Economic reforms: The widening gulf between hope and reality

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The 1991 and post-1991 period is understood as part of the ‘pro-market’ growth trajectory

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P V Narasimha Rao (left) with Manmohan Singh. Credit: DH file photo

Rivers of ink have been spilled over the past few weeks— in recollections and nostalgic anecdotes— marking three decades of India’s economic liberalisation story (1991). A pointless echoed and emphasised upon in the entire discourse (and economic debate) around the reforms of 1990s include: The ‘political’ and ‘political economy’ considerations seen during that period, particularly 1980s, which seem different and yet, like the ‘political’ and ‘political economy’ context(s) of current times.

Noted political economist Atul Kohli, in his work on politics of economic growth in India (1980-2005 period), provides a detailed insight into the ‘political’ and ‘political economy’ landscapes shaping India’s growth trajectory during the 1980s, 1990s and 2000s. His work highlights the essence of seeing India's entry to the global economic landscape as a product of incremental, gradualist reforms of the 80s based on attitudinal shifts observed in the 'state-capital-private business' relationship.

What's central to the pursuit of Kohli's thesis is a theoretical (more abstract) question: Did India's growth acceleration (during the 1990s, 2000s) resulted from the (nation) state's embrace of neoliberal policies, or from some more complex but identifiable pattern of state intervention?

To answer this, Kohli employs a theoretical distinction seeing India's growth experience in a two-part interpretative category: the 'pro-market' vs. 'pro-business' growth experience.

The 1991 and post-1991 period is understood as part of the 'pro-market' growth trajectory where pursued economic reforms-undertaken more on the capital market side-allowed our 'markets' to operate more freely, flexibly in certain sectors (telecom, automobiles, aviation, IT, construction, consumer goods etc.) with the aim to crowd in private investment opportunities.

It is true that a push for market-led growth allowed economic possibilities and upward income mobility for higher-income classes across the nation, even though the distributive end of any such growth-accrued gains failed to allow greater income (and social mobility) amongst the more vulnerable, economically depressed classes. Welfare distribution or essential social expenditure wasn't prioritised in fiscal policy for most of the 1990s and thereon.

Nevertheless, this period saw a strengthening of the 'state-capital-private business' alliance like never before, but at the cost of preexisting social and economic protection available to India's deeply fragmented labor force.

This 'pro-market' experience couldn't have been possible though without a gradualist nudge anchored by 'pro-business' measures of 1980s. In early 1980s, Indira Gandhi realized that her socialist politics of garibi-hatao was running out of steam. Land reforms were difficult to implement. Fiscal deficit was high. Anti-big business measures such as the MRTP act, FERA act and the nationalisation of banks had deeply eroded the state-capital-private business compact which hampered growth.

Politically too, Indira Gandhi and her advisors might have calculated that a realignment with big capital may not be too costly, in part because the poor were already loyal to her, but also because state support of business may lead to higher growth, lower inflation- an outcome that India's largely poor electorate may appreciate.

New model

And so, the three components of the 'new model of development' that Indira Gandhi adopted from 1980s were centered around: prioritsation of economic growth as a state goal; supporting big business to achieve this goal; and taming labour as a necessary aspect of this strategy. Powerful committees like the LK Jha Committee (to study overhaul of economic administration); the Abid Hussain Committee (to review trade), and the M Narasimham Committee (to consider financial reforms) were established to study how this major transformation was to be implemented.

The economic reforms undertaken since 1991 may have influenced India's industrial policy and external economic relations. But the variety of industrial policy reforms-delicensing, removal of MRTP constraints, tax concessions, opening of yet newer areas hitherto reserved for the public sector, and taming of labour— can be best viewed as continuation of reforms well underway during 1980s itself.

Still, the roots of neoliberal economic activism observed from the reform cycle beginning in the 80s was stretched upon a collective belief on taming India's labour activism. Weakening density of labour unions, lowering strikes, 'work-to-rule' movements were increasingly characterized by Indira Gandhi (once regarded as a leader of the left) as "anti-social demonstrations of irresponsibility by a few" in 80s. Collective bargaining for workers was further weakened, widening wage inequality amongst income classes.

Of course, within the limits of India's fragmented state power, this 'labour disciplining' strategy wasn't possible to the same extent as seen in East Asia, where China, South Korea, Singapore etc. were more brutish in policing workers for a cohesive form of capitalism to drive growth. The Indian scenario could not be the same because of two operative (and constitutive) governance realities: a) its federal and fragmented polity insulated by a diverse, ethnolinguistically segregated social and economic class; and b) its democratic functioning with a maintained separation of powers between the legislative, executive and the judiciary.

Let's bring the picture back to the present reality now. A national signalling effort aimed at 'disciplining labour', renewing the 'state-capital-private business' compact for the aspirational goal of 'higher growth' wasn't just the status quo effort undertaken during the 80s and 90s. It has also been tried since the Narendra Modi government took power in 2014.

What's intermittently worse now than what was seen during the Indira-Rajiv years (1980s) and the Rao-Manmohan years (1990s) is a 'political' attack seen on those two operative functioning of our governance ecosystem. Widening democratic deficit, a breakdown in federal relationship (between Union-states), and a deep erosion of social trust (between economic agents: farmers, workers, firms, households, government) is compounding the nation further into a chronic 'crisis of confidence' unlike before, which - no matter the policy- wouldn't allow for growth to the means to an end (ensuring a higher order of well-being for all citizenry) as hoped for. The circling of India's national economic reform story remains projected around an obsession on 'growth at all cost' without a focus on 'deliberative redistribution' or in applying the principles of a welfare state (what the Indian constitution envisages).

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