 and 2010 were even lower than in the period 1967-81 when the green revolution had just begun to spread.Likewise, except in the case of cotton, the rates of growth of yields have declined significantly for all crops between 1991 and 2010, the period of neoliberal reforms, as compared to the period of 1981-91. As far as cereals are concerned, the rate of growth of yield is the lowest in the reform period, lower than in 1967-81 when the green revolution had been initiated and had begun to spread.[2]

Fourth, the growth in employment during the reform period has been smaller than in the decade preceding the reforms. Moreover, practically all the increase in employment over the last two decades has been in informal jobs that are not only often at very low wages, but carry no welfare benefits, are completely insecure with no protection for workers, involve long working hours and deny workers the right to form unions and fight for better wages and working conditions. All the increase in manufacturing productivity, brought about by rapid mechanization, has gone to swell profits while wages remain subdued. For instance, between the mid1980s and mid2000s, the share of profit in value added in organized manufacturing, for instance, has gone up from around 40 % to around 80 %. On top of the rural and agrarian crisis and the crisis of massive and increasing unemployment, we have had very high rates of inflation, especially in food articles and in some other essential commodities as a result of deregulation, indiscriminate opening up of the economy, promotion of futures markets and unbridled speculation.[3]

Fifth, all evidence, from the national sample surveys, the national family health surveys and various other surveys done across the country, shows that the reforms have not made a significant impact on the depth and severity as well as the wide spread of poverty, even though the government often claims the contrary.[4] There has been no significant reduction in malnutrition, and the indicators even show a worsening in some parts of the country and among socially and economically vulnerable sections.

Sixth, the reforms have led to a much greater integration of the Indian economy with the world capitalist economy. For instance, the combined share of exports and imports in the Indian economy in India's GDP was only 14 % in 1991. It is now practically 50 per cent of GDP. In addition, because the reforms allowed free entry and exit of foreign finance capital, there is a much greater degree of instability in the economy, with foreign institutional investors bringing money into the country to make quick and huge profits in Indian stock markets and taking them out quickly. While foreign capital makes huge profits in this manner by speculating in the stock market, there is no benefit to the Indian economy as no wealth is created by trading mostly in already existing shares. But the unregulated entry and exit of foreign finance capital only causes great instability in the financial and currency markets and the integration of India's economy through trade and capital flows makes us far more vulnerable to external shocks emanating from any part of the world capitalist economy.

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India's Rulers in Panic Mode

With the current global economic crisis showing no sign of ending soon, the Indian economy is in for rough weather. Neoliberal policies of the last two decades have made the economy more vulnerable to the global crisis. We have seen the value of the rupee in relation to the

[2]While the agrarian crisis has certainly intensified during the period of neoliberal reforms, it is important to note that the crisis is not undifferentiated across time and space, or across classes in the countryside.

[3]The attribution by leading government officials, including 'reputed' economists, of unprecedentedly high rates of food inflation to 'rising rural incomes' and supply-demand imbalances is not only an instance of blaming the victims, but completely off the mark as well.

[4]The literature on this is voluminous. The works of Utsa Patnaik and of the National Commission for Enterprises in the Unorganised Sector (NCEUS) are important in this regard.

US dollar fall rapidly in recent months, and in recent weeks, desperate measures by the government to halt the slide. The global recession has led to India's export growth being halted, and recently, turning negative. Meanwhile, the rapid rate of import liberalization since 1991 is causing a serious trade deficit. With remittances from Indians abroad not growing to make up the gap, and with footloose finance capital exiting India rapidly, the global capitalist crisis has already led to a slowing down of the growth rate. In panic, our rulers want to offer more and more incentives to foreign finance capital to attract them into the country.

