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Original Citation

Siddiqui, Kalim (2014) Growth and Crisis in India's Political Economy from 1991 to 2013. *International Journal of Social and Economic Research*, 4 (2). pp. 84-99. ISSN 2249-6270

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Growth and Crisis in India's Political Economy from 1991 to 2013

Kalim Siddiqui

ABSTRACT

Since the pro-market reforms were launched, the Indian economy has grown from 4.7% in the 1990 to 9% in 2011 before slowing down dramatically to nearly half of that rate in recent years. From launching of reforms until 2011, it did manifest some vivid and impressive signs of India moving towards high growth and increase in living conditions of its population. The purpose of this article is to assess the likely effects of reform measures on the society, because the mainstream approach suggests that the reforms can be expected to increase economic growth and incomes. However, this study finds that the mainstream economists ignore the role of domestic aggregate demand and inequality. India's growth was led by the services sector, which included real estates, IT, telecommunications and banking, and contributed nearly 50% to the GDP in 2012. Manufacturing, which experienced remarkable growth and transformation in the East Asian economies, had rather grown much slower. The agriculture sector, which still employs nearly two-third of India's workforce, remains stagnant. The study suggests that education and health have been neglected in India and this will compromise productivity and growth.

Keywords: Indian economy, Neoliberal economic reforms, Growth, Poverty and inequality

INTRODUCTION

The aim of this study is to analyse the economic performance of the Indian economy and assess whether the scepticism of the neoliberal reforms is well founded in the face of experiences and economic logic.

Since early 1980s, India has been implementing economic reforms to liberalise the economy by reducing state ownership and by greater reliance on trade, foreign capital flows and technology imports. It was suggested that these reforms would free the economy from government control and would move away from its earlier sluggish 'Hindu rate of growth' (Bhagwati, 2013). Those in favour of the neoliberal reforms India initiated in early 1980s argue that largely due to such policies India witnessed unprecedented growth rates for the last three decades. Growth was accompanied by

improvements in living conditions and the proportion of people whose incomes are below the official poverty line declined from 45% in 1982 to 28% in 2005 (Bhagwati and Panagariya, 2013).

The neo-liberal economic reforms aimed to promote business-friendliness and to achieve higher growth rates, and new hopes were raised that India's poverty could be alleviated (World Bank, 1996). It is true that the economy has grown from 5% per annum in the 1980s to around 10% per annum in 2011. India has emerged successful in the export of services, which were US\$ 76.2 billion in 2007 and went up to US\$ 86 billion in 2011. Export of services included software, business services, financial services and communication. However, a part of those profits were used as overseas investment to acquire foreign businesses. For instance, the acquisition of Jaguar and Land Rover

in UK by Tata Motors, rather than investing domestically and to create jobs in an economy starved of investment. India's capitalists choose to invest globally where profits may not be higher but are strategically important.

India's growth began increasing at higher rates in the early 1980s and continued until 2011, which led optimists to speculate that it can emulate China's rapid growth performance and can even outshine China (Rodrik and Subramanian, 2004). However, in recent years concerns arose once it was obvious that growth rates could not be sustained: "Why is the world's largest democracy apparently doing worse than the world's largest dictatorship?... since there is precious little comfort in all the comparative indicators on the current performance of India and China... On growth, inflation, output per capita, unemployment, budget deficit, corruption – India is doing worse than China. The great catch-up predicted a few years ago has just not happened. On per capita GDP, for instance, India limps along US\$ 3,851 against China's US\$ 9,146. According to official figures for 2011, India's unemployment was more than double that of China" (Ash, 2013). The World Bank notes that 45% of India's children under five are underweight and 25% of women remain illiterate (World Bank, 2006).

However, growth has slowed down in recent years and earlier optimism of taking over China and US seems to have disappeared. India's growth rate has now sunk from nearly 10% per annum in 2010 to 5% per annum in 2012, slipping from the world's second-fastest-growing economy to tenth place. Other economic indicators are equally alarming: public borrowing has quadrupled in the past five years, the national deficit is growing, and inflation is high. The Economic Survey of 2013 presents a dismal picture of the economic performance particularly declining growth rates in agriculture and manufacturing sectors, along with higher inflation and widening current account deficit. The question arises what went wrong?

Since 2011 growth is slowing down dramatically to less than half that rate of previous years. From the launching of reforms until 2011, they did manifest some vivid and impressive signs of India moving towards greater consumer capitalism. Consumer demand was boosted by the availability of cheap credits and imported brand goods finally became accessible to the rich who were long starved of them by an inward looking economic regime that substituted Indian products for imports (Siddiqui, 2010; Kohli, 2012).

At present the Indian economy shows more serious obstacles to sustainable growth than any of the other emerging economies. It appears that the decline in growth rates is not mainly due to the global recession and also not due to "inadequacy" of economic reforms. India's growth has been led by the services sector, which includes real estates, IT, telecommunications, and banking and contributes nearly 50% to the GDP in 2013. Manufacturing, which experienced a remarkable growth and transformation of the East Asian economies, had rather grown much slower in India (Siddiqui, 2011). The agriculture sector, which still employs nearly two-third of India's workforce, remains stagnant. We find a small percentage of well-educated workforce that enjoys rising wages, while there has been hardly any noticeable improvements in real wages and productivity for people trapped in the bottom half of the dual economy: agriculture and the so-called informal sector, which provides livelihoods for two-third of India's workforce (Byres, 1994).

