Continuity amid Change in India's Political Economy from 1980 to 2004

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The social coalition that benefited from India's central government's economic policies remained unchanged between the pre- and post-economic reforms periods. The economic policies promoted by the central government between 1980 and 2004 – irrespective of the political party heading the Cabinet – mostly benefited the middle class and the corporate sector, while the poor and the rural world were clearly relegated to a secondary position in the governments' policy priorities. From this point of view the election of the United Progressive Alliance government in 2004 might constitute a more important break with the past.

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In July 1991, the Congress Party's Prime Minister Narasimha Rao-led government revolutionised India's economy by opening up the country to international trade and by putting an end to the so-called "licence raj" which had structured India's economy since Independence. Thousands of pages have been written on this sea change policy decision.

However, as Alexis de Tocqueville and Isaac Deutscher showed us with their analysis of the French and Bolshevik revolutions, even such radical ruptures in fact present strong continuities with the past they mark a break with. The story of India's economic reforms is no exception.[1]

This paper will focus on some of the lines of continuity between "socialist" and "neo-liberal" India and will argue that, if we look at the impact that the central government's economic policies had on some important "national" social groups, the economic reforms of the early 1990s do not separate the two different phases of India's development path.

The social groups on which this paper will focus roughly correspond to Pranab Bardhan's (1998) "proprietary classes", namely, the big business community, the middle class, and the rich peasantry, plus the poor, arguably a fourth "proprietary" class, given its electoral strength. These loosely defined social groups will be considered to be "national" entities, not because their internal differences are ignored, but rather because their economic interests are affected by central government-controlled policies.

My main argument is that India's government between 1980 and 2004, irrespective of the party leading it or the "socialist" or "neo-liberal" policy regime, pursued a set of economic policies that favoured the corporate sector and the middle class, while the rural sector and the poor were clearly relegated to a secondary position in the government's policy priorities. In the concluding remarks, I will suggest that, from this point of view, the elections of the United Progressive Alliance (UPA) government in 2004 mark a clearer discontinuity with the past, as the enactment of a set of anti-poverty initiatives – along with the continuation of policies benefiting the better-offs – sought to bring the poor in the social coalition benefiting from the government's economic policies.

The paper will highlight six continuities in India's economic policies between 1980 and 2004. The next three sections will be dedicated to urban-friendly policies (i e, those benefiting the middle class and the corporate sector): first, the cut in direct taxes; second, the efforts to make consumer goods more available or cheaper; third, the induction of a business-friendly environment. The fourth and fifth sections will be dedicated to the economic policies that affected the poor and the rural sector. In the fifth section I will also note the substantial continuity in the pattern of government spending between the pre- and post-reform periods.

Direct Taxes Cuts

The early 1980s marked a breakthrough as far as direct taxes were concerned. In the early 1970s the top marginal tax rate on personal income was as high as 97.75% (Panagariya 2008: 335). But Prime Minister Indira Gandhi was a radically different person when she came back to power in January 1980. Despite rhetorical commitment to the welfare of the poor, conquering the middle class – among which a widespread feeling of political frustration and isolation was clearly visible (Fernandes 2006; Jaffrelot 1996) – became one of her key-political objectives (Maiorano 2012). The reduction of taxes on personal income that began in 1980 should be understood within this larger political framework.

Gandhi sought to reverse this trend.[2] Her government raised the exemption limit for both income and wealth taxes (from Rs 10,000 to Rs 15,000 and from Rs 1 lakh to Rs 1.5 lakh, respectively). Surcharge on income tax was nearly halved, from 20% to 12.5%. Depending on the slab, taxpayers benefited from a 10-15% income tax reduction. A set of other fiscal benefits further increased the middle class tax relief, which, moreover, could benefit from a number of schemes to stimulate savings, which assured high interest rates and low taxes on the profits earned.

Rajiv Gandhi continued this policy. The finance minister, V P Singh, in the budget for 1985-86 further raised the exemption limit, halved the number of slabs, from eight to four, and lowered the tax rates, which were set in a range from 25% to 50%. As a result, taxpayers saw their income tax bill reduced by an amount ranging from 50% to 17%. Further, V P Singh abolished the most-hated scheme on compulsory savings. He also raised the wealth tax exemption limit to Rs 2.5 lakh and restructured the tax rates, bringing the top marginal rate from 5% to 2%. Rajiv Gandhi's government also introduced incentives to channelise savings into the housing sector (in 1987-88).

Manmohan Singh's budget in 1992-93 further reduced taxes. The exemption limit was raised to Rs 28,000 and the number of tax brackets was reduced to three. Tax rates were significantly lowered to 20%, 30%, and 40%. The rate of wealth tax was further reduced to 1%, with an exemption limit of Rs 15 lakh. Moreover, investments in "productive assets" such as shares, securities, bonds, bank deposits, etc, were exempted from wealth tax. Special deductions were envisaged for women, pensioners, and disabled persons. Further, in the 1994-95 Budget, Manmohan Singh repealed the 12% surcharge.

The United Front's budget for 1997-98 reduced by 10 percentage points all tax rates, bringing them to 10%, 20%, and 30%. It also increased the limit to standard deduction to Rs 20,000 and extended the fiscal benefits available for senior citizens.

