



Economic reform, social development and conflict in India

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Received: 25 May 2011 / Accepted: 2 January 2012

Abstract. The paper elaborates on changing economic paradigms in India over the past six decades that finally led to structural adjustment in 1991. The paper investigates how economic reforms failed to resolve social challenges in India. From the mid-1960s, when Congress dominance in independent India was challenged for the first time economic crisis and political instability have been closely related, at times bringing the country close to a civil war. Today however, India is seen as doing very well, despite increasing unemployment, enormous subsidies and masses of extremely poor people living surrounded by increasingly affluent middle classes. In the past economic crisis and political instability were closely related. Urban based industrialization had often caused resistance that mainly came from rural India at various junctures in India's recent economic history. Removing poverty, and here in particular rural poverty, would allow India's economy to further expand. However if social polarization further widens, if masses of poor remain excluded from economic success, social dissatisfaction will further enhance insecurity and violence intensifying political instability and insecurity of the entire Asian region.

JEL classification: E6, E24, F4, N35, I3, J21

Key words: economic crisis, political instability, liberalization, structural adjustment, India

1 Introduction

Not long ago there was a clear understanding which are developed and which are developing countries in Asia. Then the newly industrializing countries (NICs) appeared in the form of tigers, a dragon and an elephant. Today we have China and India as important economic players on the world scene. Two out of five people living on this planet, some 2.6 billion people are either Chinese or Indian. Both countries are powerful magnets of foreign investment. Companies from Europe, America and Asia moved to these two economic adolescents to benefit from lower productions costs, but also to gain access to huge markets. Analysts fear (or hope) that when fully 'grown up' each of these two countries can satisfy whole world demand in many sectors challenging economic activities elsewhere.

These shifts in the centre of gravity of the world economy are incompatible with development theories some 30 years ago. Then the global economic structure was seen as dominated by centre

states, which defined the international division of labour and kept the periphery made of former colonies dependent. Economic self reliance and dissociation was seen necessary to escape economic dependency. Well, the Asian Tigers did not just follow this advice: they promoted their exports; they integrated into the world market whenever they saw an opportunity. What started with Hong Kong, Korea, Singapore and Taiwan, soon continued with China and then with India.

Despite impressive economic success both countries still have huge populations living in rather poor conditions. In China around 36 per cent of the population lived below US\$2 a day in 2005. For India the corresponding figure was 42 per cent (World Bank 2009). Both countries together had more than 900 million people with not even US\$2 a day. This also means an enormous market potential that could be realized once both countries further reduce poverty and convert these masses into consumer capable middle classes.

From a theoretical perspective changes experienced in China and (in this paper in particular) in India pose questions whether economic success experienced is suitable to remove poverty and establish secure livelihoods. In a wider perspective the question is of how economic growth and development are related. Basu (1990, p. 108) reflected on this already before India's economic reforms of 1991 started "We must realize that food stocks with the Government is not something which the people eat, the savings rate is not something which you wear and one cannot sleep under the roof of foreign exchange. These are just the instruments, which have to be translated to basic needs. That did not happen in India. This is a puzzle not only about the Indian performance but in what it says about economic theory and development economics" (Basu 1990, p. 108).

Many observers predict that India's economic success story might come to a sudden end, if growing social disparities cannot be contained. Continuing wide-spread poverty especially in rural areas and among unskilled and semi-skilled urban workers might lead to social unrest that can threaten not only political stability but also economic development. The situation of the mid-1970s, but also of 1989 and 1990 document very well how social dissatisfaction and politically motivated unrest can translate into deteriorating economic performance.

The major purpose of the paper thus is to fathom out, if there is danger that economic success paired with social failure endangers development in India, development that enhances well-being of all and that does not just benefit a creamy layer of India's middle classes. The question is also about the political economy of the country, the major forces that had been driving economic change in India. One could assume that economic reforms were lobbied by the private industry against the resistance of the state. However there is much evidence that there had been harmony of interests in major economic questions between private and state actors right from the beginning of independent India. When after 1947, a strong public sector was created, it happened with support and for the benefit of India's private industry. When after 1984 and 1991 India's economy started to open up and overcome the 'Hindu economic growth' (Nayar 2006) this harmony of interest was still a major driving force. This continues in the first years of the twenty-first century, when economic change took up pace and makes India today appear as one of the few economic success stories this century so far had to offer.

2 Structural adjustment and social-economic development

Administered economic change, or economic reform, has been done at various times and differing circumstances. Often it was a reflection of either changing economic policy paradigms or the urgent need to make changes because economic performance of a country was under severe stress. 'New deals' are therefore nothing really unusual. In the 1980s, as a response of the Third World debt crisis, the demand-driven Keynesian paradigm was replaced by a supply-side neoliberal paradigm that found its application in structural adjustment programmes (SAPs).

Most, if not all of these SAPs were initiated when individual countries were facing severe economic crisis. To approach the World Bank and International Monetary Fund was often seen as the last resort to get out of misery. Measures to reduce trade deficits, government spending and public debts were standard tools of such programmes. SAPs in most cases operated with the devaluation of the national currency, cutting down on subsidies, privatization of public enterprises and improving the conditions for private, in particular foreign investment (Grunberg 1998; see also Mosley et al. 1991, Thomas et al. 1991).

Most studies on the impact of SAPs concentrate on macro-economic aspects and often do not include social impacts like deteriorating health, education and nutritional conditions, increasing inequalities, declining real wages, poverty, gender inequality and social vulnerabilities (e.g. see Wolf 1989; Chossudovsky 1992, 2003; Lee et al. 2002; Bussolo and Round 2006; Kuiper and Barker 2006; Abouharb and Cingraneli 2007; Renton et al. 2007). Social consequences of SAPs were often disproportionately borne by the poor, and poor women and children in particular (Daines and Seddon 1994; Craig and Porter 2006). It was UNICEF in 1987 that highlighted the negative social consequences of SAPs when it called for 'adjustment with a human face' (Bohle et al. 1990; Jolly 1991; Zuckermann 1991; Siegler and Theis 1993).

The socially adverse impacts of SAPs often triggered social and political unrest (Nathan 2001, Bandy and Smith 2005; Starr 2005; Almeida 2007; Langer and Stewart 2007) by what some authors called 'IMF riots' (Raj and McMichael 2009, p. 9). Walton and Seddon (1994) report of at least 146 such riots from the mid 1970s to the early 1990s (see also, Walton and Ragin 1990; Maxwell 1998; Auyero 2001, 2007; Raj 2009; Bush 2010; Bellemare 2011).

3 Economic reform, political instability and conflict in India

Observers consider 1991 the turning point of India's economic fate. At this point of time India's economic order had already changed a lot from the time when the country achieved her independence. The reforms of 1991 did not begin India's economic liberalization (Bhattacharya 1999; McCartney 2009), but it accelerated change and without these reforms India would not be economically where she stands today.

In the 65 years of independence, India has experienced a number of economic crises, often triggered by drought, political instability or wars with Pakistan or China. Until the mid-1960s there had been the political dominance of the Congress Party in the federal government as well as the governments of all Indian states. This also had harmonizing impacts on economic policy formulation and decision-making.

In 1967, the Swatantra Party defeated the Congress Party in nine state elections shaking Congress dominance in India for the very first time (Erdman 1963–1964). Increasing unemployment and poverty led to political instability (Narain 1969; Narain and Lal 1969). Although Singh (1971) contradicts the thesis of political polarization (see also Palmer 1967), he also sees in the political events of 1967 a cause of increasing political instability. "The most striking consequence of the Congress reverses in 1967 has been a high degree of political instability in north Indian states [. . .]. For the first time since independence, 9 out of 17 states, with 65 per cent of India's population, came under the rule of inherently unstable coalitions" (Singh 1971), that also led to a sharp increase in politically motivated violence. "In 1966–67 the election campaign was carried out in an atmosphere of frustration, despondency, uncertainty, and recurrent – almost continual – agitation. The year 1966 was generally described as 'the worst since independence', largely because of the deteriorating economic situation, with rising prices and a food shortage approaching near-famine proportions in Bihar and parts of other States, the deterioration of the law and order situation, with increasing resort to bands, *ghera dalos*, strikes, and other forms of public protest and mass agitation, often resulting in destruction of property

and sometimes in loss of life, and the growing loss of confidence in the top leadership of the country under Congress rule" (Palmer 1967, p. 277).

