PART III

Society, class, caste and gender
THE POLITICS OF ECONOMIC REFORMS IN INDIA

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Introduction

In July 1991, in the midst of a major balance-of-payments crisis, P. V. Narasimha Rao’s government introduced a set of relatively radical policy changes in the economic sphere that came to be known as ‘economic reforms’ or ‘liberalisation’. Trade barriers were significantly lowered; the policy of state regulation of industrial production (the so-called ‘licence-Raj’) was effectively dismantled; foreign investments were significantly liberalised. Overall, India abandoned a state-centric model of development to embrace a much more market-oriented one. Although reforms in other sectors (like labour laws and agricultural policy) were far less radical, and, as we shall see, India’s economic reforms are in many ways only a half-hearted instance of economic liberalisation, the changes introduced by Rao’s Finance Minister, Dr Manmohan Singh, did constitute a marked break with the past.

This is somewhat surprising and introduces us to the first question that this chapter addresses: how was the change possible? The literature on the relation between market reforms and democracy highlights how democracies often find it difficult to introduce and consolidate economic reforms (Przeworski 1991; Haggard and Kaufman 1994). Many argued, especially during the 1980s, that authoritarianism offered a more suitable environment for market-oriented economic reforms. Authoritarian regimes, this argument goes, are more insulated from the pressures coming from social groups that would lose from liberalisation. Even though this thesis has been seriously questioned (Geddes 1994; Giuliano et al. 2012), it remains that ‘it is by no means certain that democracies will be able to deal satisfactorily with the inevitable tensions and costs that accompany reform’ (Maravall 1994: 21). The Indian case, as we shall see in greater detail below, seemed to be particularly resilient to policy change (Bardhan 1998). What factors explain the introduction and then the consolidation of market-oriented economic reforms in India?

The second question that this chapter addresses concerns the consequences of the economic reforms, in particular the distributional effects of liberalisation. After almost twenty-five years of gradual liberalisation of the economy, who are the winners and who are the losers? Economic theory suggests that, at first, elite groups are more equipped to exploit the new opportunities unleashed by liberalisation. Therefore, economic reforms usually result in an increase of inequalities in the short term. The poor, theory suggests,
will eventually benefit from the higher growth rates brought about by liberalisation when a process of income convergence should begin (Banerjee and Duflo 2003; Fosu 2009). Does this pattern apply to the Indian case as well?

The chapter is structured as follows. The next section answers the first question – how was liberalisation possible? I will present three arguments that can be found in the literature, showing how the combination of the severe financial pressures due to the balance-of-payment crisis with the ability of the reform proponents to move carefully and strategically explain satisfactorily why India managed to abandon the state-led model to embrace a market-oriented one.

The following section deals with the second question, namely, who are the main beneficiaries of the economic reforms? I will show that a robust literature demonstrates that, unsurprisingly, elite groups are the undisputed winners of liberalisation and that the higher growth rates brought about by the economic reforms did not translate into a spectacular reduction of poverty. Politics and power relations within India’s society explain these outcomes to a significant extent.

How did it happen?

Indian democracy was thought to be particularly change-resilient. Rajiv Gandhi’s failed attempt to reform the economy in the late 1980s, despite the huge parliamentary majority that he enjoyed (Manor 1987), seemed to confirm the view that the Indian state was in the hands of a coalition of ‘dominant proprietary classes’ (Bardhan 1998) that was powerful enough to impede any change in economic policy. The three classes were the big industrialists, the large farmers and the bureaucracy. All these three groups had benefited greatly from the state-led model of development that characterised India’s political economy in the first decades after independence. The big business ‘blocked industrial competition and innovation. The richer farmers in turn blocked agrarian reform, pushing the country instead to a Green Revolution that gathered pace in the 1970s, while many bureaucrats worked the planning and licence-Raj to their personal advantage and to the advantage of many of the politicians they served’ (Ruparelia et al. 2011: 3). Given their dominance over India’s politics, Pranab Bardhan (1998) (and many others) had argued that a radical reorientation of India’s development model was, if not impossible, at least extremely unlikely.