In the following years, no significant reform of the income tax provisions was passed. Significant benefits were conceded to mortgage holders. The National Democratic Alliance's (NDA) government allowed a 20% rebate of tax on housing loans repayment up to Rs 20,000, and exempted capital gains deriving from non-self-occupied houses from taxation. Yashwant Sinha also increased the maximum amount of deduction available for interest payable on housing loans from Rs 1 lakh to Rs 1.5 lakh. Other concessions to middle class families included the increased maximum amount of repayment of student loans from Rs 20,000 to Rs 40,000 as an allowable deduction and the introduction of an education loan scheme to increase the flow of credit for educational purposes. Finally, the decision by the NDA's government to privatise public companies through public offering in the stock market made hundreds of thousands of small investors benefiting from high returns on their investments (Jha 2010: 194).

In short, irrespective of the political inclinations of the central government – be it Indira Gandhi's "socialist" government in the 1980s or Vajpayee's "neo-liberal" one in the early 2000s – the direct tax policy has not shown any substantial discontinuity between 1980 and 2004.

Making Consumer Goods More Affordable

The indirect tax policy between 1980 and 2004 presents both continuities and discontinuities. Among the latter, the most evident one concerns customs duties. Whereas during the 1980s, customs duties were used as a means to protect indigenous capital from global competition and to reduce the price of imported industrial inputs, the economic reforms of the 1990s and India's decision to join the World Trade Organisation (WTO) in 1995 did not allow the continuation of such a policy.

However, between 1980 and 2004, indirect taxation policy was marked by substantial continuity too. In 1980 the government began a policy by which typical middle class items were either made available or much cheaper. Many definitions of the middle class appeared in the literature. For the scope of this paper, the broad definition used by D L Sheth (1999: 2,508) is probably the most helpful. According to him the middle class is a highly diversified, "open-ended" entity whose members nevertheless share economic interests and lifestyles – and aspirations, one may add. In other words, subjective (i e, the individual feeling of belonging to the middle class) and objective elements (i e, 10 or more years of schooling, ownership of certain assets like motor vehicle, TV, or non-agricultural land, residence in a "pucca house", white-collar jobs) define a blurred social group, whose importance cannot be overestimated. Most observers agree to estimate the size of the middle class as being between 10% and 20% of the population.[3]

Indira Gandhi's government started reducing excise duties on typical middle class items as soon as she came back to power. The price of items such as pressure cookers, soap, tooth paste, electric bulbs, TV sets, etc, diminished significantly due to the reduction or the exemption of excise duties.[4] In other cases, middle-class consumers benefited from incentives on investments given to industries producing goods which could be purchased only by the better-offs – chinaware, mosaic tiles, cosmetics, toiletries, refrigerators, ceiling fans, and so on. In some other cases, middle-class consumers were allowed to import goods not available from domestic manufacturers, like colour TV sets, which were imported on a massive scale just before the Asian Games held in Delhi in 1982.

Rajiv Gandhi followed in his mother's footsteps. Custom duties on some consumer goods hardly available from domestic manufacturers were either removed or lowered (e g, personal computers in 1985-86). However, it is through lower import and excise duties on capital and intermediate goods for the domestic production of "luxury" goods – especially electronics and automobiles[5] – that the government tried to satisfy the growing middle class' hunger for consumption, also fuelled by growing interactions between middle-class members and their non-resident Indian counterparts (Chandrasekhar and Ghosh 2002: 10). In this way the protection of indigenous capital and the appeasement of the middle class went hand in hand. In fact, during the 1980s, durable consumer goods consumption skyrocketed: refrigerators' growth was 361%, cars 472.3%, motor scooters 1,102.8%, and wristwatches 145.4%, respectively (Dubey 1992). The policy was continued by the National Front's government in the late 1980s (despite rhetorical commitment to self-reliance and consumption austerity).

The 1991 economic reforms did not alter these policies significantly. The only – indeed significant – differences laid in the steep decrease of import tariffs and in Narasimha Rao's decision to discontinue the licensing policy for imports of intermediate and capital goods. There was hardly any change, as the availability of consumer goods – domestically produced – increased further. However, middle-class citizens had to wait a decade before imports of consumer goods were liberalised.

In fact, it was the NDA government that, starting in 1998-99, did away with the quota restrictions on consumer goods and, a few years later, liberalised single-brand foreign direct investments (FDI) in retail, thus allowing middle class members to purchase whatever consumer goods they could afford. Finally, shortly before the 2004 elections, the NDA government passed a set of measures to further reduce the price of consumer goods. On the one hand, the policy of reducing custom duties on capital and intermediate goods for the production of middle-class goods continued.[6] On the other hand, the government doubled the amount of liquor[7] allowed to be imported duty free, made laptops freely importable as hand baggage, significantly reduced the price of travel tickets by abolishing the inland and foreign travel tax and by halving the excise duties on aviation fuel. The middle classes could now "[enjoy] material consumption beyond their wildest expectations".[8]