In the elections of 1971 Mrs. Gandhi was able to stabilize her position with a distinct anti-poverty campaign (*Garibi Hatao* – remove poverty; Kothari 1972; Kurien 1972; Ranadive 1973; Joshi and Desai 1978), but in the following years social polarization and dissatisfaction weakened Indira Gandhi's Government further (Banerjee 1973; Klieman 1981; Kothari 1988; Prasad 1991; Prashad 1996).

With the drought of 1972 many farmers slipped into poverty. Increasing costs for agricultural inputs (fertilizer, pesticides, energy and machines) let profits decline even when the drought was over (Vaidyanathan 1991). When India Gandhi tried to nationalize the wholesale sector of cereals, rural elites saw this as attack against them. Fierce protests and boycotts followed and food prices increased further. Bad harvests in 1972 and 1973, the third war between India and Pakistan in 1971, which (again) led to cuts in US aid, increase in public spending because of Indira Gandhi's populist policies as well as excessive spending for police forces let state finances skyrocket and fuelled inflation.

In 1971 Mrs. Gandhi had won elections promising to fight poverty, restrict the power of big business and control foreign companies. Still, at a time when economic growth in India stagnated, Indian as well as foreign companies did well while social polarization widened. Economic crisis, but even more so economic inequality and increasing social and economic disparities were the cause for politically motivated unrest and protest (Prasad 1977). In 1973 violent conflicts erupted in many Indian cities. In 1974 the situation did not calm down. Inflation rose to more than 30 per cent. All over India dissatisfaction with the Government surfaced. In Gujarat warehouses were plundered and the military called in (Shah 1974). In Bihar an uprising against the Congress-led State Government was also put down by the army (Shah 1977). Under J.P. Narayan, a distinguished follower of Mahatma Gandhi, many demanded a change in India's economic philosophy: instead of industrialization, the fulfilment of basic needs should have highest priorities. Other demands were the fight against corruption, reduction of unemployment, promotion of agriculture, fight against inflation, and the resignation of Indira Gandhi (Narayan 1975). When Narayan announced further protests Indira Gandhi declared the State of Emergency (Dutt 1976; Puri 1995; Dhar 2000). Around 200,000 people were put into jail without trial.

Mrs. Gandhi tried to disguise her mistakes through populist measures: in a 20 point programme she promised to bring food prices down, give land to the landless, write off debts of small farmers, give secure tenure to urban poor in slums, expand irrigation infrastructure, improve electricity generation and public transport and much more. Few of these promises were put to action. The Government more and more was seen as promoter of the interest of big business houses, foreign investors and India's middle and upper classes. Mrs. Gandhi banned strikes, cut down minimum wages for industrial labourers and extended working hours (Frank 1977). Private companies received tax cuts and investment incentives. Many licences were abolished. Foreign companies saw a liberalization of the Foreign Exchange Regulation Act (FERA) allowing higher foreign equity in many sector, tax cuts and better conditions when transferring profits out of India. The elections of 1977 saw Congress lose.

When Moraji Desai became Prime Minister in 1977 he depended on parties that covered all ideological facets, from ultra-left to the ultra-right. The common consensus was 'being anti-Congress'. In the new Government also, forces dominated that spoke in favour of India's rural areas, a conflict between rural India (Bharat) and the modern, urban-based industrial India was well constructed to disguise differences in rural India that were based on class and caste. Unemployment and poverty were widespread and an economic policy designed by Charan Singh (Brass 1993), and closely adopted from Mahatma Gandhi's economic philosophy was hoped to overcome India's social challenges (Singh 1978). A core piece of Singh's economic

concept was the promotion of agricultural development instead of industrialization. The state should regain its erstwhile economic power, small-scale and village industries should be better protected against competition from big industrial companies (Datt 1987). However India's agricultural structure was not to be touched, no land reform was possible in a government where rural elites were well represented. The heterogeneity of the Janata Government led to its collapse after 2 years, when Charan Singh left the government to form his own party. Prime Minister Desai had to resign and Singh was asked to form a new government. "Just when the Indian economy urgently needed a concerted drive from a well-ordered polity to ensure the continuation of the gains made in recent years in the face of mounting problems in early 1979, the national leaders decided to stage a frantic struggle for chair, office and instant power" (Das Gupta 1980, 176), Singh's minority government was incapable of action. A vote of no confidence by the Congress Party brought his short rule to an end.

4 The phase of early liberalization: 1980–1991

It was not new love of India's voters but a hopelessly divided government that brought Indira Gandhi back to power in 1980. On the economic front things looked rather unsettled. In 1979 India had experienced the severest decline in food production since independence. With the Soviet occupation of Afghanistan the arms race between India and Pakistan saw a new dimension. The second oil crisis (1979) had devastating impacts on India's balance of payments. India's oil import bill increased from US\$180 million to US\$6.6 billion between 1970 and 1980 while import quantities did not double (Rangarajan 1988).

In the 1980s economic reforms were carried through more rigidly than earlier (Mehta 1988). A loan from the IMF accelerated this. India agreed to further reduce the importance of public enterprises and strengthen private industries. Spatial disparities were to be reduced by providing incentives for investment in disadvantaged regions. Export-orientated industries were promoted. State governments were asked to take over uneconomic enterprises with the purpose of rehabilitating them (Lucas 1988). Instead of heavy and capital goods industries private consumer industries, pharmaceutical and chemical industries became the growth sectors of the 1980s (Kurien 1989). This change in emphasis became possible through a fast growing Indian middle class, which was willing and able to buy high quality consumer items. This middle class was the result of public servants enjoying disproportionately high increases in their income. While prices between 1971 and 1992 increased by about 500 per cent, incomes in the public service shot up by almost 1,000 per cent (Government of India, Ministry of Finance, Economic Division various years). Production of consumer items increased by more than 10 per cent annually in the 1980s (Kelkar and Kumar 1990). However there was hardly any increase in industrial employment. Economic expansion was almost entirely achieved through higher productivity.

After Indira Gandhi's assassination 1984, liberalization was continued and accelerated by her son and successor as Prime Minister, Rajiv Gandhi, especially in the first two years of his tenure (Harriss 1987). Licensing in the industrial sector was further liberalized, mainly in consumer electronics (Kumar 1985). Many export restrictions were done away with or simplified. Sectors that had good export potentials were exempted from import licences for capital goods (Wadhva 1988). As additional incentives to export production a tax discount of 50 per cent was given on profits from export income. After 1988 profits from export business were entirely exempted from taxes. Many import restrictions were transformed into tariffs and existing import tariffs reduced. Additional sectors reserved for public investment were opened for private investment, the most important telecommunication.

To strengthen internal demand the top tax rate was reduced from 62 to 40 per cent. Other tax rates were reduced by 12 to 15 per cent. Gross income below RS. 30,000 became tax free. "Out

of about four million income tax payers, one million are becoming entirely tax-free, while the remaining three million will pay substantially less than at present” (Datta 1985: 694). To compensate for losses a number of indirect taxes, import tariffs for crude oil and also freight rates for the Indian Railway were increased. Products with high transport or energy component increased in price (Basu 1985). “The basic fact behind all this is that on the net balance the rich will benefit from the tax reliefs and the poor will bear the burden of the tax-pushed rise in prices” (Datta 1985: 697).

Trades Unions saw the attempt to curtail the public sector as an attack on them (Malhotra 1990). Criticism also came from parts of private industry and from within the Congress Party. It more and more became evident that Indian companies were hopelessly outdated. Only big Indian companies (often in joint ventures with foreign investors) were able to do well. Between 1980 and March 1992, the number of severely indebted companies increased from about 25,000 to more than 240,000. In 1992, a staggering 96.6 per cent of sick companies were small-scale industries (Government of India, Ministry of Finance, Economic Division various years). Many ‘sick companies’ were converted into public enterprises or closed illegally in the 1980s (Garg 1992).

After 1986 some reforms were taken back, in particular the reduction/abolition of import taxes, which had exposed Indian companies to foreign competition. In the budget of 1987–88 import tariffs for capital goods were increased to 85 per cent (from 55 per cent), for power plants to 35 per cent (from 25 per cent) and for fertilizer production from 0 per cent to 15 per cent (Budget 1987–1988).