The fact that the economic reforms did take place and were consolidated does not mean that these arguments were completely baseless. In many ways, India’s economic reforms are only a half-hearted attempt, especially if we compare India’s case with that of East Asian or Latin American countries. On the one hand, the constraints due to India’s democratic regime imposed a certain degree of gradualism in implementing the reforms (Ahluwalia 2002). On the other hand, the ‘dominant proprietary classes’ were able to slow down or block a number of policy measures that would have negatively affected their interests.

In particular, Bardhan (2003) points out how the dominant coalition was able to prevent any significant reform in the agricultural sector; to keep a number of (regressive) explicit and implicit subsidies on items such as power, diesel, food and fertilisers; and to maintain a system of regulations that, although not matching that of the ‘licence-raj’, still allows bureaucrats (and politicians) to retain significant discretionary powers and avenues for amassing illicit wealth. Moreover, the business sector benefited enormously from the retreat of the state from the economic sphere, especially in terms of colonising (highly profitable) sectors hitherto reserved for the public sector like telecommunications or extractive activities.
The politics of economic reforms in India

However, it is undeniable that the changes introduced by Dr Manmohan Singh in the summer of 1991 (and continued by successive governments) were quite revolutionary for India’s standards. Three kinds of explanations can be found in the literature to explain the shift. The first one is what we could call the ‘crisis’ argument. The second is the ‘elite’ argument. The third is the ‘stealth’ argument. It is important to note that all these three explanations are not incompatible, but rather they reinforce one another.

The ‘crisis’ explanation is, somewhat paradoxically, proposed by both liberalisation champions (Bhagwati 2007) and opponents (Patnaik and Chandrasekhar 2007). Both highlight the fact that the economic reforms were possible essentially because, in the summer of 1991, India was on the edge of defaulting in the wake of a severe balance-of-payment crisis. Where the two explanations differ is, on the one hand, on the causes that led to the crisis and, on the other, on the role that Bretton Woods institutions played in promoting the economic reforms.

According to Bhagwati (2007), the crisis was the result of the failure of the state-led model of development. The public debt-to-GNP ratio increased drastically through the 1980s due to the inability of the public sector to generate investments and to the growth of government spending that resulted in a quite sharp increase of the fiscal deficit. The 1990 oil shock aggravated the situation, but, Bhagwati argues, the crisis was ‘almost entirely “home-made”’ (p. 47).

Patnaik and Chandrasekhar (2007), among others, challenge this view. According to them the crisis was not structural, but was essentially due to financial speculation. Therefore, the government could have dealt with it without dismantling the dirigiste regime. However, the ‘liberalization lobby, consisting of both the [International Monetary] Fund and the [World] Bank as well as elements within the Indian government and business class’ (p. 55) succeeded in pushing India in the arms of the Bretton Woods institutions that, as a condition for conceding the much-needed loans, imposed the restructuring of India’s economy. In this view the economic reforms appear as an external imposition by international capital on nearly bankrupted India.

Different interpretations of the causes of the 1991 crisis lead to different explanations of the origins of the economic reforms. Those who see the crisis as the (inevitable) failure of the dirigiste regime argue that the failure was so evident among policy-makers that, during the 1980s, a broad consensus emerged on what needed to be done (Panagariya 1994; Joshi and Little 1994). In particular, a small group of ‘men with commitment and courage’ (Das 2000: 240 quoted in Sengupta 2008) within key policy-making agencies were able to gradually persuade – also thanks to the example of China that had liberalised its economy at the end of the 1970s (Baru 2007) – supporters of the existing model that liberalisation was the only way forward. The critical economic situation in the summer of 1991 convinced also those who still opposed the economic reforms that the dismantling of the state-led model of development was inevitable (Dash 1999; Nayar 1998). Therefore, Bretton Woods institutions, rather than imposing the restructuring of the economy, pretty much knocked on ‘an open door’ (Nayar 2001 quoted in Sengupta 2008).