Recently India witnessed a ballooning of current account deficits. India's current account deficit raised from US\$ 2.5 billion (0.4% of the GDP) in 2004-2005 to a very high figure US\$ 87.8 billion (4.8% of GDP) in 2012-2013. This increase was due to the rapid increase of the deficit of merchandise trade, which grew from US\$ 33.7 billion in 2004-2005 to US\$ 191.7 billion in 2012–

2013. This dramatic growth of imports was partly due to gold and petroleum products. Government policy responses consist of measures to attract foreign capital to finance growing current account deficit (Siddiqui, 2014). It is also said that the government cannot do much to bring down the deficit in merchandise trade. It is claimed that the growth of current account deficit is due to the ongoing global economic crisis, which led to the decline in exports. Others argue that the reversal of capital flows due to a tightening of monetary policy in US might be discontinued. It led to the decline of inflow in foreign capital, while at the same time capital outflow increased (Ghose, 2013; Binswanger-Mkhize, 2013).

The mainstream economists argue that slow growth rates between 1950 and 1980, could be too small to provide much help to the poor via redistribution. Therefore, according to them, every step must be taken to assist and achieve higher growth rates. They believe that GDP growth is sufficient to remove poverty (Ahluwalia, 2002). This proposition seems very logical. However, if we suppose this is true then in India why last three decades of higher growth has accompanied with worsening income distribution and persistence of high poverty. Between 2004–2005 and 2009–2010, the National Sample Survey (NSS) organisation carried out large surveys on employment of the period when GDP grew at 8.7% per annum, which was quite remarkable. However, employment creation was abysmal, which was less than 1% per annum.

Despite three decades of rapid growth, chronic malnutrition is widespread among India's population. Though there is a reduction in the number of people living below poverty lines (as officially defined). The Tendulkar Committee has changed the official definition of poverty and moved away to defining official poverty line in calorie terms, as in the past the estimation was based on per capita consumer expenditures. However, it has

still not reduced nutritional deficiency proportionately and still malnutrition persists, especially among children and females. As Deaton and Dreze note, "overall levels of child under-nutrition in India (including not only severe but also "moderate" undernourishment are still very high both in absolute terms as well as relative to other countries. Even today close to half of all Indian children are underweight and about half suffer from anaemia. These are appalling figures, which places India among the most "undernourished" countries in the world... In particular, child undernourishment is much higher in south Asia (48.5% underweight in 1991) than in sub-Saharan Africa (29.6% underweight in 2005)" (Deaton and Dreze, 2009:50).

The neglect of the social sector is very visible both in pre and post reform periods and here the market failed to resolve this problem and long-term investments in education and public health were needed. However, in these primary tasks, the government failed miserably. As Dreze and Sen has called, "the elitist character of Indian society and politics". Every year, more children die in India than anywhere else in the world: 1.7 million children under the age of five die largely from easily preventable illnesses such as diarrhoea. Of those who do survive until the age of five, 48% are stunted as a result of a lack of nutrients: child malnutrition in India is higher than in Eritrea. Similarly, the most basic health measure that any government can provide for its people is to immunise very young children but, in India, only 43.5% of children are completely immunised, compared to 73.1% in Bangladesh (Dreze and Sen, 2013).

Other emerging economies, such as the Chinese government spends 2.7% of its GDP on health care, while India allocates only 1.2%. Dreze and Sen (2013) argue that if India fails to improve in social sectors this would depress living standards and will drag on long-term growth. In addition, wages in

the manufacturing sector in China have grown by 12% since 2000, compared with 2.5% in India, and moreover, 90% of Indians still work in what is referred to as “the informal sector”. It seems that India has failed to learn from the examples of East Asian countries, where the rapid expansion of human capability was considered an important goal in achieving rapid economic development. Japan pioneered that approach, starting after the Meiji restoration in 1868, when the country's political will was backed by increased government spending to achieve a fully literate population within a few decades.

However, compared to the pre-independence period, the economy has taken some major strides. For instance, in the period from 1901 to 1947, India's GDP grew at 0.9% per annum and per capita GDP by only 0.1% (Siddiqui, 2009). During the colonial rule (1757–1947) life expectancy in India was only 39 years in 1946 as against 66 in 2012. Similarly, infant mortality rate (per 1,000 live births) came down from 180 to 44 (Dreze and Sen, 2013). In short, the economic growth rate of the Indian economy was dismal and its economy was insignificant in the world both in terms of global GDP and in the production of industrial goods. GDP growth rates then were an average 0.9% and per capita income grew only at 0.1% per annum. Globally India was regarded as a marginal country with the occurrence of famine and existence of mass poverty and illiteracy (Dreze and Sen, 2013).

POLICY INITIATIVE

Prior to our discussion of India's post-independence development strategy, it will be useful to briefly examine the pre-independence economic structure. Karl Marx's observation regarding the British colonial penetration with respect to India concluded in his letter to Vera Zasulich in 1881 as follows: “What the English take from them annually in the form of rent, dividends for railway was useless to the Hindoos [Hindus], pensions for military and civil

servicemen, for Afghanistan and other wars etc. etc.—what they take from them without any equivalent and quite apart from what they appropriate to themselves annually within India, speaking only of the value of the commodities that Indians have gratuitously and annually sent over to England, it amounts to more than the total sum of income of the 60 millions of agricultural and industrial labourers of India. This is a bleeding process, with a vengeance” (cited in Mohri, 1979).