Setting Up a Business-Friendly Environment

The return of Indira Gandhi to power in January 1980 marked a fundamental shift in the central government's attitude towards the business community (Kohli 2006). In the late 1960s, Indira Gandhi's left turn was accompanied by concrete anti-capitalist – rather than pro-poor – policy measurers, like the Monopolies and Restrictive Trade Practices (MRTP) Act, and the nationalisation of banks in 1969, the nationalisation of coal and oil products in 1973, the Foreign Exchange Regulation Act (FERA) in 1974, and a set of other measurers which further tightened the grip of the state over the economy, contributing to the creation of "one of the most comprehensive systems of control and regulation of the private sector of the non-communist world" (Kochanek 1987: 1,283). The business community was completely dependent on the government's favour. On the other hand, the opposite was equally true. In the mid-1980s, state elections cost the Congress Party around $100 million, at a time when the average per capita income was just $350 (Frankel 2005: 659). It is not difficult to guess where the money for financing the Congress's political activities came from, given India's lack of any substantial legal system for financing political parties (Gowda and Sridharan 2012).[9] Finally, the business community was strongly wary of the Indira Gandhi government's closeness to the Soviet Union after the stipulation of the Indo-Soviet Treaty of Peace, Friendship and Cooperation in 1971.

Things changed in 1980. The impetus came from the finance ministry, the Reserve Bank of India (RBI), and the Prime Minister's Office. Indian officials elaborated a strategy of "home-grown conditionality" (Chaudhry et al 2004) on the base of which India negotiated a loan with the International Monetary Fund (IMF) which reversed substantially the anti-capitalist approach of Gandhi's leftist phase in the 1970s. Among the key economic advisers of Indira Gandhi and her son there were Manmohan Singh,[10] Montek Singh Ahluwalia,[11] P C Alexander,[12] Abid Hussain,[13] M Narasimham,[14] L K Jha.[15] Pranab Mukherjee and Narasimha Rao were two of the most trusted ministers in her cabinet;[16] and Rajiv Gandhi appointed P Chidambaram as minister of state in the commerce ministry.[17] These were people whose liberal views on economic issues are well known and that played a key role in economic policymaking after 1991. Seen in this way, it would be quite surprising if economic and industrial policy had not been marked by substantial continuity between the pre- and post-reform periods.[18]

A new pact between the business sector and the central government was established in 1980. The former was asked to accept gradual – a key word here – but substantial change in industrial policy and to continue financing the ruling party. On its part, the government set up a more business-friendly environment and promised to be receptive of the corporate sector's grievances.[19]

Several elements marked the shift. First, as we have already seen, import restrictions on industrial inputs were progressively relaxed. This, on the one hand, constituted an enormous increase in the corporate sector's economic freedom; on the other, it negatively affected industrial inputs' producers – overwhelmingly in the small-scale sector.[20]

Second, the system of domination of the central government over the business community was relaxed. This was facilitated by the inauguration of a new form of financing for the ruling party, namely, kickbacks on foreign contracts. This had been one of the major "contributions" Sanjay Gandhi brought to his party.[21] The relation between the central government and the big corporate sector gradually became collaborative rather than extortionate. The proliferation of public-private partnerships (PPPs) in the 2000s is the endpoint of this development. On the other hand, the degree of collaboration and interpenetration between government circles and the corporate sector is one of the most disturbing trends in contemporary Indian politics.[22]

Third, a set of policy measures concretely shaped a new and more business-friendly environment. The starting point was the industrial policy presented in July 1980,[23] which inaugurated a process of gradual liberalisation of the domestic investments. The rules limiting the expansion of production were gradually removed. Indira Gandhi allowed a 25% expansion over a plan period, and Rajiv Gandhi further increased this limit in 1986, when efficient companies were allowed to expand production up to 133% of their licensed capacity. Larger concessions were envisaged for export-oriented units. Limitations on production capacity were removed by Narasimha Rao's government in the 1990s.

The limit above which a licence was necessary was raised significantly in the 1980s, thus freeing middle-size units from the burden of dealing with the licensing process. Also, the definitions of firms subject to restrictions of various kinds changed significantly. This, on the one hand, freed a good number of firms from the regulation of the MRTP; on the other hand, it split the front of those opposing to the policy changes. MRTP entry restrictions were abolished in 1991.

Further, private companies were allowed to enter new areas hitherto reserved for the public sector or subject to entry restrictions. Indira Gandhi deregulated the cement industry in 1982 and opened up telecommunication equipment in 1984; Rajiv Gandhi made it possible for dominant MRTP firms to diversify production in sectors in which they were not dominant and allowed non-MRTP and non-FERA firms to produce similar products to those for which they had a licence (a policy known as "broad banding"). In 1991, industrial licensing was limited to 18 industries, which were reduced to five in the following years, while public sector monopoly was limited to eight sectors, which became only two in the following years. On top of this, the government provided the corporate sector with a growing flow of credit through the state-owned banks (91% of the total bank deposit in 1980)[24] – credit to the industrial sector more than doubled in the early 1980s, tripled in the second half of the 1980s and in the 1990s and increased by more than seven times in the 2000s (RBI 2012: Table 48). It is true that interest rates were kept at rather high levels – keeping inflation under control has been a priority for every Indian government since Independence – but it is equally true that high interest rates have made competition to the big corporate sector from smaller competitors much harder.