Sengupta (2008) challenges this view. She quite plausibly highlights how the process that led to the restructuring of the economy was less straightforward and that the reforms were the result ‘of a prolonged political and ideological contestation over different explanations of past policy failures and different prescriptions for change’ (p. 36). According to her the ‘men with commitment and courage’ remained isolated and in marginal positions until the economic crisis ‘catapulted [them] to commanding positions’ (p. 38) thanks to the insistence of Bretton Woods institutions that explicitly requested to negotiate the loans’ conditionality.
with like-minded people. This acquired power (and the backing of the political authorities) shifted the balance of power in favour of the liberalisers that succeeded in marginalising the supporters of the dirigiste regime.

Sengupta’s argument probably underestimates the extent to which the reforms were ‘home-grown’ (Chaudhry et al. 2004). Many protagonists of the reforms in the 1990s were already in powerful positions during the early 1980s. Indira Gandhi herself had changed her mind about economic policy. This does not mean that she wanted to dismantle the state-led model of development; but the changes introduced by her government in the early 1980s were a clear sign that liberalisers were acquiring more influence in economic policy-making (Maiorano 2015).

Sengupta also rightly emphasises the role of politics in bringing about the economic reforms. The view that a small group of technocrats (including Dr Manmohan Singh) managed to introduce and implement the reforms on their own is ludicrous. Rao strongly backed the policy change. James Manor (2011b: 206) reports a conversation that he had with the then Prime Minister in the early 1990s in which he explained his strategy. The economic reforms were part of a broader social-democratic agenda that Rao wanted to pursue. It was hoped that the liberalisation of the economy would bring higher rates of growth that in turn would generate higher revenues that in turn could be used for social programmes. Even though, at least until 2004, the ‘social’ component of this strategy was substantially ignored (as we shall see below), it remains that the political authorities were not acting simply under the pressure of the liberalisation lobby and of Bretton Woods institutions. The economic reforms were to a large extent domestic in their origins.

The ‘elite’ argument was proposed by Ashutosh Varshney (2007). His argument departs from the fact that, according to opinion surveys conducted in 1996, only about 19 per cent of the electorate had heard about the economic reforms. Not surprisingly, those who were aware of the changes in economic policy were mostly graduates: 66 per cent of them were aware of the reforms, whereas only 7 per cent of the poor had heard of them. The vigorous debate on liberalisation, Varshney concludes, was confined to ‘the circle of India’s elite politics’ (p. 148).

Not only was the debate about economic liberalisation restricted to India’s elites; but the content itself of the reforms, Varshney argues, concerned those sectors of the economy that affected the interests of a tiny minority of the population, like the financial sector or trade policies. In fact, the reforms left largely untouched the agricultural sector, the labour legislation and, to a lesser extent, the public sector. In other words, the reformers concentrated their efforts on those areas that did not entail adverse (and immediately visible) consequences on the society at large.

Varshney adds another reason that allowed the economic reforms to be introduced. It is important not to forget that Rao’s government did not enjoy a parliamentary majority. In order to have the budget laws passed, a political understanding with other political forces had to be reached. This was arguably not an easy task, but it was made easier by the broader political context of the early 1990s. This was a period when identity politics reached the centre stage in India. The campaign for the demolition of the Babri Masjid was at its height when the reforms were introduced. In December 1992 the mosque was eventually destroyed which caused prolonged communal tension throughout the country. Parallel to this, in 1990 V. P. Singh’s government had implemented the recommendations of the Mandal Commission that envisaged reservations for the Other Backward Classes (OBCs) in public sector jobs. The ‘mandalisation’ of India’s politics led to prolonged caste tension. ‘The political logic induced by explosions of communal passions gave the reformers room
to push reforms’ (Varshney 2007: 149), thus facilitating the process of transformation of the economy. In other words, the realm of ‘mass politics’ was occupied by identity-based issues that effectively distracted the public opinion from the realm of ‘elite politics’ which is where the economic reforms were pushed through.

This explanation is convincing only to a certain extent. It is certainly true that the threat of Hindu nationalism pushed the parties of the left (the Communists and the Janata Dal) to unwittingly support (and vote for) the reforms. Having done otherwise would have caused the fall of the Congress government and opened the door for a BJP-led government. In short, the parties of the left ‘disliked the reforms, but they disliked Hindu nationalism even more’ (Varshney 2007: 156, emphasis in the text).