Inflation and declining real incomes increased social tensions, but the economic crisis was most visible in the condition of government finances. Income from direct taxes lagged behind expectation and also could not be compensated through an increase in indirect taxes. There also had been a sharp increase in all sorts of subsidies, in particular for fertilizer, exports and food (Swamy 1994).

5 The National Front Government

In the elections late 1989 the Congress Party was voted out of power by a coalition that brought together rural as well as minority votes – people who were unhappy with liberalization and industrialization. An all-India farmer’s movement had gained momentum. It was successful in integrating peasant farmers and landless labourers by adding demands for an increase in minimum wages, reduction in working hours, ban on dowry, fight against corruption, etc. As in 1977, the rural elite was successful in disguising class conflicts in India’s countryside by constructing a conflict between agricultural, rural India and industry, urban India: a conflict between ‘Bharat’ and ‘India’. In the elections rural elites, supported by peasant farmers and agricultural labourers, were able to defeat Congress badly which suffered its biggest decline in votes from scheduled castes and tribes, that is, the most disadvantaged groups in India’s society as well as from Muslim voters (*India Today* 15 December 1989). For the third time in India’s history a politician, V.P. Singh, became Prime Minister who did not come from the Congress Party. Singh however needed support from the nationalist Bharatya Janata Party (BJP) and the communist parties, which agreed to support the government from ‘outside’.

The Government of the National Front was unstable. Prime Minister Singh, former Finance Minister under Rajiv Gandhi and architect of his economic reforms favouring rapid industrialization. He now headed a government that had given rural India and agricultural development highest priorities in its election campaign. At Singh’s side stood Devi Lal as Deputy Prime Minister, a powerful landowner from Haryana and leader of the North Indian farmer’s movement. The conflict between ‘Bharat’, the rural India and ‘India’ the urban India, orientated in industrial development was present in the leadership of the Janata Government. The

Government was supported by the BJP, which presented the conflict between Hindus and Muslims in India. From the left the Government was supported by the Communist parties, representing the class conflict. These three cleavages, which are rather difficult to reconcile dominated India's politics in the 11 months that V.P. Singh's Government was in power.

6 The collapse of political culture after 1989: Mandal, Mandir and power

Corruption, favouritism and political violence are a long and important ingredient in India's politics. During the election campaign the Janata Dal had announced a fierce fight against these nuisances. V.P. Singh took over as Prime Minister as 'Mr. Clean', as a politician who not only had an image of being beyond corruption, but who had announced fighting corruption in India. Already when he was Finance Minister in Rajiv Gandhi's Government he fought corruption and tax evasion and was therefore 'demoted' to become Defence Minister. There he continued to be whistle blower and uncovered the Bofors scandal, where enormous amounts of bribe money was paid by a Swedish arms dealer to the Congress Party.

In a democracy like India, which is fragmented into many ethnical, religious, linguistic and socio-economic groups parties have to try to address the electorate by addressing issues that concern many groups at the same time, to keep vote banks happy, especially when elections are around the corner. It is difficult in India to speak of a voter base, as voter fluctuation is big, leading politicians to often change their party affiliation and new parties come up frequently and old ones disappear. The contradiction of trying to establish parties that are able to integrate big masses in a social environment where the electorate more and more polarizes has been a big challenge for Indian politics. Successful politicians are those who are able to create an image that they concern the interests of their electorate, even if they do not. More important is what 'appears to be' rather than what really is. Often symbolic gestures are used to strengthen the bond to the electorate.

When in December 1989 the Government of the National Front took office it was unclear, if it was able to complete a full five years' tenure. Commentators were sceptical that this was likely. Many even doubted that the heterogeneous Janata Dal Party would survive five years or break apart before. Politicians were therefore rather busy in building their 'images' as the next election seemed to be looming. V.P. Singh was working on a 'social' image, an image that he gave support to the disadvantaged groups in society, the poor classes and castes.

Already in the early months of 1990, Singh and his deputy Devi Lal clashed a number of times. The relationship worsened in July 1990, when Devi Lal tried to make his son Om Prakash Chautila, Chief Minister of Haryana, the position Devi Lal had vacated when he joined the Janata Dal Government. To become Chief Minister, Chautila had to win a by-election to gain a seat in the Parliament. However he was accused of having rigged voting and incited violence which cost the lives of more than 20 people (Lakshmana 1990; Shourie 1992). The confrontation even resulted in the resignation of 15 ministers from Singh's cabinet. Even the Prime Minister had announced his resignation, but was convinced by the leadership of the Janata Dal to continue (Menon 1990). Devi Lal was finally dismissed from the cabinet on 1 August 1990 (*The Hindu* 2 August 1990). Within the Janata Dal Party he was largely isolated. He therefore tried to organize his original power base and called for a mass demonstration of farmers and other rural population to New Delhi on 9 August 1990 (*The Hindu* 3 August 1990).

Two days earlier Prime Minister Singh announced that his Government decided to implement the recommendations of the Mandal Commission from 1980 to reserve 27 per cent of jobs in the public sector for disadvantaged communities, which so far had not been considered by earlier reservation quotas (other backward communities – OBCs). V.P. Singh's announcement split the electorate of the Janata Dal into two groups that were irreconcilable: Those who hoped that they could benefit from this new reservation quota and those who saw their career changes

vanish. In rural areas of North India, the tensions that arose were the worst and led to widespread violence. The alliance of big farmers with peasant farmers and landless labourers established by Devi Lal with support of MS Tikait, a powerful farmers' leader and Secretary General of the Bharatyia Kisan Movement (All Indian Farmers Movement) fell apart. The most influential agricultural castes (Ahirs, Jats, Gujjars and Rajputs, often referred to as AJGAR Alliance) were not to benefit from this new reservation policy (with the exception of the Ahir Caste). However poorer groups like the Yadavas and other small farmers' as well as many castes of landless agricultural labourers would receive reservation privileges they earlier did not have (Menon 1990). "Bihar went up in flames. Rajputs especially, who went all out in support of V.P. Singh during the last elections, viewed the Prime Minister's action as a betrayal [. . .] Frenzied mobs of youth and students went on the rampage, damaging and setting ablaze railway stations and trains, police and private vehicles, government offices, post offices and telephone exchanges and holding up rail and road movement for almost a fortnight" (Upadhyaya 1990, p. 28). Similar outbreaks of violence happened all over North India.

Singh's timing to announce his reservation policy is closely connected with the split in the Janata Dal Government. "V.P. Singh played his trump card by announcing the decision to reserve for OBCs 27 per cent of all categories of posts under the Central Government and in its undertakings. This was on August 7, two days prior to Devi Lal's massive kisan [peasant] rally on the central vista in New Delhi. The only way to meet the challenge posed by Devi Lal was to meet him on his own ground – the rural constituency" (Chakravarty 1990, p. 24).

Until now Singh was able to survive the confrontations with his deputy Devi Lal rather unhurt as the BJP and the two communist parties in India gave him their support making it clear that they would not tolerate any Prime Minister other than V.P. Singh. Through this confrontations within the Janata Dal Government had been mitigated as there was no alternative to the ruling Prime Minister. Overthrowing V.P. Singh would have resulted in the end of the Janata Dal Government and in new elections. When Singh however announced his reservation policy the BJP began to see him as a threat. Straight after Singh's announcement on 7 August Lal Krishan Advani, the leader of the BJP, decided to conduct a religious procession (*Rath Yatra*) through major parts of India. The procession would end in October 1990 in the North Indian city of Ayodhya, which allegedly was the birth place of the legendary Lord Rama. In 1528 Mogul ruler Babur had constructed a mosque in a place where allegedly there had been the Ram Janmabhoomi temple. Advani's objective was to re-build a Hindu temple (Mandir) at the place of the Babri mosque. Until then it were in particular fundamental Hindu organizations like the Vishwa Hindu Parishad (VHP, Hindu World Council) and the militant Rashtriya Swayam Sevak Sangh (RSS) which spoke in favour of the destruction of the Babri mosque. For two reasons the BJP now changed its mind: the party realized in the elections of 1989 that it is possible to gain a lot of votes with a Hindu-centred ideology. While the BJP decided to support the Janata Dal Government it avoided overemphasizing this conflicting issue. The intention was to consolidate power and to take up a clearer Hindu ideology in the next election, which was still five years into the future (*India Today* 15 December 1989). Then Ayodhya surely would have become a central issue in the BJP campaign. The development within the Janata Dal made it clear that elections might be just around the corner. When V.P. Singh opened his 'election campaign' by announcing the reservation policy the BJP felt impelled to follow. On 25 September Advani started his *Rath Yatra*. The Government made it very clear that he would not be permitted to reach Ayodhya. Advani, other leaders of the BJP, VHP, RSS and about 200,000 of their supporters were arrested on 23 October in the city of Samastipur (Bihar) (Pachauri 1990). On the very same day the chairman of the BJP parliamentary group, A.B. Vajpayee, informed the Indian President that his party had withdrawn support to the Janata Dal Government (Aggarwal and Chowdhry 1991; *Hindustan Times* 24 October 1990). This was the end of the Government of V.P. Singh, which later even saw Singh himself expelled from the Janata Dal (Muralidhar Reddy 1990).