Fourthly, a set of tax concessions characterised virtually any single budget since 1980. Indira Gandhi introduced a set of tax incentives and deductions to specific industries which either had an export potential (e g, the electronic industry) or were in a difficult financial situation (e g, cloth and textile), or, presumably, whose owners accepted to finance the Congress. Moreover, Indira Gandhi's government introduced incentives for units established in backward areas and, through the Export Oriented Units Scheme, started the policy process that eventually led to the establishment of the special economic zones (SEZs) in the 2000s.[25] In 1984, following the recommendation of the Tandon Committee appointed in September 1981, the government established four export processing zones (EPZs) in West Bengal, Tamil Nadu, Uttar Pradesh and Kerala. Rajiv Gandhi established an EPZ in Andhra Pradesh in 1989. Rao's government extended the list of fiscal incentives, devolved more powers to zones' authorities and attempted at providing better facilities and more efficient implementation of national policies. The NDA government announced the introduction of the SEZ policy in 2000, but it was the UPA government that actually passed the Act in 2005, paving the way for the proliferation of SEZs witnessed in recent years.[26] Even outside the special zones, the net of tax incentives for the corporate sector became so comprehensive that the phenomenon of "zero-tax" companies had to be addressed with a specific provision in the mid-1990s (the Minimum Alternative Tax, 1996).

Direct taxation on corporations was gradually reduced. Indira Gandhi's government did not alter the basic tax rate, but introduced a set of incentives that significantly lowered the tax burden. Rajiv Gandhi reduced the tax rate to 50% and 55% in 1986. Manmohan Singh brought down the rate further in 1993-94, which was further lowered by the United Front in 1997-98 and by the UPA government in 2005-06 (to 30%). Deductions were introduced throughout the period under consideration.

Indirect taxation changed significantly since 1980 and the problem of double taxation of inputs was substantially solved, both at the national and state level.[27]

On top of this, successive governments implicitly subsidised investments through the systematic under-pricing of public assets, foremost in terms of concession for the exploitation of natural resources, usually in return of enormous kickbacks.[28]

The overall result was that the presence of the private sector in India's economy grew substantially throughout the period: private gross fixed capital formation increased from 8.79% in 1980 to 13.58% of the gross domestic product (GDP) in 1990 and then up to 23.2% of the GDP in 2009.[29]

Tackling Poverty?

Poverty reduction has been, in theory, the main objective of any single government since Independence. In practice, however, no serious attempt to drastically reduce poverty has ever been made. Nehru and Indira Gandhi passed stricter and stricter legislations on land reform, but they were never willing to risk their party's rural base – made up mainly of landowning elites and their clients – in order to redistribute land to the poor.[30] In any case, land reform and external aid remained the two principal means through which the government sought to reduce poverty for the first three decades after Independence.

However, after a phase during which poverty did not show any substantial decline (during the first two decades after 1947), poverty did start diminishing.[31] This was mostly due to the heavy public investments in the agricultural sector in the wake of the Green Revolution. High rates of growth in agriculture did "trickle-down" to the poor, at least to a certain extent.[32]

In the early 1980s, a shift in the government's approach to poverty reduction occurred. "Structural" policies (i e, land reform) were de facto abandoned, in favour of specific anti-poverty programmes. This shift constituted a "radical departure" from the past.[33] At the same time, public investments in agriculture started declining (see next section).

The strategy towards poverty reduction embraced by all governments from 1980 till 2004 was marked by three important features.

First, the early 1980s witnessed the transformation of the poverty line "from a statistical benchmark into a real life social division" (Dreze 2012). Before the 1980s the line was basically used for comparing poverty across Indian states and across time; but the change in the government's development strategy radically changed the very nature of the poverty line. It became the main eligibility criterion for accessing public support. Virtually all anti-poverty schemes launched between 1980 and 2004 relied on the below the poverty line (BPL) notion. The usage of the poverty line as an instrument to include or exclude people from government schemes has been widely criticised (Dreze 1990), as it leads to widespread exclusion by ignoring other dimensions of poverty, by allowing widespread manipulation by government officials and local politicians, and by excluding those who are only temporarily poor. In fact, the release of the official poverty line has been accompanied by bitter debates in academic journals (Manna 2012; Sen and Himanshu 2004); in the media,[34] and in government circles.[35] On the other hand, the poverty line has two clear "advantages": by excluding a sizeable section of the population from access to public support, it makes anti-poverty programmes more financially sound; and by allowing large scope for manipulation, it is a great instrument for patronage distribution.

The Integrated Rural Development Programme (IRDP) is a case in point.[36] Its aim was to provide rural families BPL with a series of productive assets with the objective of stimulating the birth of self-employment ventures. Despite the government's enthusiastic reports[37] numerous studies showed how mis-targeting and misappropriation of resources characterised the implementation of the programme in most parts of the country.[38]

Second, anti-poverty programmes were conceived as instruments for channelling public resources downward to the local level, thus enabling the creation of patronage chains in the absence of effective party organisations. It is hard to find any other possible reason why all governments in power between 1980 and 2004 decided to ignore the recommendations of numerous committees, academics, and social activists suggesting the inclusion of transparency and accountability mechanisms in order to avoid leakages of funds and/or goods meant for the welfare of the poor. The public distribution system (PDS) is a good example of the clientelistic nature of most (if not all) anti-poverty schemes. The PDS was extended to rural areas in the mid-1980s, thus changing the objective of the scheme: whereas till the 1970s the PDS had been mainly an instrument to control availability and prices of agricultural commodities in urban areas, in the 1980s the PDS assumed the current characteristics of a welfare programme and of an instrument for poverty reduction.