However, as Jenkins points out (1999), the link between identity politics and economic reforms is not so straightforward. For example, the government chose not to invest particular political energy on reducing the food subsidy in 1993–1994 because it felt it needed to dedicate its fullest attention to the extremely delicate political situation, in the wake of the destruction of the Babri Masjid. Therefore, identity politics can both help and constrain economic reforms. Moreover, Varshney’s argument does not really explain why the ‘elite’ reforms were introduced and how the resistance of the small (but very powerful) business community was eventually overtaken.

The ‘stealth argument’, introduced by Rob Jenkins (1999), sheds much light on this point. The core of his argument is that the economic reforms could be introduced and consolidated because India’s leaders were able to ‘reform by stealth’. In the words of Narasimha Rao (quoted by Jenkins) ‘what it really entails is a complete U-turn without seeming to be a U-turn’ (p. 346). Three elements are central to Jenkins’ explanation: first, the skills of India’s political leaders; second, the fluid institutional environment in which they operated; and, third, the incentives provided by the first round of reforms introduced during the balance-of-payments crisis.

The core of Jenkins’s argument is that the Indian government employed a series of tactics and subterfuges to conceal the revolutionary nature of the reforms and to break the front of opponents. ‘These tactics include[d], in addition to pilfering: shifting unpleasant responsibilities and blame on to political opponents, surreptitiously compensating selected interests, concealing intentions, reassuring and then abusing the trust of long-time political allies, and obscuring policy change by emphasising essential continuity’ (p. 7). In other words the fact that the economic reforms were introduced and then consolidated proves the ‘very skilled nature of India’s ruling political class’ (Corbridge et al. 2013: 374).

Both formal and informal institutions helped the reformers. Federalism in particular proved to be crucial for easing opposition to the reforms. On the one hand, better off states had more incentives to embrace the process of liberalisation and were therefore less likely to constitute a united front with less economically developed (and hence less ready to embrace the reforms) states; on the other hand, since many of the reforms were to be implemented by the states, political resistance remained to a large extent confined within the boundaries of state-level political systems, leaving more space for manoeuvre at the centre. At the same time, the liberalisation of the economy ushered a process of ‘provincial Darwinism’ that forced the state leaders to compete with each other to make their states more business-friendly. The fact that even West Bengal, which was ruled by the Communist Party of India (Marxists) for more than thirty years, embraced economic reforms is revealing. This is also a key reason why the reforms gained a momentum of their own and became very difficult to reverse.

Jenkins’s explanation is also an answer to the scepticism that can be found in the literature about the relation between economic reforms and democracy. He argues that
India's democratic regime, far from hindering the process of liberalisation, actually helped reformers to introduce and consolidate economic reforms. In fact, it was precisely the openness and competitiveness of the democratic setting that made the kind of Machiavellian tactics employed by the reformers both necessary and possible.⁵

These tactics worked. The opposition to the reform process, especially by established businesses that feared competition from abroad, never coalesced enough to represent a threat for the liberalisation process. In fact, the business sector, after a few years of (not so effective) opposition, was quick to see the new opportunities that the economic reforms opened up, and became a strenuous supporter of liberalisation.

Let us now turn to the second question that this chapter addresses, that is, who benefited from India's economic reforms?

**Who benefited from liberalisation?**

Both theoretical considerations and empirical evidence suggest that, at least in the short term, the main beneficiaries of economic reforms are privileged groups (Banerjee and Duflo 2003). This is because they are more equipped to take advantage of the new opportunities unleashed by liberalisation. In a second phase, theory suggests, a process of income convergence should begin. There is reason to believe that this pattern might apply to India as well. However, while there is strong evidence that the economic reforms have so far disproportionately benefited the better off and that inequality has been increasing, the first signs of a reversal of this trend are very weak at best.⁶

A robust literature shows how elite groups are the real winners of the liberalisation process in India (e.g. Corbridge and Harriss 2000; Fernandes 2006; Kohli 2012). Since at least the last term in office of Indira Gandhi in the early 1980s, irrespective of the political party in power or the ‘socialist’ or ‘neoliberal’ policy regime, the central government has put at the centre of its developmental strategy the big business community and the urban middle class,⁷ whereas the poor and the peasantry were clearly relegated to a secondary position (Maiorano 2014). The economic reforms of the early 1990s accentuated this trend. Corbridge and Harriss (2000) characterise the process of liberalisation as an ‘elite revolt’ since ‘the reforms of the 1990s have worked to the advantage of India’s business and financial (and even agricultural) elites – those elites who have been in revolt against some aspects of the state-managed capitalism that served their interests previously’ (p. 121).