Only eleven months after V.P. Singh had become Prime Minister it became clear that he was not able to fulfil the expectations of those who had seen him and his party as a viable alternative to Rajiv Gandhi and Congress. His Government tumbled from one crisis to the next and it became evident that the Government was not able to abolish corruption and violence. To the contrary: to prolong the life of the Government all major actors invented increasingly more dubious actions which brought India close to a civil war. The distinct ideological heterogeneity of the Janata Dal Government only could result in such a chaos. Each politician and each party were busy getting a favourable starting position for the forthcoming elections. However it is unjust to only blame V.P. Singh. His fault and the fault of the Janata Dal was that they did not put Devi Lal in his place. To give him his head meant that his power continued to increase, while Singh's reputation and the reputation of the Janata Dal Party as a whole declined month by month.

The political culture in India, that is, the common understanding and agreement in society of what measures are considered legitimate to achieve political goals or political power suffered a lot in the past few decades in India. The year 1990 had set new standards. Apart from the fact that an obviously insatiable hunger for power put up with the loss of thousands of lives, it also prevented politicians to do what they are actually voted for in power: to work out concrete suggestions and measures of how to improve people's lives and how to form and change society in a way acceptable to many, especially to those who elected the politicians into power.

Despite many serious challenges, parliamentary affairs were put on hold largely. Important decisions on trade and industrial policies were delayed. Even the work and finalization on India's Eighth Five Year Plan, which was to start in 1990, had to be postponed. "For the poor, there was not even a gesture – only a catalogue of legislation passed and the glitter of more to come [. . .] Indeed, the poor were being driven to the wall by the rising prices, the Mandal-generated division and the canker of communalism [. . .] Once the riots began – first caste-based in early September and then denominational – they never seemed to abate. They are still blazing; if anything, the fury has intensified and they have spread all over the country. Nothing like this has happened in recent times. The system seemed in chaos" (Sahay 1990, pp. 10f).

1990 was a year in which violence and terror brought India to the brink of a civil war. First the Janata Government mangled itself before finally brought down by the BJP. The power struggles resulted in an irresponsible negligence of economic decision-making. Economic challenges were not taken up, but allowed to escalate. When in early 1991 India was almost insolvent, only a loan from the IMF was able to buy some extra time. However it was foreseeable that the loan of US\$1.8 billion was not enough to help India to survive for more than 6 months. Fresh credits were unavoidable.

7 Structural adjustment in India

SAPs in India, like in many other parts of the world, were seen by most from their macro-economic impacts. Although India's political landscape contains many major parties that over the decades always had been critical of the World Bank and IMF, the economic reform of 1991 was critically assessed only by few, in particular the two communist parties of the country. Congress (I), under which the reform had started, but also the BJP, at that time major opposition party supported the reforms.

Among social scientists response was mixed. The Mumbai published *Political and Economical Weekly (EPW)* became a mouthpiece of economists and political scientists who critically, but very constructively accompanied the reforms. Many national and regional Non-governmental Organizations in the field of development and human rights dismissed the

reforms as a sell out of the interests of India's poor and environment to the Bretton Woods agreements. Often their criticism included the Uruguay Round of GATT, which entered its decisive phase in India's early years of structural adjustment.

Alamgir (2009, p. 2) remarks that a sustainable reform process has survived since 1991, seven changes in government and regardless of which party holds power he rules out "any reversal in India's new economic orientation, a notion which is not shared by all observers. Five years after the SAP had started Joshi and Little (1996) give an evaluation of the reforms which indeed reads rather pessimistic. Despite of a number "very remarkable achievements" (Joshi and Little 1996, p. 258), the principal failure is identified as the lack of expenditure control in the form of fertilizer and food subsidies. For the time after the 1996 elections the authors predicted that reform efforts would slow down as "Congress is not a party of liberal reform" and "the momentum of reform has been lost" (Joshi and Little 1996, p. 263). Srinivasan and Tendulkar (2003) paint a more positive picture of what had been achieved in the 1990s. However, they also consider the reforms as incomplete and are doubtful if a second generation of reforms can be added easily as it does not command much political support. They expect resistance from Trades Unions that oppose further privatization and public sector reforms, farmers and urban consumers alike that not easily giving up on food and other agricultural subsidies.

Jalan (1991) presents a comprehensive account of India's economic crisis. Highlighting the importance of India's economic structure and institutions that had emerged soon after 1947 he strongly suggests now that a paradigmatic change was urgently needed to take India successfully into the 1990s and beyond. Also Bhattacharya (1992) presents a detailed account of India's financial crisis, the country's debt burden and the government's response to it. While he speaks in favour of far reaching economic reforms he expresses concerns about IMF conditionalities that in other instances often did not bring economic recovery, but made economic conditions worse and turned out to be socially and environmentally harmful. Debroy (1992) looks at the economic crisis concentrating on India's foreign trade policy that was to bring the country back on track. Referring to an article from *The Economist* he is confident that "India is not merely capable of making great inroads into poverty over the coming decade [. . .] It is an economic miracle waiting to happen. Indians are fond of saying that whereas Japan, South Korea and the other thriving economies of East Asia are tigers, their own country is an elephant; immense, cautious, slow-moving, but also sure-footed, strong, purposeful" (cited in Debroy 1992, 126).

Publications that are more critical about India's reform highlight in particular the dissatisfactory conditions in many social sectors and many of India's rural areas. Datta (1992, p. 251) analyses India's economic problems similar to those mentioned already, but at the same time he warned that in the course of economic reforms many "wrong turns" are possible that won't solve the challenges of social and economic justice. Like Datta (1992), Ghosh (1992) also sees planning in India at an important crossroad. Political decentralization and primacy to social development is a greater need than the quest for rapid economic growth. "We need to blend our economic programmes with a concern about the social impact of our development policies" (Ghosh 1992, p. 285). Also Nadkarni et al. (1991) reflect on India's economic challenges for the 1990s. Many authors in this volume express dissatisfaction with the poor state of social development in India after more than 40 years of independence. Most of the 21 contributions emphasise the importance of decentralization along with increasing participation of people in planning processes, decision-making and implementation of programmes as the way ahead. Kurien (1992, p. 50) goes even a step further when he puts social and economic disparities and ethical dimensions arising from them in the centre of his reflection. His major question is not why India's economy after 40 years of independence is not performing better, but why after four decades of independent rule and planned development "mass poverty remains an entrenched reality in India".

Bhargava's (1994) concentrates entirely on social well-being and economic reform. In nine papers impacts of economic reforms on the most vulnerable sections of India's society are explored as well as possible public interventions in favour of vulnerable sections. Aspects of food security and public distribution of food (PDS) as well as social safety nets to counterbalance the impact of privatization and closure of ailing companies were seen crucial to prevent social erosion as a result of economic reforms.

Mathew (2006) looks at how employment and unemployment has developed in the post-reform period. He highlights that the worker-population ratio has been declining in the post-reform period, in particular during the later years of reform, namely, 1999–2000. Exception is male employment in urban areas which has increased slightly. The period between 1993–1994 and 1999–2000 witnessed a marked rise in the unemployment rate among rural workers, male as well as female" (Mathew 2006, p. 138), while for the urban population, male as well as female, unemployment has fallen. Also Ahsan and Narain (2007) report of similar trends: compared to 1993–1994 there had been considerable higher unemployment rates in 2004 for rural male (1993–1994: 3.0 and 2004: 4.7) and female (3.0 against 4.5). In urban areas the increase in unemployment is less for urban female (8.4 against 9.0) and urban male (5.2 against 5.7) (Mathew 2006, p. 304). Overall the authors observe that "the Indian economic did not generate enough jobs as were needed" (Mathew 2006, p. 305). In addition while high-wage earners experienced a high wage growth "for most workers, however, wage growth was slower in the 1990s than in the previous decade (Mathew 2006, p. 317).