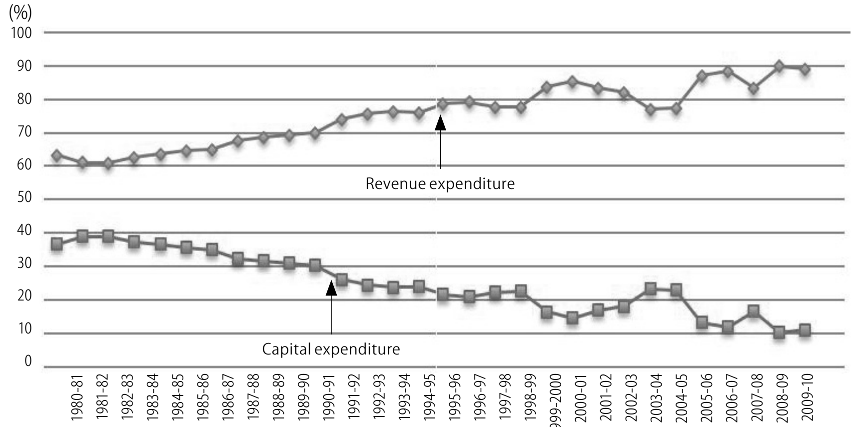
The Food Corporation of India (FCI) buys agricultural products from farmers at relatively high procurement prices and without any relation to the actual needs, so that significant resources are transferred to the farmers and huge stocks are accumulated in the state's godowns. Subsidised food is then taken by the state governments that are in charge of distributing it through a network of fair price shops. Huge leakages of food occur at all levels of the supply chain. This fact has two consequences: first, it contributes to increase the food subsidy bill which, as we will see in the next section, increased sharply since 1980; second, it allows officials and politicians at the state and the local level to distribute patronage. According to a World Bank report (1997), nearly half of the cost of the food subsidy was wasted as leakages to the non-poor. In fact, in the mid-1980s, not only did the PDS functioned in a regressive manner – in many states, the higher the income, the higher the quantity of subsidised food purchased (ibid: Table 3.8) – but the actual impact on the poor was minimal and realised at an exorbitant cost.[39] However, if the objective of the central government was that of providing politicians and officials at lower levels with a flexible instrument for patronage distribution, the PDS can surely be seen as an efficient policy tool.

That the central government had no intention to make the PDS an instrument for poverty reduction became clear in 1997, when the targeted public distribution system (TPDS) came into operation. In fact, the reformed system, with the aim of cutting the food subsidy, decided to adopt the poverty line to divide those entitled to subsidised food and those who were not. The same problems that affected the IRDP clearly affected the TPDS: the non-poor received the lion's share of the goods distributed.[40] A United Nations report (UNRISD 2010) – (among many others) (Khera 2012) – confirms this view. On the other hand, higher management costs caused the food subsidy bill to increase sharply, leading to the paradoxical situation that food commodities had to be exported at prices lower than those available for BPL cardholders (Chandrasekhar and Ghosh 2004).

Third, anti-poverty schemes were enacted not only because they allowed the construction of patronage chains in the absence of well-organised parties, but also because they made the poor feel that the government was doing something to fulfil its promises to abolish poverty. Indeed, this was the reason why virtually all governments since 1980 decided to rename previous programmes or to merge existing policies in new programmes that could be exclusively attributed to the ruling party. The National Rural Employment Programme (NREP) replaced the Food for Work Programme in 1980; the NREP was merged with the Rural Landless Guarantee Programme to form the Jawahar Rozgar Yojana in 1989; the latter was first expanded in two more streams in 1993-94 and later merged with the Employment Assurance Scheme (EAS) by the NDA government in 2001 to launch the "new" Sampoorna Grameen Rozgar Yojana (SGRY). In 2004, all employment programmes were merged in the National Rural Employment Guarantee Act (NREGA) (from 2009 called the Mahatma Gandhi NREGA). Substantively though, there was little change.[41]

It should be noted that the percentage of plan expenditure dedicated to social services increased between 1980 and 2004 (Figure 2). This was probably due to changing conceptions of the notion of poverty within government circles and international agencies, from an income-based definition, to a more broadly defined idea (Dev and Mooij 2002). However, given that a sizeable part of the expenditure in social services did not reach the intended beneficiaries, it can be safely argued that the welfare of the poor has not been among the government's priorities, neither in "socialist" nor in "neo-liberal" India.

Figure 1: Capital and Revenue Expenditures as a Proportion of Total Expenditure (1980-2010)



Author's calculation based on RBI (2012: Table 103).

The Rural Sector

In the post-reform period central government policies affecting agriculture have been widely criticised (Chandrasekhar and Ghosh 2002; Sen 2004; Sainath 2009; Patnaik 2006). In particular, many critics have pointed out how three factors have badly affected the rural sector. First, farmers have found it increasingly difficult to access credit (Radakrishna 2007: ch 2). Second, farmers have not been adequately protected from global competition (Ghosh 2005: Table 1). Third, the agricultural sector has been badly affected by declining public investments (Patnaik 2006), which in turn caused agricultural growth to decelerate significantly.