The evidence is abundant. Banerjee and Piketty (2005) show how the shares of income of the top 0.01 and 0.1 per cent of the population shrunk sharply between the 1950s and the 1980s but then rose back to the levels of the 1950s by the mid-2000s. Similarly, Topalova (2008) calculates that the fruits of accelerated growth in the 1990s disproportionately benefited the top 15–20 per cent of the population in urban areas and the top 10 per cent in rural areas. Jayadev et al. (2011) also show that there are clear signs of ‘growing interpersonal, inter-class and spatial divergences of wealth accumulation’ during the post-reform period (p. 82).

This trend has much to do with the nature of the growth process in India. Unlike China, where the rapid economic expansion following liberalisation occurred first in agriculture and then in the manufacturing sectors, thus leading to a spectacular growth of real wages and hence to a very rapid reduction of poverty (along with rising inequalities), in India the economic boom was led by the service sector. In particular, much of the growth occurred in specific sub-sectors like software development and financial services that created (highly-paid) jobs for the educated elites. The great majority of the population remained stuck in the
informal economy – where more than 90 per cent of the labour force is employed – with low (and stagnating) wages and low (or even declining) employment generation.\(^8\)

That the economic reforms benefited the better offs, however, is not only due to the nature of the growth process, but also to precise political choices, reflecting the power that the ‘proprietary classes’ still exercise on India’s politics. For instance, one of the consequences of the economic reforms should be the reduction of public expenditure. However, one area where the state has kept spending abundant resources is subsidies for its wealthy citizens. A number of items used primarily by the business sector, large farmers and wealthy urbanites like diesel, power, petrol and fertilisers constitute an enormous drain of resources for the public exchequer. What all these subsidies have in common is their regressive nature on the one hand, and the fact that they are politically impossible to withdraw on the other hand (Drèze and Sen 2013, Chapter 4).

It could be added that India’s elite groups, and in particular the business sector, benefit from a number of implicit subsidies. On the one hand, corporations and the salaried taxpayers (who to a large extent coincide with the ‘middle class’) are the main beneficiaries of what the Finance Ministry calls ‘revenue foregone’, namely the amount of revenues that are not collected because of various exceptions and incentives.\(^9\) In 2013/14 the amount of revenue foregone was equivalent to about 5 per cent of the GDP that is, an amount sufficient to fund India’s largest anti-poverty scheme (the Mahatma Gandhi National Rural Employment Guarantee Act, MGNREGA) for more than fifteen years.\(^10\) This policy, moreover, has been accompanied by substantial cuts in direct taxation (both on personal income and corporate profits) starting from 1980 (Maiorano 2014). On the other hand, the corporate sector benefit from another kind of implicit subsidy. This is the allocation of natural resources, land, telecommunication spectrum, and so on at give-away prices, usually in return for enormous kickbacks.

Let us now turn to public spending for the poor. It is difficult to find many countries in the world that spend fewer resources than India on health and education. According to the last available World Development Indicators,\(^11\) India spends 3.35 per cent of the GDP for education and 1.33 per cent of the GDP for health services. To put these figures into perspective, India spends 22 per cent less than sub-Saharan African countries for education and 50 per cent less for health. These figures remained more or less stable since 1991 and are only slightly lower than in the 1980s.

The agricultural sector has been similarly neglected. A combination of a steep decline of public investments in agriculture, decreasing availability of institutional credit to farmers and weak protection from global competition – along with deeper structural inequalities – led the agricultural sector into a state of deep crisis (Dev 2004; Vaidyanathan 2006; Radakrishna \textit{et al.} 2007; Reddy and Mishra 2009; Vakulabharanam and Motiram 2011). Farm profitability decreased dramatically in the post-reform period, as witnessed by the tragedy of farmers’ suicides – more than 270,000 between 1995 and 2011 (\textit{The Hindu}, 3 July 2012) – and the steady diminution in the number of farmers – more than 14 million left cultivation between 1991 and 2011 (\textit{The Hindu}, 2 May 2013).