India has made more remarkable economic progress than it did in the past two hundred years in the matter of economic growth. In the period of 1901–1947, India's GDP grew at 0.9% per annum and per capita GDP by only 0.1% (Siddiqui, 2009). During colonial rule (1757–1947), the Indian economy was marginalised and transformed into a source of raw materials, agricultural commodities and minerals for the burgeoning factories in England, and a market for British finished products. This was specially witnessed in the textile sector, as India was transformed into the exporter of raw materials and importer of finished products. Colonial rule had damaged the Indian economy, with an underproductive agriculture, a weak industrial base, and extremely low levels of literacy (27% for men, 9% for women) in 1947 (Bagchi, 2000).

Large tracts of land were converted into production of cash crops such as tea, indigo, coffee, and poppy to produce opium (Siddiqui, 1990). As a result, India did emerge in the first half of the 20th century with one of the lowest per capita incomes, highest rates of poverty and malnutrition in the world. As Brown describes, “Britain's Indian empire, where cotton and jute, coir and timber, tea and tropical fruits were grown for export, often at the expense of food crops for the people. India became the jewel in the imperial diamond, offered the largest market for Britain's manufactures and largest source of raw materials, but also a steady supply of tribute in gold and silver and of soldiers for the imperial army”

(Brown, 1993:17). Furthermore he adds, “Until then [18th century] India had supplied Europe with its calicos and muslins, as China had supplied the silks and satins.... Bengal exported millions of pounds worth of cotton goods each year. Yet within 60 years their export had ceased and India was importing cloth from British factories... on Indians (people) the effect of the destruction of native industries was worse even than the flow of tribute. The first famines were reported in 1770” (Brown, 1993:18).

Moreover, during the 19th century, Britain imposed free trade on its colonies including India, the very same policies that had led a revolt in British North America and finally secession in 1783. As a consequence of free trade policies, India could not protect its domestic industries (Siddiqui, 1996), Japan in the 19th century successfully resisted colonialism and protected its infant industries and imported new technologies instead of new products as India was forced to do. The broader impact for India was that urban centres became depopulated due to the closure of industries; rural population and poverty increased and the occurrence of famines became more frequent. While at the same time, in Britain the rural population declined, with the expansion of manufacturing sector the urban population increased (Girdner and Siddiqui, 2008). The British military adventure across Asia and Africa also put an increasing burden on Indian peasants as colonial India was forced to contribute both financially and to supply soldiers for British wars in Afghanistan, Burma, China, Hong Kong, Singapore, Persia, Egypt, and Ethiopia and Sudan (Bagchi, 2000).

However, after independence in 1947, India launched a very ambitious development strategy based on import-substitution industrialisation. Prime Minister Jawaharlal Nehru adopted economic policies, which were said to be influenced by the ideas of Raul Prebisch, Ragnar Nurske, and Michael Kalecki (Prebisch, 1950; Das, 2011). The

government took various measures to boost the growth and as a result, between 1950 and 1980 the GDP growth rate rose to 3.5% per annum and per capita GDP growth was 1.2% for the same period. From an extremely low level, the Indian economy has experienced a modest improvement in living conditions such as eliminating famines, achieving self-sufficiency in food production and some improvement in social development.

The industrial growth picked up in 1950s due to import-substitution industrialisation, but in the late 1960s this sector experienced slow growth and stagnation. Some critiques argue that the stagnation in industrial sector was due to slow growth in the agricultural sector, while others blame the unequal income distribution and cuts in government spending (Dutt and Mohan, 1996).

During the period 1950–1980, economic growth in India was slow, but no worse than the performance of most of the other developing countries. Prior to 1980s the Indian economy was characterised by slow growth, accompanied by high rate of population growth, which implied a very small rate of growth of per capita GDP. India’s growth performance was much less satisfactory compared to the East Asian economies during the same period. Some argued that this was because of slow growth of domestic markets which was largely due to slow growth in real wages and slow growth in agricultural productivity (Dutt and Mohan, 1996). Therefore, agriculture development depending on public investment came to a dead end, along with the deepening crisis and an increased offensive by the international financial institutions. An analysis of India’s growth divides into two periods namely, 1947 to the 1980 and 1980s to the present. Prior to 1980, India’s development was driven by an ‘import substitution’ strategy. It aimed to promote domestic heavy industries led by the public sector, but private sector’s contribution was also seen as an important part of these policies (Das, 2011).

The growth rate has picked up in 1980s and it was average 5.2% from 1981 to 1991 per annum, 5.9% from 1991 to 2001 and 7.6% from 2001 to 2011. The GDP per capita grew at 3%, 4%, and 6%, respectively, for the corresponding years. The rate of growth of per capita GDP from 2001 to 2011 was 60 times the rate under colonial rule. Agriculture witnessed an increase in growth during the 1980s, that is, 3.4%, labour productivity at 2.3% and total factor productivity (TFP) at 2% per annum. Key economic indicators between 2006–2007 and 2011–2012 are shown in Table 1. It is far better than the last two decades (Economic Survey 2012). The higher growth rates in agriculture in the 1970s and 80s is said to be due to the spread of 'green revolution' across the regions of India and also due to the increase in government spending in the agricultural sector. China's agriculture growth rate was more than 3% for the last three decades, which is much higher than India. At the same time China's population growth rate has remained to almost zero, while India has witnessed higher growth rate of population of 1.9% annually over the past decade (Siddiqui, 2009). The GDP grew at a moderate pace from 1950 to 1980, but rose at higher rates after 1982. The population grew at 2.2% annually and between 1950 and 1980 average GDP per capita grew at 1.5% annually, which rose

sharply at the average rate of 3.4% in the 1980s. The growth rates in pre-reform period were lower than East Asian economies (Girdner and Siddiqui, 2008; World Bank, 2008).

