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POLITICAL ECONOMY OF REFORM IN INDIA : AN OVERVIEW

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ABSTRACT

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 that per 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 Atul Kohli 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.

KEYWORDS: *narrative of rise, decline and recovery.*

INTRODUCTION

. 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 in the 1970s was toned down. New initiatives were introduced that favored established Indian producers. In place of garibi hatao (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 Gandhi took steps to tame labor 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 Revolution technologies 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.

DISCUSSION

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 labor 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 55th round 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 Drèze suggest that the rate of poverty reduction in the 1990s was probably no greater than the rate of poverty reduction in the 1980s. Others, notably Abhijit Sen and Himanshu, have argued that the 1990s was a lost decade for poverty reduction.

Why, then, "economic reform"? The usual answer is that the economic growth that led to poverty reduction in the 1980s was unsustainable. Huge subsidies into and out of the agricultural system (cheap fertilizer, water and power into and cheap food out of the Public Distribution System) ensured that India's growth spurt in the 1980s would push the country into the linked fiscal and balance of payments crises that erupted in 1991. Limited tax concessions to big business in the 1980s, combined with pervasive tax evasion, also forced both Congress and National Front (1989-91) governments to raise revenues by deficit financing and by borrowing more at home and abroad. Worse, the underlying structures of the Indian economy remained as sclerotic and irrational as ever. India had some of the highest rates of effective protection anywhere in the world. These barriers encouraged Indian business to provide goods and services that were increasingly unwelcome at home and that no one else in the world would buy. Early proponents of reform wondered aloud why Indians at home were condemned to poor service and poor jobs at the hands of the Permit-License-Quota Raj while Indians abroad were acclaimed for their hard work and innovation.

By 1990 it was clear that some elements within India's business communities, led by the Confederation of Indian Industry (CII), as well as significant parts of the urban middle class, were fed up with forms of economic mismanagement that discouraged innovation and limited choice in the shops. They objected to the pro-farming agendas of the National Front government, and they resented Prime Minister V. P.Singh's attempts to reward his mainly rural, mainly "backward classes" support base by extending systems of reservation (for government and public sector jobs and places in educational institutions) upwards from the Scheduled Castes and Tribes to those designated as Other Backward Classes.

By this time, too, the battles won by the likes of Margaret Thatcher in the U.K. and Ronald Reagan in the U.S. were changing the landscapes of international economic thinking. The disintegration of the Soviet Union in 1991 also had profound effects in India. These were felt first in terms of a loss of export markets and foreign assistance. Later on they helped push India closer to the U.S. and the World Trade Organisation. In the early-1990s the economist John Williamson felt able to describe a new Washington Consensus on "sensible" macro-economic management. Development economics was already out of fashion by then. Deepak Lal had charged in 1983 that it was precisely a first generation of planners and development economists who had done the most damage in the "Third World." These were the "guilty men" who had stalled economic progress in India by twenty years or more. Washington, for its part, used the debt crisis in Latin America to launch a broader assault on dirigiste forms of economic management. Developing countries needed to return to basics: to sound monetary and fiscal policies and to open trade and capital accounts. The elite revolt that led to Finance Minister Manmohan Singh's famous budget of 1991, and to the devaluation of the rupee that year by 18-20%

against leading currencies, was as much an echo of this thinking as it was a practical response to the balance of payments crisis that so damaged India's reputation for economic competency.

By the early summer of 1991, India's fiscal deficit stood at nearly 9% of GDP and the country had sufficient foreign currency reserves to finance only two weeks worth of imports. Moody's and Standard and Poor had downgraded India's international credit rating. Finance Minister Manmohan Singh's budget was designed first and foremost to stabilize this situation. Cuts in defence spending and in subsidies for exports, sugar and fertilisers were meant to bring the fiscal deficit down to 6.5% of GDP in the 1991-92 tax year. Thereafter, the government of Narasimha Rao moved steadily but not at any great pace to "adjust" the deeper structures of the economy. Efforts were made to liberalize India's trading regime, but even as late as 2000, despite considerable progress, tariffs in India still averaged close to 30% and the ratio of international trade to GDP remained under 25% (low by global standards). More progress was made with industrial policy. The system of industrial licensing that had taken shape since the 1950s was "dismantled in all but 18 designated industries (including drugs and pharmaceuticals, cars and sugar), and for all locations save for twenty-three cities with populations above one million people where licenses were still required for new ventures or project expansion." Perhaps most significantly of all, "the reforms," as they soon became known, opened the door to greater foreign direct investment in India's economy. Inward investment by Western multinationals became a major part of the new "Shining India" that was trumpeted by the Bharatiya Janata Party-led (BJP) National Democratic Alliance ahead of the Lok Sabha elections in 2004. McDonalds in Delhi and Mumbai, along with IBM and Infosys in Bangalore, signalled India's connections to the new landscapes of globalization that had gathered pace in the 1990s, and which were strongly registered in the telecommunications revolution that swept through middle-class India.