That India’s elite groups are the main winners of the process of economic reform is virtually undisputed. A much more debated issue is whether the development model embraced after 1991 has benefited the poor too – the ‘Great Indian Poverty Debate’ as two scholars called it (Deaton 2005).\(^12\)

The emerging consensus is that the economic reforms have not been particularly pro-poor. This does not mean that poverty did not decline. Since the early 1970s, poverty showed a clear downward trend that continued after liberalisation. It is particularly tricky
to give estimates of poverty in India since the methodology used to calculate the poverty line changed several times in recent years and each time a new formula was released, the data were seriously questioned politically and statistically (Himanshu and Sen 2014). In any case, according to official data, poverty declined from 46.5 per cent in the early 1980s to 29.8 per cent in 2009/10 (Corbridge et al. 2013, Chapter 3; Himanshu and Sen 2014). Different estimates produce different results, but what is clear is that poverty did decline sharply in the last three and a half decades.

The 1980s were particularly good years for poverty reduction. This was mainly due to the high rates of public investments in the agricultural sector following the introduction of the Green Revolution in the mid-1960s. During the 1980s, yields increased by about 30 per cent (as against about 10 per cent during the 1970s) and the primary sector grew by more than 3 per cent per year. Crucially, growth in the agricultural sector did trickle-down to the poor, as real agricultural wages increased by more than 5 per cent per year, an unprecedented rate (Drèze and Sen 2013: 84). Higher rates of growth in the industrial and service sectors – the 1980s were the years during which India’s economy took off (Kohli 2006) – translated into a reduction of urban poverty too (Datt and Ravallion 2010).

In the 1990s, however, the pace of poverty reduction decreased. This is especially evident if we look at the rates of growth of real agricultural wages – the great majority of India’s poor live in rural areas – which declined to about 2 per cent per year during the 1990s and to virtually zero per cent during the first half of the 2000s. It was only with the introduction of the MGNREGA in 2006, coupled with very high rates of economic growth since 2003, that real agricultural wages started increasing again (Drèze and Sen 2013: 89).

The situation of the poor engaged in non-agricultural activities was not much better. Real wages in manufacturing grew at about 2.5 per cent in the 2000s, which was much less than the growth of the GDP per capita and astonishingly less than the growth of real manufacturing wages in China, which grew at about 12 per cent per year during the same period (Drèze and Sen 2013: 90).

In general terms, as shown by Topalova (2008), during the 1990s economic growth became less effective at pulling people out of poverty than it had been during the 1970s and 1980s. India’s performance is disappointing in comparative perspective too. Not only was poverty reduction per unit of growth between 1980 and 2010 much lower than that of other emerging economies like Brazil and China (Ravallion 2009); but India’s elasticity of poverty – namely the amount of poverty reduction associated with the increase of per capita income – is lower than that of all the regions of the world, barring sub-Saharan Africa (Corbridge et al. 2013: 180).