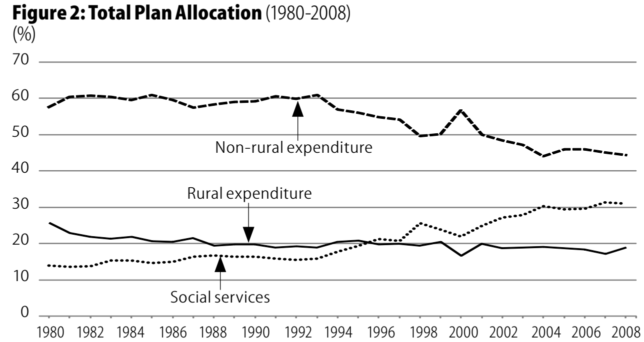
Overall, India's agriculture precipitated into a deep crisis, dramatically represented by the huge number of suicides among farmers – more than 2,70,000 between 1995 and 2011[42] – and by the astonishingly high number of undernourished children (Dreze and Sen 2011).

Although the causes of the agrarian crisis have been widely debated, there is a fair amount of agreement among scholars that its root causes are policy-driven.[43] Such a neglect of the farmers' interests did not begin with the economic reforms of the early 1990s, but during Indira Gandhi's final term in office in the early 1980s. Indeed, the agricultural crisis was "well under way by the late 1980s" (Radakrishna 2007: 30).

First, the state's interest in public investments started declining in the early 1980s. Capital expenditure, a good proxy for public investments, declined steadily as a proportion of total expenditure since 1982, while revenue expenditure's proportion, comprising current expenditures such as salaries, subsidies, interests, defence expenditure, and social services, grew unabated (Figure 1). Indira Gandhi's government spent more than one-third of its 1980 budget for capital expenditure, which was progressively reduced to about one-tenth in 2009.[44]

More specifically, investments in the agricultural sector and rural development as a proportion of total investments declined. The total plan allocation for agriculture, rural development, and irrigation[45] declined from 25% of the total plan allocation in 1980 to 19% in 1989 and to 18% in 2008 (Figure 2).[46] Non-rural plan expenditure[47] declined even further, from 57% in 1980 to 44% in 2009, but private investments and PPPs somewhat filled the gap. The same did not happen in the agricultural sector. Gross Capital Formation (GCF) in agriculture as a proportion of total GCF declined from 16.1% in 1980 to 11.5% in 1990 and then declined further to 7.3% in 2005 (Radakrishna 2007: Table 1.11).

Figure 2: Total Plan Allocation (1980-2008)



Sources: MoF, Budget Documents, Expenditure, Vol 1 (1990-2009). Planning Commission, Annual Plans (1980-92).

The farmers were accommodated mainly through a policy of stabilisation of the prices of the agricultural inputs and outputs. In other words, farmers receive agricultural inputs at subsidised prices and sell foodgrains to the FCI at a price set by the Commission for Agricultural Costs and Prices. In fact, since the early 1980s it is on these two demands that most of the energies of the farmers' lobby have been spent. Indeed, the farmers' movements of the 1980s focused precisely on these issues (Brass 1995).

Although subsequent governments have steadily increased the amount of resources allocated for food and fertiliser subsidies – between 1980 and 2004 they grew by over 38 and 34 times, respectively[48] – there is a clear discontinuity between the 1980s and the period following the economic reforms. During the 1980s, Indira Gandhi and her son increased the per capita fertilisers subsidy by almost 600%, while the per capita food subsidy grew by "only" 202%.[49] After the reforms, the pattern was reversed: during the 1990s the per capita food subsidy was increased by 308%, while the fertiliser per capita subsidy grew by "only" 160%.[50] In proportion to the GDP, the fertiliser bill grew from 0.41% in 1980 to 1.11% in 1989 and then declined to 0.40% in 2004. The food bill grew steadily from 0.53% in 1980 to 0.9% in 2004. In fact, the FCI's procurement price for wheat and paddy declined during the 1980s (in real terms) and increased in the period after the reforms (Dev and Rao 2009).

This pattern reflects two things: first, during the 1980s a more equitable form of support to the farmers prevailed. Fertilisers are used by all farmers irrespective of the size of their holdings (Singh 2004), whereas high support prices benefit mostly medium and large landowners. Also, although about two-thirds of the subsidised fertilisers are distributed in six states (Andhra Pradesh, Punjab, Karnataka, Maharashtra, Tamil Nadu and Uttar Pradesh) (ibid: 297), their regional concentration is much less uneven than the FCI's procurement policy (in 2001 about 80% of the wheat was purchased from Haryana and Punjab, and 70% of the paddy was procured from Punjab and Andhra Pradesh) (Panagariya 2008: 361). Second, the early 1980s saw the emergence of the central government's appeasement of a farmers' lobby that has focused on the stabilisation of the prices of inputs and outputs and has thus prevented the utilisation of public resources for more productive uses, in particular, rural infrastructure, agricultural research[51] and extensions – the latter two being critical tools for farmers turning to commercial agriculture, as most of the those who committed suicide in the post-reform period were. This lobby has been very vocal during the 1980s and had reacted angrily when Indira Gandhi increased the price of fertilisers by over 60% in 1981, leading to the spread of a series of "new farmers' movements" that convinced many in Delhi that it was politically safer to use resources for subsidising inputs rather than for long-term investments in the agricultural sector.