The decline in the growth rate of GDP to 6.2 % in 2011-12 and even more sharply to 5 % in 2012-13 has led to a sense of deep crisis among policy makers. In recent weeks, the government of India has clearly pressed the panic button and announced a series of measures with the sole objective of pleasing foreign finance capital and in the bargain hoping to raise the 'animal spirits' of large Indian capital. In complete violation of the norms of parliamentary democracy, the government has permitted FDI in retail trade when the overwhelming majority in parliament opposed the move in this direction in October –November 2011. It must also be noted that the Parliamentary Committee on FDI, including its Congress members, has unanimously rejected multi-brand FDI in retail. This violates an assurance given by the then finance minister on the floor of the parliament that the government would move on FDI in multi-brand retail only after obtaining a political consensus. Further, two key provisions in the Union Budget of 2012-13 are being reversed. The question of General Anti Avoidance Rules (GAAR) has been referred to what one may, without intending personal offence, call a 'slot machine' committee, where you will get the result you want as you would get the music you want from a juke box! The whole thing is in cold storage, and investors have in effect been assured that all is fair in the game of tax evasion. Likewise, efforts are under way to annul the effect of legislation passed by parliament intended to check tax evasion through a measure that retrospectively amended the Income Tax Act, and to negotiate with the concerned business entity soft terms that would minimise or altogether eliminate its tax liability. Steps to raise FDI caps in civil aviation and insurance have been announced, and foreign airline companies have been allowed to hold and raise stakes in Indian airline companies. Pension funds are to be privatised, and FDI allowed as well. In effect, further privatization and 'denationalization' of the financial sector in the sense of enhanced participation of foreign business entities is being rapidly pushed. More recently, with the rupee value of the US dollar exceeding 60, and with a looming crisis of potential default on external liabilities, the government has been desperately trying to woo foreign capital of any sort. Limits on foreign direct investment have been raised in twelve sectors, including the strategically important ones of defense, telecommunications and insurance. It has abandoned even the minimal conditions it earlier put on FDI in retail about domestic sourcing from small and medium players and about back-end infrastructure. It has also yielded to the demand that FDI in retail be allowed in cities with population below one million. Of great concern is the fact that, while none of these measures has majority support in parliament, a government that is de facto in a minority status, is going about announcing all these 'reforms'. It is a scenario eerily reminiscent of 1991-96 when too the minority government with Narasimha Rao as prime minister and Manmohan Singh as finance minister pushed through major neoliberal measures that had not found a place even in the Congress party's election manifesto in 1991.[5] Where is the Indian economy, and its formally democratic polity, going?

Neoliberal reforms of liberalization, privatization and globalization were accelerated in 1991. It was claimed at that time that these reforms would solve the balance of payments crisis and the fiscal crisis that the Indian economy was diagnosed as facing. It is ironic that twenty-two years later, the economy is in an even worse crisis with regard to the balance of payments and the fiscal situation.The merchandise trade deficit for 2012-13 is estimated at 10.8 % of GDP. Even with inward remittances and service sector exports, the current account deficit is unprecedentedly high at 4.3 % of GDP. The Union budget of 2013-14 has sought to deal with this crisis by providing more concessions to foreign capital. It deferred the implementation of GAAR by a couple of years. It has kept the door open for a 'friendly' settlement of a legal dispute between the government and a telecom MNC even though the budget of 2012-13 had retrospectively amended the Income TaxAct to ensure that the company concerned met its tax obligations. While the budget thus seeks to deal with

[5]That the minority Congress government of 1991 later secured a majority in parliament through measures widely regarded as dubious is another story.

the balance of payments crisis by offering more and more concessions to foreign capital, it seeks to reduce the fiscal deficit as demanded by foreign capital through imposing burdens on common people and reducing food, fertiliser and energy subsidies even while losing more than 5 lakh crore rupees of tax revenue per year on account of tax concessions to the large companies, Indian and foreign.

In an attempt to deflect public attention from the economic crisis and from the daily diet of scams, the government has brought in the Food Security Bill, first promised in 2009 shortly after the parliamentary elections of that year and the swearing in of the new government at the Centre. The Bill, and the Ordinance, hastily promulgated even while the parliament was to meet soon after, are exclusionary in character, violative of the principles of federalism, discriminate against several states, provide less than existing entitlements in respect of at least twelve states and include provisions that could weaken and ultimately eliminate the procurement and public distribution system that has for long served both agriculture and the poor at least to some extent.

A Final Word

In short, neoliberal reforms have neither meant sustained, accelerated growth of GDP nor significant improvement in living standards of the majority of the population. The record in terms of employment, food security, poverty and malnutrition during the reforms period has been quite disappointing, to say the least.

"...to secure and protect a social order in which justice, Social, Economic and Political, shall inform all the institutions of national life Article 39 speaks out that, in such a society, the citizens men and women equally, should have the right to an adequate means of livelihood; the ownership and control of the national resources of the community should be so distributed to subserve the common good. The operation of the economic system should not result in the concentration of wealth and means of production to the common detriment"

(The II Five Year Plan Document)