Deolalikar (2008) remarks that in many social sectors, Bangladesh has better records than India, despite being poorer and having slower economic growth. Although most authors agree that the share of people below the poverty line has declined after the reforms started, there is much confusion about poverty statistics, especially for the later years of the reform period (Mehta and Shah 2003; Deaton and Kozel 2005). Also Bardhan (2010, p. 7) cannot see much improvement in India's effort to alleviate poverty: "As for poverty in India, the national household survey data suggest that the rate of decline in poverty has not accelerated in 1993–2005, the period of intensive opening of the economy, compared to the 1970s and 1980s, and that some non-income indicators of poverty such as those relating to child health, already rather dismal, have hardly improved in recent years". The official government perspective is that economic reforms had led to an acceleration of poverty decline. Deaton and Dreze (2002) and Lal et al. (2001) support this view. Bhalla (2002), Sundaram and Tendulkar (2003), as well as Sen and Himanshu (2004) argue that the reduction of poverty continued at a slower pace after reforms had started (Siggel 2010).

Inequality and poverty in India have a distinct spatial dimension (Mehta and Shah, 2003). There are indications that economic reforms have further polarized regional disparities. Especially in the most disadvantaged regions where there is still a high incidence of poverty, and little hope for a better future. From some remote areas there had even been reports of starvation and the suicide of hundreds of thousands of farmers in various parts of India also gives some ideas about unsatisfactory social conditions in many parts of rural India. With regards to the impacts of economic reforms on rural areas, Dev (2004, p. 4422) concludes that "rural India is not 'shining'" (see also Basu 2011).

Hardly two months had passed since the then Finance Minister Manmohan Singh had put his budget for the year 1991–1992 before the Parliament, when in September 1991 news about deaths from starvation in Andhra Pradesh shocked India (Nagaraj and Krishnakumar 1994). At the same time India's newspapers were reporting about the third record harvest in a row. The death from starvation did not happen in drought-prone and marginalized regions of Andhra Pradesh, but in the fertile and agriculturally highly developed region delta of the Godavari and Krishna rivers. The victims all belonged to a single occupational group: the weaver caste. The reasons for this tragedy are quickly listed: cotton yarn, the raw material for the weavers was

more often exported instead feeding local demand. The powerful lobby of textile mills managed to pressure through the abolition of export restrictions for cotton yarn. Between 1987 and 1990 export volume almost had tripled, which caused an increase in cotton yarn prices by more than 200 per cent. The weavers, who were just able to feed themselves and their families with a monthly income of about 600 rupees were no more able to produce under such conditions without occurring financial losses. The 300 rupees which they now had every month were not enough to buy even the very basic items for survival. More than 100 deaths were the result in late 1991 (Krishnakumar 1995).

Also in the years after 1991 many of India's rural areas (still) have very high numbers of poor. Newspapers report again and again about farmers who commit suicide as their social and economic situation appears futile to them. According to Nagaraj (2008) about 200,000 farmers committed suicide between 1995 and 2006. Economic decline of entire regions is a rather complex process, closely related to rural economic challenges as well as political neglect of agriculture (Dantwala 1991; Nadkarni 1991; Vyas 1994). India's most disadvantaged regions contrast widely from the growth centres of the country, social and economic conditions there are appalling (FIAN 2008; Gruère et al. 2008; Patnaik 2009; Samu 2010; Kalamkar and Shroff 2011). Indebtedness, caused by commercialization of agriculture, declining government support for the agricultural sector as well as privatization of micro credit for farmers seem to play a crucial role in often desperate situations (Nair 2011; Schmidt 2010).

In 2010 about 52 per cent of India's workforce was employed in agriculture. According to the 2011 Census almost 70 per cent of India's population is still living in rural areas, in about 600,000 villages. Their lives more and more are influenced by decisions that are made far away from them, and in most of the cases they have little input in such decision-making processes. Today far more than 200 million people in India suffer from severe forms of chronic malnutrition or undernourishment, more than 2.5 million children die every year before the age of five (Banik 2007). Globally, 29.3 per cent of all deaths of newborns happen in India, where there are also 16.1 per cent of child deaths, more than 2.3 million in 2005 (Gakidou and Lopez 2010). Although India was successful in preventing major famines since 1947, many observers take such or similar figures as very worrying indications that the country might have improved a lot in her macro-economic indicators without alleviating the dismal situation of a very large section of her population. In Karnataka for example, where the capital Bangalore is often called India's Silicon Valley, 45.9 per cent of children below three years are underweight and the infant mortality rate 43 per 1,000. "The problem in child malnutrition in Karnataka – which, ironically, boasts the software capital of the country – may not seem as dire as in some other States such as Madhya Pradesh, but this is because of the relative prosperity of southern and coastal Karnataka which lifts the average across the State. The incidence of undernourishment is severe in the backward districts of north Karnataka" (Sayeed 2011, p. 94). India's economic success has increased unequal distribution of wealth and assets. While in 2001–2002 the country's middle class was around 5.7 per cent of the population, it owned 60 per cent of the air conditioners, and 25 per cent of all TV sets, fridges and motorcycles (Jha 2008, p. 28).

8 Structural adjustment and social-economic performance

When Congress came back to power in June 1991 India's economy was close to collapse. External as well as internal debts were beyond manageable levels, the trade balance had chronically been negative for years and inflation rates were higher than ever before, especially for food and other basic items. There was no doubt that India was facing her severest crisis since independence. The collapse of the Soviet Union had deprived the country of an important trade partner, the first Iraq war led to a huge evacuation effort of Indians out of Kuwait and

subsequently loss of huge amounts of remittances. In early 1991 foreign exchange reserves of the country were just enough to pay imports for less than two weeks. India had accumulated the third biggest international debts of any Third World country next to Mexico and Brazil.

Soon after Congress was back to power it continued negotiations with the IMF for structural adjustment loans to strengthen its balance of payment. India already had loans of US\$10 billion approved by the International Development Association (IDA), but these loans were yet to be paid out. Non-residential Indians became worried about the security of their savings and transferred about US\$4 billion out of the country between April and June 1991 (Swamy 1994). Even pledging India's gold reserves valued at US\$400 million was not enough to slow down the train towards insolvency. More fresh money was badly needed. By the end of July, the World Bank had set up a credit programme for 1992–1995, which promised loans from the IMF and World Bank in the range of US\$12.25 billion (Swamy 1994). Once the package was approved other donors joined in. The Aid India Consortium provided US\$6.7 billion for 1991 and US\$7.2 billion for 1992 (Government of India, Ministry of Finance, Economic Division various years).

The reform centred on two economic programmes that were closely tied to each other: the first was a macro-economic stabilization package monitored by IMF which aimed at improving the balance of payment situation as well as a reduction of government spending. Under the auspices of the World Bank comprehensive economic reforms were to be carried out, covering trade, industrial development, foreign investment, privatization and financial sector reform (Pederson 1994).

The IMF and World Bank had used India's worsening balance of payments situation of the late 1980s / early 1990s to assert pressure on India to change her economic paradigms. The reforms reflect economic interests in developed countries to expand activities to India's huge and vast expanding market. However many in India also welcomed the reforms. Structural adjustment in 1991 was partly a continuation of policies from 1980 and 1984, which in the meanwhile had lost their dynamic. The structural adjustment of 1991 however, also had new qualities: while in earlier liberalization attempts India's public economic sector was not fundamentally questioned, this new attempt came along with a wave of privatization, thinning out the list of sectors reserved for public enterprises, allowing more and more multinational corporations into the country, and transforming public enterprises into private ones.