Growing inequality explains to a large extent the declining effectiveness of India’s growth to reduce poverty. Evidence of growing economic inequality (including between urban and rural areas) since the late 1980s is abundant (Deaton and Drèze 2002; Sarkar and Mehta 2010; ADB 2012; Jayadev et al. 2011; Banerjee and Piketty 2005; Himanshu 2007; Topalova 2008). There is also some strong evidence that shows that inequalities between Indian states are on the increase. This is again consistent with economic theory, as the historically more developed states were better equipped to benefit from the new opportunities unleashed by the economic reforms (Dasgupta et al. 2000; Kurian 2000; Ahluwalia 2000). Thus states like Maharashtra and Gujarat experienced very high GDP per capita growth rates throughout the 1990s (as they did throughout the 1980s), whereas India’s poorest areas like Uttar Pradesh, Madhya Pradesh and Bihar lagged behind. Even though there are some faint signs of catching-up (particularly in Bihar and Madhya Pradesh), ‘divergence remains the order of the day’ (Corbridge et al. 2013: 157).
This is particularly worrying in the Indian context for at least three reasons. First, current estimates of inequality might severely underestimate the problem. Drèze and Sen (2013) note that the calculation of the Gini coefficient for India is based on consumption expenditure, whereas in most other parts of the world it is based on income. The former underestimates the extent of inequality and recent research by the World Bank suggests that India’s ‘real’ Gini coefficient might be comparable to that of some of the most unequal countries in the world like Brazil and South Africa (p. 503). Second, economic inequalities build on (and reinforce) appalling social inequalities, especially in terms of caste and gender relations. Third, India’s human development indicators are abysmal. Drèze and Sen (2013, especially Chapter 3) provide a lucid (and rather depressing) picture of India’s human development indicators many of which (including life expectancy, youth female literacy rates, child and infant mortality rates, access to improved sanitation, etc.) are considerably worse than those of much poorer neighbouring countries like Bangladesh and even Nepal (not to mention China or Brazil). Child malnutrition rates are worse – in many instances much worse – than virtually all sub-Saharan African countries. This means that inequalities are likely to increase further in the future, since poor people’s capabilities – and therefore their chances of escaping poverty – are not improving much or are improving at an excruciatingly slow pace.

Even leaving these considerations aside (and there is no reason why we should), growing inequality is not ‘a lesser problem’ (Panagariya 2008). Topalova (2008) shows that, had growth been neutral, poverty would have declined much more rapidly. This ‘missing’ poverty reduction amounts to 22 and 76 per cent for rural and urban India, respectively. Additionally, some recent studies argue that high levels of inequality hinder economic growth itself (Ostry et al. 2014), thus further reducing the pace of poverty reduction.

To sum up, the economic reforms benefited mainly elite groups in both urban and rural areas. Poverty did decline, but at a frustratingly slow pace, while non-income dimensions of poverty remain among the most severe in the world. In some states, multi-dimensional poverty is as extreme as in sub-Saharan Africa (Alkire and Santos 2010). It is also worth noting that the living conditions of the bottom decile of the population have hardly improved at all in recent decades (Corbridge et al. 2013, Chapter 3). This is not only due to the effects of globalisation and of the market-oriented economic reforms; it is also to a significant extent a reflection of power relations within India’s society.

Conclusions

The story of India’s economic reforms is the story of the enduring power of elite groups in India’s politics. In short, the ‘dominant proprietary classes’ that had been able to substantially direct economic policies before 1991, are still in a position to influence economic policymaking to their advantage. The big business community, despite some initial opposition to liberalisation, rapidly became its stronger supporter. The community was able to colonise highly profitable areas hitherto reserved for the public sector, benefited from substantial tax incentives and received massive amounts of implicit and explicit subsidies. The bureaucracy still enjoys ample discretionary powers that allow it to significantly influence economic activity. The rich farmers were able to prevent painful reforms in the agriculture sector and, more significantly, were able to maintain a series of highly regressive subsidies on agricultural inputs.

However, one consequence of the economic reforms was that the internal composition of India’s ‘dominant coalition’ changed. On the one hand, the weight of the urban world increased dramatically at the expenses of the agricultural sector. Since 1980, successive central
governments put at the centre of their developmental strategies the urban middle class and the big business community. The corporate sector in particular has acquired tremendous influence in policy-making and has established a symbiotic relation with the government and with the entire political class, as the continuous emergence of scams involving businessmen and politicians belonging to every political party clearly shows.

On the other hand, the economic reforms changed the internal composition of each ‘dominant proprietary class’. As Partha Chatterjee (2011) puts it, the dominance by a ‘few “monopoly” houses drawn from traditional merchant backgrounds and protected by the licence and import substitution regime’ ended (p. 24). Other, more dynamic firms acquired greater prominence. This is also evident from the relative importance of different business associations. During the heyday of the licence-Raj, the Federation of Indian Chambers of Commerce and Industry (FICCI) dominated the scene and enjoyed a special relationship with the (Congress) government. But since liberalisation, the Confederation of Indian Industry (CII), whose associates include some among the most dynamic and export-oriented firms in the country, acquired a more prominent role (Kochanek 1996). Montek Singh Ahluwalia (2002) ‘quantifies’ this process of internal recomposition of India’s business community when he says that of the top 100 companies for market capitalisation in 1991, half of them are no longer in this group.