Moreover, it should be noted that neither forms of support goes entirely (or even predominantly) to farmers. The fertiliser subsidy is shared between producers of fertilisers and farmers; food subsidy is used to cover the losses of the FCI, which means that it covers, beside the procurement of foodgrains from farmers, the maintenance of the FCI's bureaucracy and the provision of subsidised food to the poor – the latter accounting barely to 3.7% of the total, according to some rough calculations (Panagariya 2008).

Conclusions

This paper tried to show how, between 1980 and 2004, the social coalition that benefited from the central government's economic policies was not altered by the opening of India's economy to international trade and by the adoption of a market-led strategy of development in the early 1990s. This social coalition was made up by the middle class and the big corporate sector, while the rural world and the poor were clearly relegated to a secondary position.

Three concluding remarks are in order. First, given the narrowness of the social coalition that has benefited from the government's economic policies, it is definitely not surprising that, in the last 30 years or so, India witnessed an extremely high rate of anti-incumbency affecting the ruling parties. Between 1980 and 2008 more than 70% of the elections resulted in the ruling party being thrown out of power (Manor 2010). Of course, the outcome of the election depends on a very high number of factors, and the central government's economic policies are only one among them (and surely not the most important). But these policies certainly contributed to set a nationwide policy framework that favoured the better-off.

Second, given that the social coalition which benefited from the government's policies remained the same irrespective of the political party in power and of the broader policy regime, it is again not surprising that the fundamental unit of Indian politics gradually shifted from the centre towards the states (Yadav and Palshikar 2003) and that non-economic factors came to play an increasing role in determining the electoral outcomes. Again, this is not to say that the inability (or unwillingness) of the Indian state to significantly change its base of support determined these changes, which, of course, are the result of long-term processes; however, it certainly contributed at least not to stop these developments.

Finally, the elections of the UPA in 2004 might have marked an important break with the past. The enactment of a series of initiatives to combat poverty and inequalities like the MGNREGA, the Right to Education Act, the Right to Information Act, the universalisation of the Mid-day Meals Scheme, the National Rural Health Mission, the Total Sanitation Campaign, the Sarva Shiksha Abhiyan, and the massive investments in rural infrastructures under the Bharat Nirman programme constituted a serious[52] attempt to bring the poor in the social coalition benefiting from the government's economic policies. These initiatives probably contributed to the UPA's victory in the 2009 elections (Manor 2011).

NOTES

1 A number of scholars underlined how India's economic policies have been marked by a series of important lines of continuity between the pre and post reform periods (Ganguly and Mukherjee 2011; Panagariya 2008; Kohli 2006).

2 Most of the data in this and the following sections are taken from two sources: the Budget Speeches of the Finance Minister (1980-2004), and the *Economic Surveys* published by the finance ministry (1980-2004).

3 For an analysis of the changing composition of India's middle class see Sridharan (2004).

4 This was dubbed the "pressure cooker approach" by an editorial in the *Economic & Political Weekly,* 15 March 1980, p 545.

5 See in particular the Budget for 1985-86 and the Export-Import Policy announced in April 1985. For a comment see, *Economic & Political Weekly,* 20 April 1985.

6 *The Economic Times,* "Govt Exempts Electronic Goods from Customs Duty", 8 January 2004.

7 Even a CPM supporter who is a sharp critic of the process of liberalisation of India's economy, at a private dinner at his house in 2010, would enthusiastically comment on the reduced price of wine that, he recalled, a middle-class member could not afford 30 years back.

8 Jayati Ghosh, "India Shining, India Declining" in Macroscan.org, 5 February 2004, accessed on 5 September 2011.

9 Indeed, industrialists were often threatened by government officials (Kochanek 1987).

10 Manmohan Singh was appointed governor of the RBI in 1982. In 1985 he became deputy chairman of the Planning Commission, before being appointed finance minister in 1991.

11 Montek Singh Ahluwalia was economic advisor of the Finance Ministry in 1979 and additional secretary to the prime minister in 1985. He was commerce secretary in 1991.

12 P C Alexander was principal secretary to the prime minister under Indira Gandhi and, for a brief period, under Rajiv Gandhi. His pro-business views can be seen in his *Report of the Committee on Import and Export Policies* (1978) and in his book (2007).

13 Abid Hussain chaired an important committee on trade policy in the early 1980s, and was a member of the Planning Commission between 1985 and 1990.

14 N Narasimham chaired a committee on industrial licensing in the early 1980s and was executive director for India at the World Bank and at the IMF. He was finance secretary 1981-83. In the 1990s he chaired the committee on Financial System in 1991.

15 L K Jha chaired a committee on economic and administrative reforms in the 1980s.

16 Pranab Mukherjee was member of the Boards of Governors of the World Bank and of the IMF. He became deputy chairman of the Planning Commission in 1991, and held important portfolios ever since.

17 P Chidambaram was minister of state in the commerce ministry in 1991 and later became finance minister in 1996.

18 It is worth stressing again that this does not mean that nothing changed in 1991. The degree of openness of India's economy changed drastically and this, obviously enough, had enormous consequences.