9 Structural adjustment, external trade and industrial production

On 1 and 3 July 1991 India's currency was devaluated by 20 per cent. The Government was optimistic that this would boost exports, reduce imports and bring down the trade deficit India had built up since the 1980s. Much of this remained wishful thinking as India was not able to substitute many of its imports. The oil bill had been increasing since the two oil crises of 1973 and 1979. After the start of structural adjustment India's external trade situation did not improve. Although exports increased a lot the import bill increased even faster and as a result the trade deficit reached unknown dimensions, especially after 2005 (see Figure 1).

The impact of devaluation was felt in the first budget. To remain able to pay the country's import bill prices for petrol, LPG and aviation fuel increased by 20 per cent. Reduction of subsidies started with abolishing fertilizer subsidies causing an increase in fertilizer prices by 40 per cent. Soon farmers' organizations staged protests all over India and forced the Government to reduce the increase to 30 per cent. Like in many other developing countries high cost for energy also in India contributed much to inflation, which hit most severely poorer sections of society.

In 1990/91 the Central Government spent about RS. 25 billion on food subsidies and RS. 44 billion subsidizing fertilizers. Farmers also received support for energy and irrigation facilities.

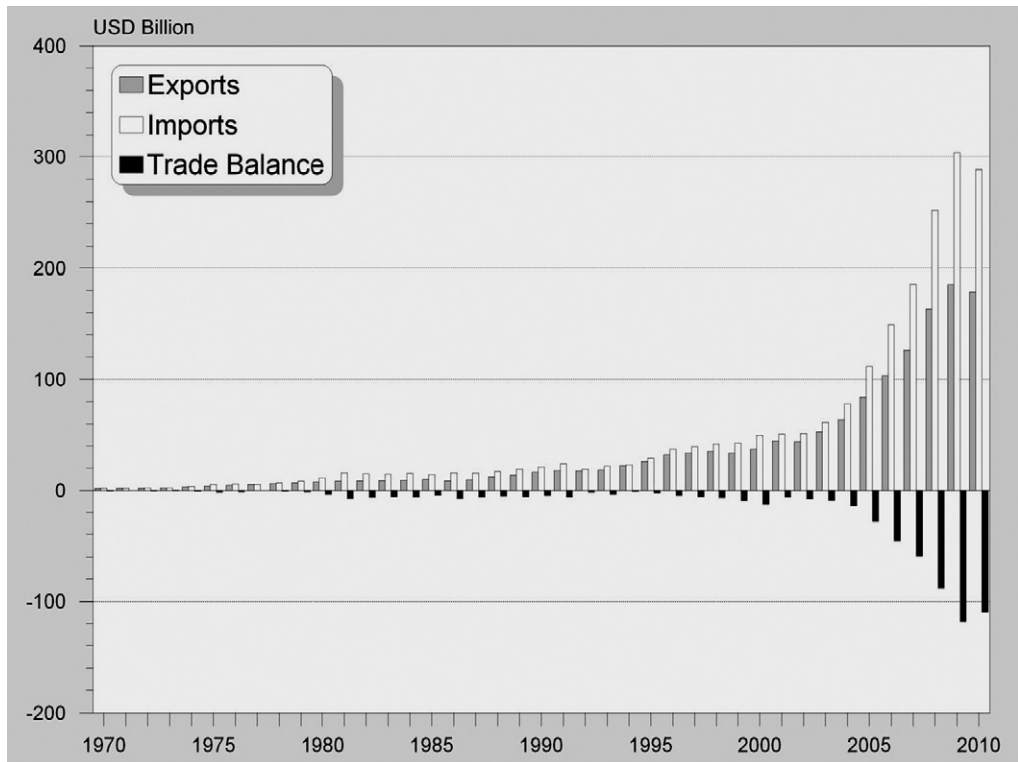


Fig. 1. India's external trade since 1970

Source: Government of India, Ministry of Finance, Economic Division (various years) Economic Survey.

In the past 20 years these subsidies have skyrocketed. Producer prices in agriculture also rose. For many years, plans were discussed to exclude 'affluent' consumers from the public distribution system (PDS) of food, but it took until 1997 before concrete changes happened. The PDS, which until then was open to everybody, was replaced by a targeted public distribution system (TPDS), where subsidized food was sold only to those below the poverty line (BPL). "The experience after 1997 shows that TPDS led to the exclusion of a massive section of the poor from the PDS. There were major mismatches between households classified as APL [above the poverty line] and their actual standard of living" (Ramakumar 2011, p. 5).

By 1997 the food subsidy had increased to almost Rs. 80 billion. Although the introduction of the TPDS saw a decline of beneficiaries, food subsidies continued to rise. In 2008 the amount stood at an unbelievable Rs440 billion, an increase by more than 17 fold since 1991. Alone in one year, from 2007–2008 to 2008–2009, the fertilizer subsidy increased by more than 133 per cent, from Rs. 324 billion to more than Rs. 758 billion (see Figure 2).

With the budget for 2011–2012 another attempt has been started to bring down fertilizer and food subsidies as well as price support for petroleum products. Observers are sceptical that this time it will be possible to achieve the targets, and if so most likely the most vulnerable sections of India's society will be hit worst (Chandrasekhar 2011). Fears are there that the PDS will be entirely dismantled in an effort of the Government to cut food subsidies. "Scholarly opinion in India today is significantly in favour of a return to universal PDS. However, a powerful lobby of the ruling elite and a section of economists are resisting it" (Ramakumar 2011, p. 6). The Indian Government at the moment considers phasing out the PDS and providing support to people below the poverty line through food stamps that can be used in any grocery shop or through

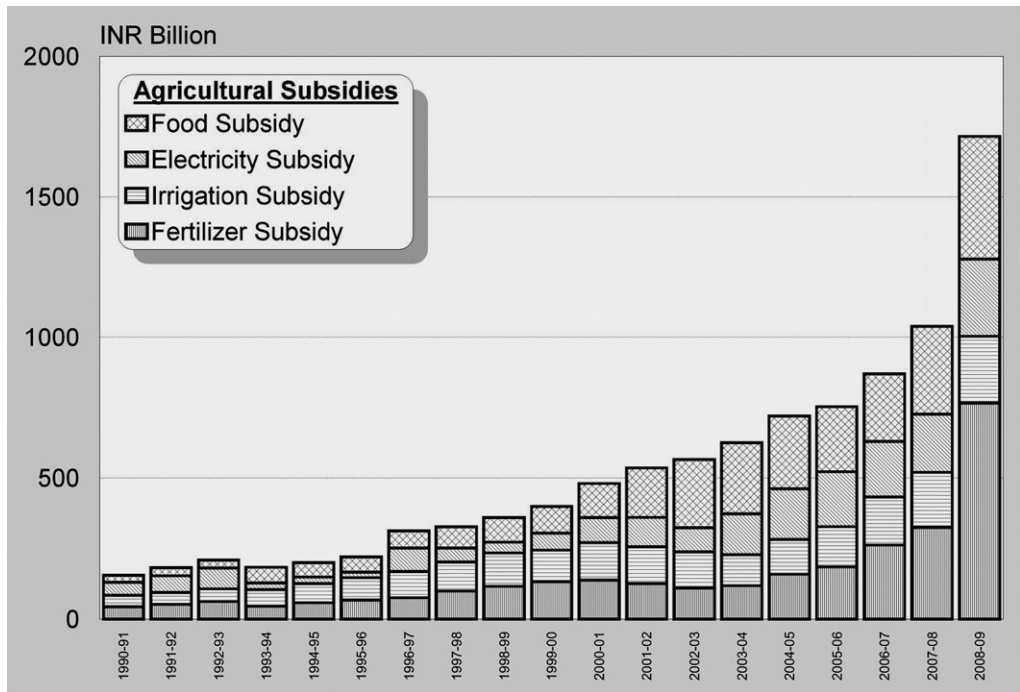


Fig. 2. Development in agricultural subsidies and food subsidy

Sources: Government of India, Ministry of Finance, Economic Division (various years) Economic Survey, Sharma and Thaker (2009).

direct money transfers. Here it is still entirely unclear what consequences such policy change would have for those farmers who provide rice and wheat for the PDS and who had benefited from the enormous food subsidy over decades.