The middle class underwent a similar process of internal change. During the first decades after independence this social group was essentially made up of government officials and very few others. Starting at least from the early 1980s, this section of the population started growing exponentially. The economic reforms and the greater role played by the private sector contributed to expand further the middle class that is now the main protagonist of the ‘new’ India (Fernandes 2006). Its power is mostly evident when the government attempts to reduce subsidies on items like diesel or power. Huge protests usually erupt and the government in most cases has to reverse its decisions. Perhaps more importantly, the middle class matters ‘because it dominates the media; because its opinions are the ones that politicians have to hear; and because every election in Indian history has been determined by issues that were first raised by the middle class’ (Priya Sahgal, quoted in Fernandes 2006: 173).

The rural world changed significantly with liberalisation. A tiny elite among the farmers benefited from the greater opportunities unleashed by the opening of India’s economy. However, the great majority of the peasants suffered from declining public investments, shrinking credit availability and rising cost of agricultural inputs. Medium-sized farmers who decided to turn to commercial crops suffered the most, as witnessed by the very high number of farmers’ suicides in the last two decades.

Finally poverty declined, but at a very slow pace, a sign that the economic reforms have not been particularly pro-poor. Too many still live in abject conditions, as evident from India’s depressing human development indicators. A few rays of hope emerged with the election of the United Progressive Alliance (UPA) in 2004 on the basis of a very progressive agenda. The UPA did give some substance to its socio-democratic promises and invested an unprecedented amount of resources and political energy to create an embryonic welfare state (Manor 2011a). There are some signs that these policy initiatives, coupled with robust economic growth, did result in a significant amelioration of poor people’s lives and that economic growth finally became more inclusive. It remains to be seen if the new BJP-led government will continue on this path.
Notes

1 Licence-Raj: the complex system of regulations, licences and accompanying red tape that was necessary to set up and run a business between 1974 and 1991.

2 In rural areas this percentage was 14 per cent, in cities, 32 per cent.

3 See (van der Veer 1987; Jaffrelot 1996).

4 Corbridge et al. (2013, Chapter 6) note how some states like Uttar Pradesh and Bihar did not enter such a competition mainly because their political systems got structured around identity and caste, rather than around issues of development. However, they note, it seems that at least Bihar has joined the competition after the election of Nitish Kumar as chief minister in 2005.

5 Jos Mooij (2005) reaches similar conclusions.

6 Some recent evidence suggests that, since 2004, growth might have become more inclusive. See James Manor’s article in The Indian Express, 24 May 2014.

7 The concept of ‘middle class’ in India is problematic. What is usually meant by this term is not something in the middle of the social spectrum, but an elite that constitutes, at best, the top 20 per cent of the population. See (Sridharan 2004; Sheth 1999; Fernandes 2006). Corbridge et al. (2013, Chapter 3) note that, if we adopt the definition of ‘middle class’ for the developing world elaborated by Nancy Birdsall for the World Bank (according to which those with an income above $10 a day, but excluding the top 5 per cent of that country are part of this social group), then India, ‘even urban India alone, has no middle class’ since everyone whose income is more than $10 a day is in the top 5 per cent.

8 This is what a number of analysts called ‘jobless growth’ (e.g. Kotwal et al. 2011).

9 Obviously part of these exceptions and incentives are quite justifiable.

10 Ironically, before the launch of the scheme, the corporate-owned media repeatedly argued that the MGNREGA would bankrupt the country.

11 Accessed online 7 August 2014.

12 This debate has been usefully summarised by Himanshu and Sen (2014).

13 Please refer to Himanshu and Sen (2014), as the data from different years are not truly comparable.

14 The Gini coefficient measures the income distribution of a nation’s residents. As such, it is the most common measure on economic inequality.


16 Kanchan Chandra (2013) even argued that the number of (discretionary) permits that are needed to run a business is now higher than in the pre-reform period.


References

ADB (2012) Outlook 2012: Confronting Rising Inequality in Asia, Manila: ADB.