As Figure 1 indicates, agriculture growth rates have been much lower than the non-agriculture sector. In fact the difference has been greater, that is, 9% points in GDP growth in 2002. Moreover, within the non-agriculture sector, the growth rates in services have outpaced that of manufacturing. Here also we find that the difference was larger in 2011, that is, the services grew at 9%, while manufacturing rose only at 4% (Economic Survey, 2013; Mishra, 2013).

The Indian economy has two distinct sectors: one uses modern technology, a high ratio of capital to labour, that is, high wages and productivity, while the other a low ratio of capital to labour, and has lower productivity and wages. High and imbalanced sectoral and regional growth deepens the existing problems. Several Latin American countries that tried to develop without involving large parts of the rural population into the modern sectors of the economy were prone to widening inequality and social tensions (Siddiqui, 2010). India has not experienced a similar breakthrough to those shown by East Asian countries during their phase of

Table 1: India's Main Economic Indicators: 2006–2012

	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12
GDP (at constant prices of 2004)	9.6	9.3	6.7	8.9	8.6	5.9
Gross fixed capital formation	13.8	16.2	3.5	6.8	7.5	5.4
Inflation	6.7	6.2	9.1	12.4	10.4	8.4
Current account balance (CAB/GDP)	-1.0	-1.3	2.3	-2.8	-2.7	-3.6
Gross fiscal deficit (% of GDP)	3.3	2.5	6.0	6.5	4.8	4.6
Agriculture, forestry & fishing	4.2	5.8	0.1	1.0	7.0	2.5
Manufacturing	14.3	10.3	4.3	9.7	7.6	3.9
Construction	10.3	10.8	5.3	7.0	8.0	4.8
Trade, transport & communication	11.7	10.7	7.6	10.3	11.1	11.2
Finance, real estate and business services	14.0	12.0	12.0	9.4	10.4	9.1

Source: Economic Survey (2012) Government of India, New Delhi: Ministry of Finance

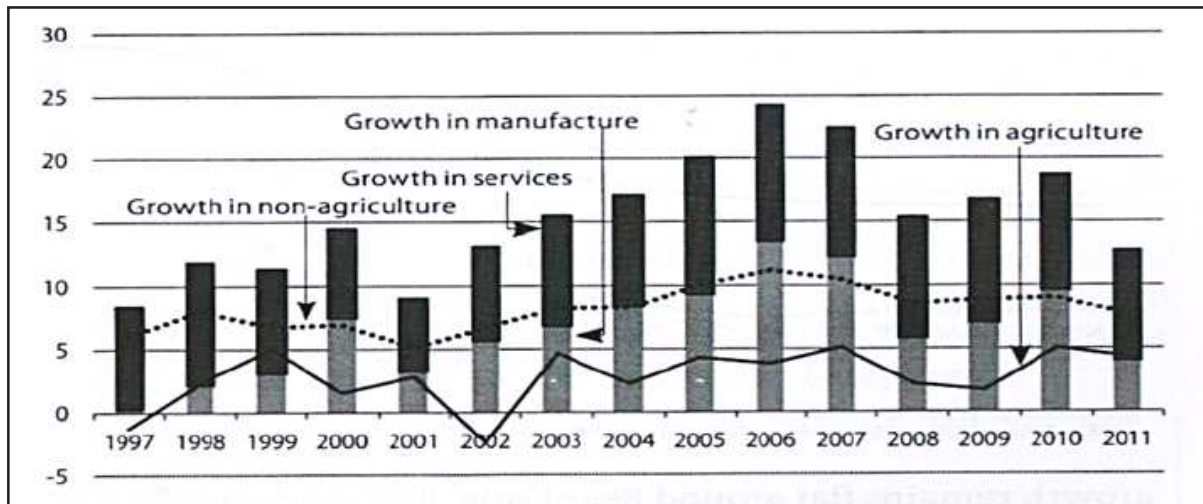


Figure 1: Growth Rates: Agriculture vs Non-Agriculture
 Source: Economic Survey, 2013: Mishra, 2013: 55

industrialisation. For instance, Japan, South Korea and Taiwan committed huge increase in government spending on their agriculture and education in the early phase of industrialisation. The East Asian countries launched a “dual strategy” to achieve higher growth along with an increase in productivity in both agriculture and industrial sectors (Stiglitz, 1996).

As manufacturing growth and productivity increased, the inter-sectoral differences in growth widened. In India, the share of manufacturing is low, which stagnated around 16% of the GDP since mid-1980s, while China’s share of manufacturing is more than 28% in 2012, from 46% in 1995. Moreover, the recent boom is led by service sectors such as real estate, insurance, finance, and IT-related services. It currently accounts for 20% of India’s GDP, while they provide only 2% of the total employment. The employees in these sectors also receive higher earnings compared to the rest of the economy; such growth clearly widened further income inequality (Mishra, 2013).

Since the neoliberal economic reform was launched, the Indian economy has witnessed sharp growth,

especially in services and some modest growth in the manufacturing sector too. For instance, India’s IT sector alone earned US\$ 86 billion in 2011, mostly in export revenues. However, part of those profits is used as overseas investment to acquire foreign businesses rather than investing domestically. Since 2011 the growth is slowing down dramatically to less than half that rate of previous years. From the launching of neoliberal reforms until 2011, India does manifest some vivid and impressive signs of India moving towards ‘crony capitalism’.