No one now expects India to return to the dirigiste models that it pioneered half a century ago. Significantly, the Congress used the rise of the BJP in the 1980s, and the destruction of the Babri Masjid in Ayodhya in December 1992, as a foil for its economic agenda. Leftist parties were warned that strong opposition to that agenda would cause the Rao government to fall, and that this in turn would bring the Hindu nationalists to power in New Delhi. As things worked out, the BJP did come to power in India in 1998 and ruled the country until 2004. By then, however, the BJP had made its peace with globalisation and reform. It quietly retired its rhetoric of "swadeshi liberalisation" and its support for "microchips but not potato chips." By 2000 it was an enthusiastic advocate for a continuing process of economic liberalization that offered clear advantages to some of its supporters in the urban middle class.

Even the Communist Party of India (Marxist) (CPM) came to embrace liberalization. The CPM has continued to speak out against some aspects of the national reform agendas now being pressed by Prime Minister Manmohan Singh (from 2004). But in its West Bengal heartland it has embraced that agenda vigorously and with surprisingly little concern for its traditional support bases in the countryside and among government workers. In 2007, the public face of economic reform in India was focused for a while on Nandigram, a rural area in the Medinipur District of West Bengal. In March 2007, 14 people were killed in Nandigram after the ruling Left Front government in Kolkata instructed CPM cadres and the police to break resistance to their plans to expropriate 10,000 acres of local farming land. The land was earmarked for a Special Economic Zone (SEZ) to be developed by the Salim group of Indonesia. The Left Front government argued that a linked group of chemical works in Nandigram would create up to 100,000 jobs in West Bengal. They further noted that they had to do battle with eight other states to host a joint venture with the Salim group.

The killings at Nandigram have taken on a significance that few in the Left Front government could have anticipated when contracts were signed. On the one hand, and most immediately, they advertised the willingness of the state in West Bengal to embrace what Marxists call "accumulation by dispossession." In doing so they dramatized the violence of the accumulation process in other parts of India —along the Narmada river valley for example, where resistance to large dams continues, or wherever poor people are "tidied out" of street environments marked for improvement and upgrading (as they have been in many of India's leading cities, including through the grotesquely named Operation

Sunshine in Kolkata). Development is never easy or painless, whatever the platitudes offered to the contrary by politicians or economic planners.

At the same time, Nandigram provides insight into changing geographies of power in India. Nehru found to his cost in the 1950s that he could not enforce land to the tiller reforms in the countryside, where power resided mainly with richer farmers. (Agricultural policy was handed to the states in the Constitution of India). Nevertheless, the federal settlement that was worked out between 1946 and 1949 placed India's states in a dependent relationship with the Center. President's Rule can be imposed on states under Article 356 of the constitution, and the inelasticity of major state revenues has forced them to seek extra funding from New Delhi in the form of grants-in-aid under Article 275.

Political economics is split into two sections: Classical Political Economy and Modern Political Economy. Classical Political Economy studies the works of philosophers such as Machiavelli, Adam Smith, and Karl Marx. Modern Political Economy, on the other hand, studies the work of modern philosophers, economists, and political scientists such as John Maynard Keynes, Milton Freidman, and Friedrich Hayek.

The study of political economy is influenced by game theory, as it involves different groups competing for finite resources and power that assess which policies will provide the most beneficial results. It also relates to the capability of the economy to achieve the desired results. The study of political economy focuses on three major areas: Political economists study how economic theories such as capitalism, socialism, and communism work in the real world. At its root, any economic theory is a methodology that is adopted as a means of directing the distribution of a finite amount of resources in a way that is beneficial for the greatest number of individuals.

In a wider sense, political economy was once the common term used for the field we now call economics. Adam Smith, John Stuart Mill, and Jean-Jacques Rousseau all used the term to describe their theories. The briefer term economy was substituted in the early 20th century with the development of more rigorous statistical methods for analyzing economic factors. The term political economy is still widely used to describe any government policy that has an economic impact.

CONCLUSION

In the 1990s, in contrast, and more so in the 2000s, many of India's states have been able to improve their bargaining position against the Center. Rob Jenkins has argued that the reform process has empowered states to behave as "competition States." Instead of competing with one another to draw down funds from New Delhi, states like Maharashtra, Karnataka, Tamil Nadu or West Bengal now fight with one another to host foreign direct investments or the funds of Non-Resident Indians (NRIs). In Jenki the real momentum of economic reform in India lies with the states. A process of "Provincial Darwinism" has taken hold, he argues, that compels states to compete with one another for the foreign funds that will reduce their fiscal deficits and dependence on N Delhi. Forcible evictions of peasants and harsher labor laws are just two instruments deployed by business-oriented elites to attract capital to their states. In some cases, too, and Nandigram illustrates this very well, states are being encouraged to free up exten parcels of land as de facto fiefdoms of private capital: this, in effect, is the remit and purpose of the roughly 300 Specia Economic Zones that were formed between 2005 and 2007 under the Act of that name.

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