19 This does not mean that the entire corporate sector approved any single decision of the Indian government since 1980. Indeed, opposition to the economic reforms aroused, especially among well-established business houses gathered in the so-called "Bombay Club" in the early 1990s. However, as it has been shown by many scholars (e g, Jenkins 1999; Kochanek 1996) part of the corporate sector approved and actually pushed for the liberalisation of the economy. Moreover, resistances were eventually won and most business houses became hard supporters of the reforms. Atul Kohli argued that the economic reforms of the early 1990s were underpinned by a reframing of the pact between the corporate sector and the government in these terms: "we [the government] will continue to put our full weight behind you [Indian business], but you, in turn, must become more competitive" (Kohli 2006: 1361).

20 This by itself constitutes an important sign of the changes that occurred in Indira Gandhi's strategy. In the 1970s, after the nationalisation of banks in 1969 and the following "anti-monopolies" legislation had made small-scale producers one the key components of Indira Gandhi's support base (Jha 2010; Torri 1975).

21 This came out of several interviews in Delhi in early 2011.

22 For an informative and critical account of this issue, see Arundhati Roy's essay in *Outlook*, 9 November 2009.

23 Other scholars put the beginning of this process in the mid-1970s, when the first, extremely timid liberalisation measurers were enacted (e g, Ganguly and Mukherjee 2011; Jha 2010; Panagariya 2008).

24 *The Indian Express,* 1 July 1980, p 3.

25 Two export processing zones had been established in Kandla (Gujarat) in 1965 and Santacruz (Maharashtra) in 1973. However, the investment climate did not allowed them to function, not to speak of the fact that incentives and facilities were not attractive (Aradhna Aggarwal Export Processing Zone in India Working Paper no 148, 2004, available at www.icrier.org, accessed on 11 November 2012).

26 See the reports in http://www.indiasezpolitics.org, accessed on 6 September 2012.

27 The introduction of a unified Goods and Service Tax is currently under discussion.

28 See, "The Growth Model Has Come Undone", *The Hindu,* 10 July 2012.

29 World Bank, *World Development Indicators* (WDI).

30 This has been widely documented, e g, Frankel (2005).

31 There is virtual unanimity that poverty started declining from the 1970s onwards. See, for example, World Bank (1999: Annex 1.1); Panagariya (2008); Corbridge and Harris (2000); Rudolph and Rudolph (1987).

32 World Bank (1999: 17).

33 *Economic & Political Weekly,* 28 March 1981.

34 Interviews with Jean Dreze, Pranab Sen, Mani Shankar Aiyar and Smriti Irani, NDTV, 24 May 2011 (http://alturl.com/iz86q, accessed on 6 September 2012).

35 N C Saxena, Report of the Expert Group to Advise the Ministry of Rural Development on the Methodology for Conducting the Below the Poverty Line Census for the Eleventh Plan, Ministry of Rural Development, 2009.

36 The programme was launched in 1978 and strengthened in 1980.

37 MoF, Seventh Five-Year Plan 1985-90, Vol 2, ch 2; Ministry of Agriculture, MoA, Concurrent Evaluation of IRDP, 1987.

38 See Dreze (1990), on UP; Madhura Swaminathan (1990) on Tamil Nadu; Hara Gopal et al on Andhra Pradesh. See Nilakantha Rath (1985) for an all-India picture. A partial exception was West Bengal, where the ruling Communist Party of India (Marxist) made the programme work better than in other parts of the country, mainly because the rural poor constituted the bulk of its social base of support, ibid (1985).

39 Ibid; Planning Commission (2005); MoF, *Economic Survey 2010*. There are important exceptions to this depressing picture. The PDS functions relatively well in Tamil Nadu and Kerala and, to a lesser extent, in Andhra Pradesh. Some timid amelioration seems to be under way in other states too (Khera 2012).

40 "Public Distribution System and Social Exclusion", *The Hindu*, 7 May 2008.

41 This does not apply to the MGNREGA, which is radically different from previous poverty programmes. See MoRD (2012).

42 *The Hindu,* 3 July 2012.

43 Other more "structural" problems certainly contributed to the deepening of the crisis, like excessive use of fertilisers and of the water table in the previous decades.

44 As a proportion of the GDP capital expenditure increased from 5.75% in 1980 to 7.01% in 1986. It then started declining till 1.72% in 2009. The increase of the first half of the 1980s was due to a general increase in government spending following the 5.1 billion loan from the IMF and the exploitation of the Bombay High oilfield that released significant resources. Revenue expenditures as a proportion of the GDP grew steadily.

45 These calculations are based on the actual expenditures.

46 See sources for Figure YY.

47 Comprising expenditures on Energy, Industry and Minerals, Transport, and Communication.

48 At current prices. Author's calculations on the base of data taken on the *Economic Survey* (1980-1991) and MoF (2011).

49 At current prices. The Consumer Price Index increased by 127% during the 1980s (WDI).

50 At current prices. The Consumer Price Index increased by 137% during the 1990s (WDI).

51 Expenditure on agricultural research grew significantly during the 1960s and 1970s, then slowed down sharply in the 1980s, and declined in the 1990s (Fan et al 2008).

52 Of course all these initiatives are still affected by some of the maladies that we have mentioned in this paper. However, there clearly is an attempt to make these development initiatives to work better. The MGNREGA, for example, contains some of the strongest transparency measurers a development programme has ever seen. See MoRD (2012).

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