The agriculture sector is quite important for the Indian economy and currently contributes 30% of the GDP and provides employment to more than 60% of the labour force. Soon after independence, growth in the agriculture sector picked up because the area under cultivation expanded. However, in the late 1960s and 1970s agricultural growth rose due to higher public spending in new inputs such as new seeds, electricity, fertilizers, and water, known as the green revolution (Storm, 2001).

India’s green revolution started in Punjab and western UP in mid-1960s and later on spread to

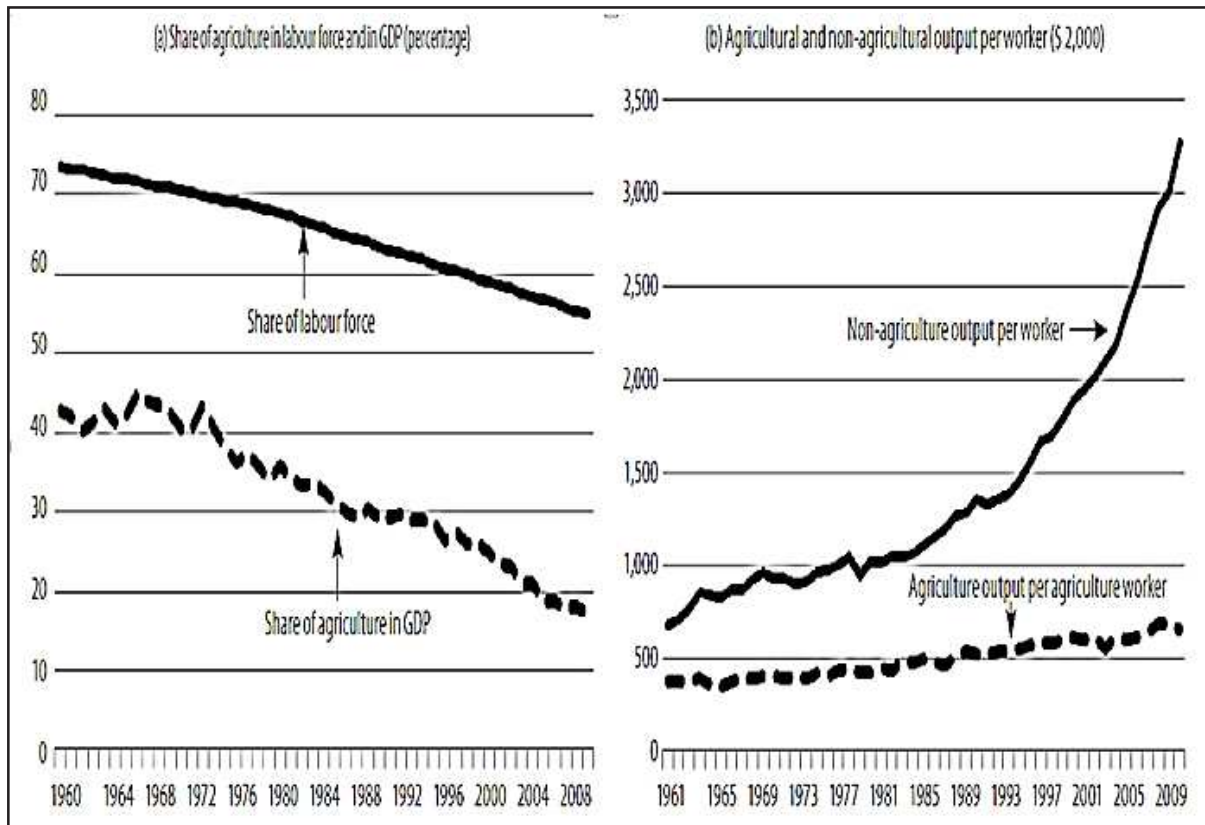


Figure 2: Share of agriculture labour force and non-agricultural output per worker

Source: Economic Survey (2012) Government of India, New Delhi: Ministry of Finance; Binswanger-Mkhize, Hans P. 2013

other parts of the country where the availability of ground water and access to credit and subsidised fertilizer, electricity and diesel encouraged certain sections of farmers to invest in agriculture. In the mid-1960s with the adoption of 'Green Revolution', overall agricultural output was increased, which made India self-sufficient in food grains, but this strategy relied mainly on rich and large farmers to produce more, bypassing the small and agricultural labourers (Byres 1994; Siddiqui, 1999a). However, by the mid-1980s, this technology largely ran out of steam. To sustain growth government expenditure on inputs and support prices of grains were increased (Siddiqui, 1999b). The government food subsidies to purchase grain at above market

prices from the farmers was less than 0.2% of the GDP in the 1980s, but it has multiplied several times over the last three decades.

During the pre-reform period agriculture was protected by the offer of cheap credits, subsidised inputs such as diesel, electricity, fertilizers etc. In addition, farmers were assured higher remunerative prices. However, with the launching of neoliberal policies, the role of government has been changed and market forces have been assigned a central role.

The agriculture sector did not experience any rapid growth in the post-reform period, which could have meant a boost in job opportunities in the rural areas.

On an average, China has achieved more than 3% per annum agriculture growth for the last three decades in a row, an unprecedented performance in the world. The manufacturing sector as well displayed some growth, but did not lead to job creation or a boost in exports. Contrary to India, in China foreign capital was invested in the manufacturing sector, which resulted in the rapid expansion of export sector and employment opportunities. China also devalued the exchange rate of Yuan in mid 1990s by 40% and kept it fixed to improve its export products. While India emphasised short-term borrowing to stimulate the economy and has to revalue Rupee and flexible exchange rate to attract short term flows of capital, such policies has made India's export prices less competitive in foreign markets. China does not allow foreign institutional investors in Chinese share market or real estate sectors, while India does.