9 Structural adjustment and poverty

Hardly any indicator about the performance of the Indian economy has become more politicized than its performance to eradicate poverty. In the post-reform era studies are available that indicate that poverty has even increased during the times of reform (often attributing the increase to the reforms), most studies however conclude that poverty has gone down considerably. Here the question often is if it went down faster than before the reforms started or if the decline of poverty has slowed down. Chandrasekhar and Ghosh (1999) indicate one of the most significant consequences of structural adjustment had been an increase in rural poverty. According to figures derived from various rounds of the National Sample Survey (NSS), poverty in India stood at around 35 per cent when economic reforms started in 1991. At that time around 291 million people in India were below the poverty line. Until the end of 1992 the share of poor had increased to 40.7 per cent of the population seeing 348 million people below the poverty line, some 57 million more than at the beginning of the reform process. In subsequent years the figures fluctuated between 35 and 37 per cent and 320–349 million in absolute numbers. The figures for the 1990s are not undisputed and for the first years of the twenty-first century government sources report of a substantial decline in poverty. In its Economic Survey 2010–11) the Government sees 26.1 per cent of India's population below the poverty line, or around 280 million people (Government of India, Economic Survey 2011, p. 297). Even if we apply this

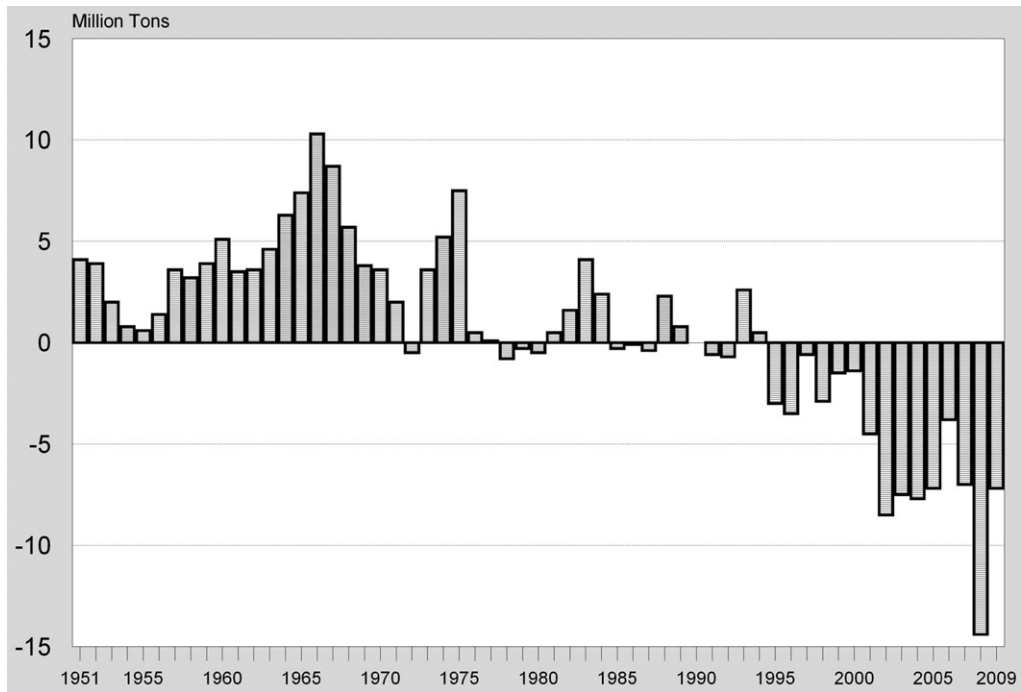


Fig. 3. Net imports (+) / exports (-) of cereals 1951–2009

Source: Government of India, Ministry of Finance, Economic Division (various years) Economic Survey.

more optimistic poverty estimation it means that at least one out of four Indians live below the poverty line, a quarter of almost 1.2 billion people, not much different to the population of the United States. More than 66 per cent the country's population live on less than two US dollars a day (Thakurta and Raghuraman 2007).

Srinivasan (2004) highlights that there had been a significant widening in regional disparities and inequalities at the expense of rural regions since the reforms of 1991 started. This might turn out to be more important than the absolute number of poor. Often this spatial variation is seen as a variation between rural and urban areas, but the real picture obviously is more complex: looking at regional disparities in India Srinivasan (2004) identifies Punjab and Haryana as the two states in India with the lowest rural poverty ratio in 1999–2000. Both states stand for high productive commercial agriculture in India. It seems that under conditions like in these two states, farmers can do reasonably well, especially as enormous subsidies flow into agriculture and over the past ten years or so India was exporting substantial amount of cereals at high international prices (see Figure 3). There is no doubt that this also had upward pressure on internal cereal prices. Much bigger challenges to provide sufficient livelihood to rural populations are usually reported from agriculturally disadvantaged rural areas, such as the interior of Orissa, Karnataka, parts of Uttar Pradesh and Bihar. Here small and marginal farmers who often have to purchase part of their food requirements and agricultural workers who do not produce food for themselves suffer most from very high food prices over recent years.

While poverty in India did not decline as hoped, the cost-of-living indices for agricultural as well as industrial workers went up. Chandrasekhar and Ghosh (1999) explain this mainly as a consequence of rises in administered prices when the government tried to bring its fiscal deficit down by cutting subsidies for food grains and energy. Between December 1991 and February 1994 there had been several steep increases of the issue price for PDS food grains, which resulted in an 86 per cent increase for rice purchased through Fair Price Shops. Also Bardhan

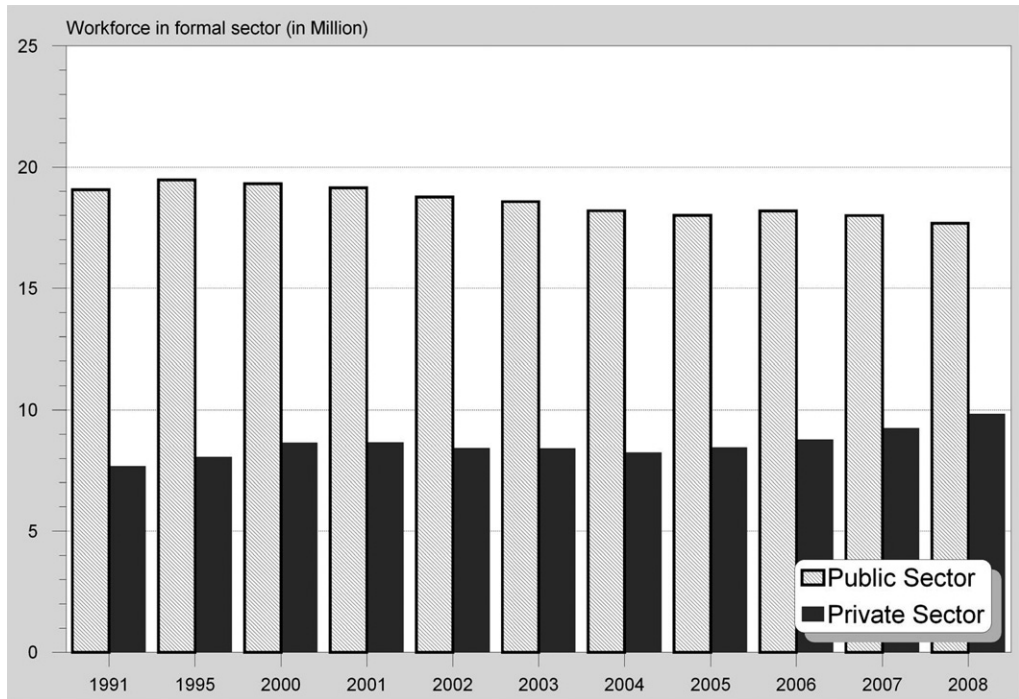


Fig. 4. Change in formal sector employment since 1991

Source: Government of India, Ministry of Finance, Economic Division (various years) Economic Survey.

(2010) speaks of a decline in the growth rate for real wages in the period 1993–2005 compared to the previous decade. There are lots of incidences that declining real wages hit especially those who neither could benefit from rather high prices for agricultural commodities nor who at least received part of the ever increasing food subsidy in the form of increasing procurement prices (i.e., bigger farmers who produced meaningful surpluses).