Recently the degree of openness of Indian agriculture is intensely discussed. This issue has been discussed in the context of the global liberalisation of agriculture trade under the World Trade Organisation (WTO). There is no urgent demand for immediate and complete free trade in agriculture but the WTO would like to see the opening up of Indian markets in a phased manner and the removal of input subsidies. The debate is about the question of whether a 'closer' integration of Indian agriculture with the world economy would result in higher agricultural output growth and as a consequence rural equity and prosperity of its inhabitants (Krueger, 1992). It is further argued that closer integration would also mean higher growth in productivity and exports and also better terms of trade achieved for Indian farmers by means of 'getting price right' (Storm, 2001; Krueger, 1992; Ocampo, and Taylor, 1998; World Bank, 2006). Historical factors for specific countries such as India and its levels of development in agriculture sector demands according to critics', a slow degree of openness to the international markets. Despite

the dismantling of quantitative restrictions of minor commodities and fully liberalised rice exports, agriculture performance has not been satisfactory, especially the growth rates in food grains in the post-reform period. During the period of 1991–2005 the average annual food grain growth rate was at 1.7%, which was lower than the population growth of 1.9%, while supporters would like to see further liberalisation in agriculture (World Bank, 2000). The World Bank (2000) argues that such steps would invite more investment in the agriculture sector. The critics favour 'strategic' rather than 'close' integration because of specific nature of Indian agriculture and rural society and equity. Due to the existence of a large informal sector and unorganised labour force, any sudden increase in food prices or large fluctuations due to world's prices will have adverse impact on food grain demand and food consumptions of the poor people (Storm, 2001).

In the post-reform period, the removal of controls from investment resulted in the attraction of investment by regions having a better infrastructure. This resulted in greater regional inequalities than in the recent past as backward regions that used to receive resources from the central government through grants are largely denied on the name of austerity and a balance budget. As a result states like Assam, Bihar, Chhattisgarh, Rajasthan, Jharkhand, and UP have failed to expand industries. However, it seems that India is unable to recognise that increased flows of hot money cannot provide long-term solutions.

India's growth has slowed down since 2011 and domestic investment has been insufficient as well. India's external debts went up to US\$ 327 billion in 2012. In 2007 the stock market and real estate sector was opened for foreign investors, which led to sharp increase in these sectors and India also witnessed a massive inflow of short-term capital investment in these sectors.

Some argue that reforms have been inadequate, which is hardly convincing. It is more than two decades now since neoliberal reforms were launched (Ahluwalia, 2011). It has been said that global recession adversely affected growth as well. However, compared to East Asian countries, India is less integrated with developed countries though, as a result should be less affected. The sustainability of India's economic growth is based primarily on exploitation of natural resources, cheap labour and foreign capital inflows, and not on high productivity and innovation and therefore, cannot be sustained (Dutt and Rao, 1996). Portfolio investment rose from US\$ 9.3 billion in 2002 to US\$ 12.2 billion in 2006. Investment by foreign institutional investors in India increased from US\$ 377 million in 2002 to US\$ 9.9 billion in 2006. However, during the same period foreign direct investment of long-term nature rose at much slower rate from US\$ 3.7 billion in 2002 to US\$ 4.7 billion in 2006 (Economic Survey, 2008). Meanwhile the trade deficit rose from US\$ 33.7 billion in 2002 to US\$ 51.84 billion in 2006. Total borrowing rose to finance the deficit by 3.4 times during the same period. Relying on foreign investors and international finance for a long-term growth strategy itself is questionable, because foreign investors keep shifting factories to low-wage countries because of the mobility of capital.

Those who are against state-led development argue that from early 1950s to 1990 this restricted the growth of Indian economy (Ahluwalia, 2002, World Bank, 2000). They argue that neoliberal reforms would unleash rapid growth rates, which will ultimately solve the problems of unemployment and poverty. It was said that the previous regime of government led development has resulted in slower growth rates, which is also known as 'Hindu rate of growth'. The neoliberal reform was supposed to bring rapid development by removing the distortions caused by restrictive government policies under import-substitution development of 1951–1990. When we compare the pre and post reform

periods performance, only the service sector performed better, but agriculture and manufacturing did not perform well as expected in the post-reform period.

There seems to be mainly two major factors responsible for the slow growth rates in the agriculture sector. First the government spending in agriculture was reduced in order to reduce fiscal deficits. Second, import liberalisation has adversely affected remunerative prices for agriculture products, which led the farmers to curtail their farm operations. As a result, rural unemployment and farmers debt has increased sharply and according to official figures, since early 1990s the suicide rate among the farmers has increased sharply. Vasavi (2012) on the issue of farmers suicide provides us an important study to support her point that increased risks affects the livelihoods of the agriculturists due to government's neoliberal policies and the impact of commercialised agriculture. According to her the risks, "imprint agriculturists in multiple ways: an ecological risk deletes local resources and defies ecological specificity; economic risks that encapsulate and enmesh agriculturists into external circuits and demands of capital and credits; and as personal risks, that become loaded as social psychological burdens, and which constitute and entail the marginal agriculturists the defining terms in which they must conduct agriculture and also their lives" (Vasavi, 2012: 1997–1998). Production of overall food grains has declined such as for wheat, rice, pulses etc. As a result the net availability of pulses per capita, for example, declined from 41.6 grams in 1991 to 35.8 grams in 2005. Availability of cereals per person declined from 468.5 grams in 1991 to 358 grams in 2006 (Economic Survey, 2009).

Increase in employment in public sector was much higher during the pre-reform period than during the post-reform period. This was observed for the manufacturing and the construction sectors.

Although in the private sector, employment generation was higher in the later period, but such was not the case in the construction sector. The employment in manufacturing sector declined from 68.5 million in 1998 to 66.2 million in 2000. In the agriculture sector employment declined from 1.49 million in 1992 to 1.42 million in 2000; mining decreased from 1.12 million in 1994 to 1.01 million in 2000. However, the service sector witnessed an increase in employment opportunities especially in the finance and real estate sectors. For example, in finance and insurance employment was 0.25 million, which rose to 1.09 million in 2008 and further rose to 1.55 in 2011 (Economic Survey, 2012).

GROWTH, POVERTY AND INEQUALITY

The Indian economy has grown four and half times since 1980 to a value of US\$ 1.8 trillion (Economic Survey, 2013). However, still it remains a poor country where a large part of the population lacks basic sanitation. Yet it is undeniable that economic expansion has transformed cities like Bangalore, Chennai, Delhi, Hyderabad and Mumbai, benefitting the rich and upper middle class in particular. There remain different views about how widely this growth has been shared. The supporters of the neo-liberal reforms hold that India's reforms have benefitted the economy as it has raised the competitiveness in the domestic economy as a result not only high tech sectors such as IT and services witnessed rapid growth and managed to build confidence in the overall economy. Jagdish Bhagwati, 2013, Ahluwalia, 2011 and World Bank, 2006 are perhaps the most prominent proponents of such a view.

While the critics argue that nearly three decades of higher growth has largely benefitted the privileged and hardly made any differences to the life of less well off. Such views are put forward by Dreze and Sen. They argue that despite experiencing rapid growth India has not witnessed any improvement

in living conditions of majority of the people. In fact, on measures of human development, India has moved down and inequality has risen sharply. World Bank data indicates that India's Gini Coefficient, a measure of inequality, has increased from 31 in 1994 to 33 in 2005 (World Bank, 2008).

Jean Dreze and Amartya Sen (2013) emphasise that aggregate economic growth is important for generating public revenue, which can be used to reduce poverty. However, "it is only one of many different concerns that need attention." The lesser optimist, Sen and Dreze, argue that reforms that boost growth, though important, were not enough to improve the living conditions of the poorest, let alone dismantle caste and gender hierarchies and generate employment. They "have to be supplemented," they argued, "by a radical shift in public policy in education and health." Brazil, for instance, grew only 1% compared to India's 5% from 1993 to 2005 but reduced poverty much faster. Bangladesh has only half of the India's per capita income, but the economy has performed better in social indicators such as child mortality, immunisation, literacy, crime against women and even life expectancy (Dreze and Sen, 2013).

India's economy is slowing and economic growth reached nearly 10% per annum, which is now less than 5%. Prices are up, investment and industrial production are down and wages are static. Moreover, to a large extent this rapid growth did not create jobs, which is called as jobless growth. The fact is that the majority of 12 million youth added to the workforce each year and the present economic pattern of development compels them to move to big cities from a crisis-ridden agricultural sector where 270,000 of farmers have committed suicide since 1991. In 2011 alone, according to the official figures, 14,000 farmers took their own lives (Mohanty, 2013; Vasavi, 2012).

In the post reform period, on the other hand, the

wealth assets of few rich have seen a tremendous increase. For example, there were just 2 billionaires in India in 1995, with their combined total net worth of US\$ 3.2 billion, while their number rose to 46 with a total net worth of US\$ 176.3 billion in 2012. Forbes (2012) data indicates that by 2010 India's 100 wealthiest people had increased their combined worth to US\$300 billion, a quarter of the country's GDP. Out of India's 46 billionaires, nearly half of this number have drawn their primary source of wealth, which is called "rent-thick", from sectors such as mining, real estates, construction, energy, infrastructure etc. All these sectors are also known for close nexus between them and the government. The remaining billionaires have drawn their wealth from other sectors such as software, automotive, biotech, pharmaceuticals, telecom etc. The most striking features of the Indian growth are that since the reform of 1991 their wealth has grown dramatically (Forbes, 2012). It could be called economic rent, primarily received from monopolistic economic power or needed licenses from government, in highly government controlled areas. Recent corruption scandals involving privatisation and the sale of billions of dollars' worth of national resources such as telecommunications, mines, forests, land and water reveal that crony capitalism and rent-seeking, rather than entrepreneurial dynamism and innovation in a free market, are the real engines of India's economic growth (The Economist, 2014; Kohli, 2012).

The inequality issue is important because it determines what the share of the poor in growth process will be. In countries with higher initial inequality, the poor tend to have a lower share of the gains from growth. Recently published NSS report data tells us the rising trends in inequality in India shown in Table 2. The Gini Coefficient for rural India increased from 0.27 to 0.28, with rural inequality rising in 11 Indian states. However, the states, which had higher growth rates, performed poor in poverty reduction. The states with lower growth rates saw a decline in inequality, such as Tripura. For example, Bihar state despite experiencing higher growth rates did not witness any reduction in rural poverty. The rural Gini Coefficient increased from 0.19 to 0.22, whereas Maharashtra, had a comparable growth rate and reduction in Gini Coefficient and a substantial poverty reduction. The states where the Gini Coefficient has increased most are: Andhra Pradesh, Gujarat, Punjab and Uttar Pradesh (Economic Survey, 2013).

The real wage rates of workers in organised manufacturing sector hardly witnessed any rise between 1992–1993 and 2007–2008. While at the same time after 1992, the real wages experienced decline because of a sharp increase in food prices with the introduction of neoliberal reforms. Moreover, higher growth failed to increase employment opportunities due to rise in labour productivity and with the increasing use of

Table 2: Consumption Inequality in India

	1983	1987-88	1993-94	2004-05	2009-10
Gini Coefficient of distribution of consumption					
Rural	0.30	0.30	0.28	0.30	0.28
Urban	0.30	0.35	0.34	0.37	0.37
Urban-rural ratio of mean consumption (constant prices)*	1.54	1.44	1.64	1.72	1.69

*Original shows urban-rural ratio

Source: Ahluwalia, Montek S. 2011, Table 6; Economic Survey, several issues, Government of India, New Delhi

automisation in the manufacturing sector. The effect of technological progress at present is far more labour displacing than it was in the early 20th century. Between 1988–1989 and 2009–2010, the average real wage rates of workers in organised manufacturing sector in India has actually declined even as labour productivity has risen (Mishra, 2013).

The rural poor are hardly better off than three decades ago. About 44% children under five are malnourished, worse than sub-Saharan Africa and 25% women are illiterate. India's human development statistics are worse than the corresponding ones in a number of countries that are poorer in terms of GDP per head. According to official figures 17,000 farmers took their own lives in 2010 alone, when their crop failed (Dreze and Sen, 2013; Vasavi, 2012).

The critics argue that it is beyond doubts that the GDP growths for the last three decades have been impressive, but show hardly any improvement in areas like health and education. They say that government neglect in these crucial sectors have given enormous inequalities in human capabilities in India. Dreze and Sen (2013) study on India compare India's development with other developing countries. They insist that successful economic development does not need: Track i and Track ii. First it is aimed at a rapid increase in growth rates and later on focus on social and poverty issues, which is also known as 'trickle down' effects. They insist far better economic policies could have been employed where GDP growth rates were to an extent traded off for more improvements in education and health. They cite the successful examples of Japan, South Korea, Singapore and Taiwan. These countries pursued both higher growth strategies along with continuous improvement in education and health sectors, because poor availability of education and health would adversely affect productivity and so GDP

growth rates. India spends one quarter of what the Chinese government spends on health care. For instance, at present India spends only 1.2% of GDP while China spends about 3% (Dreze and Sen, 2013).

The question arises if growth is only factor that is crucial for poverty reduction as suggested by mainstream economists (Bhagwati, 2013), then India should have witnessed huge poverty reduction in the last three decades, but it did not happen. The other crucial point is that states with highest growth rates should have performed best in terms of poverty reduction. Planning Commission (2008) recently has released poverty figures on the basis of Tendulkar Committee. According to Planning Commission Report, the poverty head counts ratio (HCR) declined by 8% in rural and 4.8% in urban areas between 2004–2005 and 2009–2010. The current estimate also includes government's expenditure on mid-day meal scheme, although the poverty numbers have declined but it is still quite high, that is, 33.8% for rural and 20.9% for urban areas in 2009–2010 (Binswanger-Mkhize, 2013).

CONCLUSION

To boost growth the government undertook a number of measures to attract foreign investors. Restrictions on 'single brand' foreign investors, such as IKEA have been relaxed. Foreign companies now can own such outlets without the need for local partners and also foreign companies are no more required to source from local suppliers. The government also promised to open new areas for foreign investors such as power, broadcasting and aviation. Economic growth, which does not take account of the social and political changes accompanying it could be unhealthy, and could create additional problems.

It seems that despite the higher growth performance in the post-reform period, it had little

success in reduction in poverty levels. The study finds that besides non-performance in employment and poverty fronts neoliberal reforms did not improve performance of the social sectors. Increased public investment in education and health will have positive impact on the welfare of women and children. In recent years, despite some modest improvements in education and health sector, India is still far behind when compared with other developing countries. Dreze and Sen (2013) emphasise that a better pattern of economic development is one in which GDP growth is to an extent traded off for more rapid improvements in living conditions, especially in education and health. The study suggests that in India education and health have been neglected and this will compromise productivity and growth. This is shown by the comparison with East Asian countries (such as China, South Korea, Singapore and Taiwan) who have invested comparatively heavily in these areas.

During the last decade, it appears that the growth of the economy is fuelled by increasing flows of short-term foreign capital both in stock markets and real estate sectors, which suddenly pushed growth rates. To protect the economy from speculative attack, foreign investment should be restricted in the share markets and real estate businesses. Public investment in infrastructure and agriculture should be given priority. The increased investment in such crucial areas would attract further private investors and as a result employment opportunities will expand. The problem seems to be that of neoliberal economic reforms ignoring key components of long term growth such as structural problems and income distribution. The mainstream economists ignore crucial issues like lack of rural investment, slow growth in productivity and rural poverty. Earlier Michael Kalecki (1976) warned that slow growth in agriculture holds back industrial growth because of the disproportionalities it creates both in the supply and demand side of the economy.

The study concludes that since the launching of neoliberal reforms, the interdependence between agriculture and industry has not been taken into account. Higher growth in the agricultural sector would be able to raise agricultural output and also farmers' income, and would enhance domestic markets. It is important to expand domestic demand and simply inviting more foreign capital will not lead to a higher growth trajectory. The aim should be to make agriculture less vulnerable to weather conditions. Sustained growth is not difficult to achieve but it does not have to be based solely on mercantilists export strategy as the recent examples in East Asian countries have shown us.

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Growth and Crisis in India's Political Economy from 1991 to 2013

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