10 Structural adjustment and employment

High economic growth does not necessarily lead to high employment growth. Before 1991 India's economy expanded mainly through higher productivity rather than additional employment. Between 1972–1977 employment increased by 0.61 per cent for each percentage increase in GDP, for 1977–1983 this came down to 0.55 per cent and for the period between 1983–1988 it stood at 0.38 per cent (Ghosh 1993). Having the 1980s in mind Kurien (1994, p. 97) remarks: "A decade in which the growth rate was the highest, the increase in employment was the lowest". To reach full employment until 2002 India's labour force was to increase by about 35 million between 1992 and 1997, and by another 36 million in the following five years. In 1992 there was already a deficit of 23 million jobs. Between 1992 and 2002 around 94 million new jobs was needed to achieve full employment (Ghosh 1993). Prospects were looking grim already in the 1980s: when economic growth was rather comfortable, employment in the private sector declined from 4.6 million to 4.3 million between 1981 and 1988. Formal sector employment was more or less stagnant throughout the 1980s when industrial production increased by 7 to 8 per cent in most years. In the reform period public sector employment decreased considerably. Additional jobs in the private sector could compensate this loss (see Figure 4), but were far too

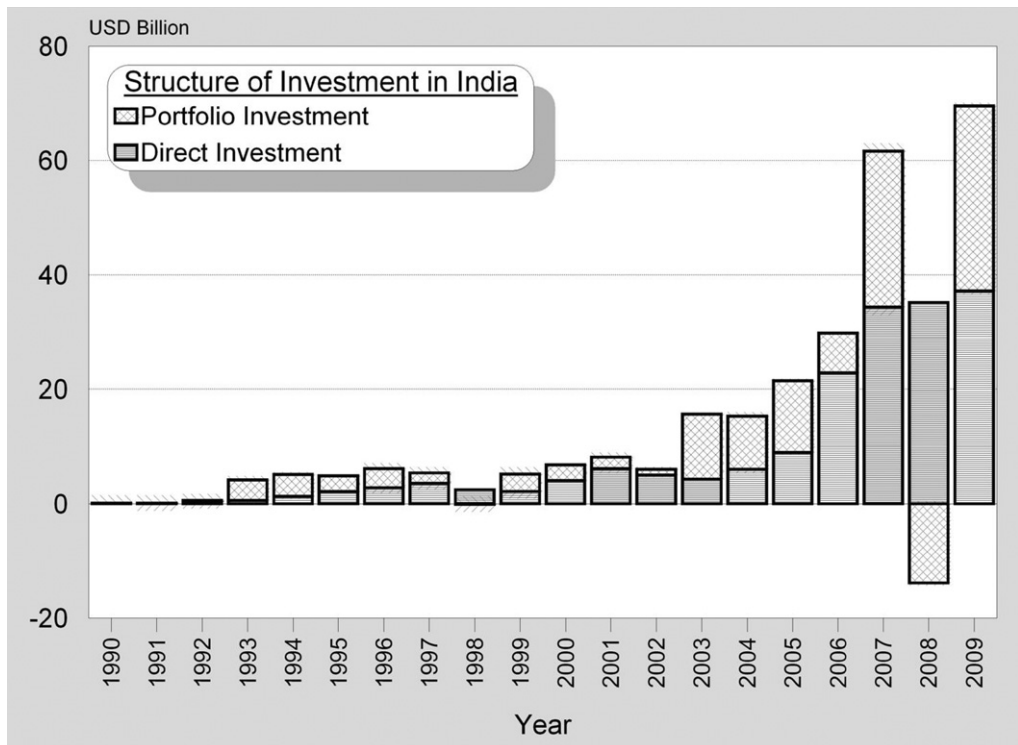


Fig. 5. Foreign investment in India (1990–2009)

Source: Government of India, Ministry of Finance, Economic Division (various years) Economic Survey.

little to ease the situation of un- and underemployment, in an economy where annually around 7 million new jobs are needed to just let the situation not become worse.

More recently the impact of the global financial and economic crisis has resulted in huge job losses in various segments of the labour market. A government report estimated that between September and December 2008 about half a million jobs were lost (Chandrasekhar 2009). In these figures probably the most explosive challenges lie for India's future. Despite excellent economic growth, employment in the formal sector has hardly increased. Privatization of many public enterprises and a huge increase in foreign investment had not only positive impacts on labour markets. Public enterprises often were 'over-staffed' and as a result of privatization made more efficient, which means that jobs disappeared. Foreign investment often had similar impacts, especially when foreign companies took over existing production sites (portfolio investment, see Figure 5) instead of creating new ones, rationalization made many jobs redundant. Growth without development refers in particular to the generation of decent employment. Here the Indian economy is still performing much below expectation.

11 The Political Economy of Structural Adjustment in India

Those speaking in favour of economic reforms highlight that the earlier order had hindered private investment and led to misallocation of resources because state elites misused their political and administrative power to enrich themselves (*rent seeking*), weakening economic performance. However over four decades of economic development strong government

involvement had not always jeopardized economic growth and private investment. No doubt, the 'licensing Raj' enabled politicians and administrators to siphon off huge amounts from bribes. Still it is doubtful, if industrial development was hindered or delayed as India's private industry enjoyed a rather efficient protection behind high tariff walls. It was able to get returns on their investments, often considerably higher than in other countries. Especially India's big business houses benefited from the licensing mania. They could afford to employ whole sections specializing in navigating the jungle of laws, regulations and procedures. They had advantages over smaller companies who drowned in the flood of forms and regulations. As they were wealthy enough to make things happen they were not only protected by the system in place from international competition, but also from internal rivals.

Economic expansion in India was restricted because of wide spread poverty and limited purchasing power of the masses. With the SAP big business houses saw a chance becoming global players instead of improving effective demand in India. To perform well internationally technological modernization was needed as high import restrictions of earlier decades had delayed modernization. Many factories were far from state of the art, and without technological modernization, export orientation for industrial products was hardly feasible. Concentrating on big business development also meant slow expansion of employment while neglecting agriculture and small and medium enterprises. Agriculture took the role to provide cheap food for the industrial workforce. This helped to keep wages moderate, but at the same time led to an impoverishment of small and marginal farmers. Medium and big farmers at least had their fertilizer- and energy subsidies, subsidized loans that were written off once elections came closer and ever increasing procurement prices for the public distribution system. Consumers felt the consequences of this old economic structure as consumer items were costlier and of lower quality compared to international standards. Structural adjustment created new forms of 'rent seeking', forms that are closely connected to privatization. Selling the 'crown jewels' might have helped the government to raise some funds urgently needed for debt repayment in the short run; in the long run these assets and the income that could be realized from them were gone forever as were many jobs.

Compared to the early 1990s many macro-economic indicators have improved little. In fact they often worsened, in particular what international debts, state deficit and subsidies are concerned. What has been achieved is the disinvestment of state properties for the benefit of private investors as well as the opening of India's economy for foreign investors.

Right from the beginning of the reform, Trades Unions and farmers' organizations had called for massive demonstrations, most of them remained peaceful. The largest organized protest against the government's industrial policy took place on 25 November 1992 in New Delhi which followed two nationwide strikes on 25 November 1991 and 16 June 1992 (Walton and Seddon 1994). The protest was against the government's liberalization policy in general and against multinational corporations entering India in particular.

Conclusion

Structural adjustment was not merely an effort to modernize the country's economy and tie it closer to the world economy. The reforms meant a new division of labour between state and private engagement in the economy. The idea of a 'mixed economy' which was established by economic elites in the years before independence, which was diluted by Indira Gandhi in the mid-1970s and later by Rajiv Gandhi in his liberalization attempt in the 1980s, was entirely given up after 1991. The 1980s saw an opening of many sectors to private investors that earlier had been reserved for the state. In the 1990s the state was actually withdrawing from these activities.

India's economic history of the past 65 years shows that economic crisis always came along with political instability that more often than not escalated into different forms of mass violence: the suicide of about 200,000 farmers all over India between 1995 and 2006 (Nagaraj 2008) speaks volumes about the neglect of rural areas. Also the emergence of farmer movements in the second half of the 1980s and other organized protests in the mid-1970s show that there is large scale violence often connected with social and economic dissatisfaction. Although a healthy economy is a precondition to development the improvement of macro-economic indicators is insufficient to diagnose development.

Throughout the past 65 years economic crisis did not mean that big business houses suffered; more often it was ordinary people. Big business had their interests taken care of. They did very well under a tight protection of tax walls and licensing built by the Government. When lack of internal effective demand restricted further expansion India's economy became more export oriented. This was not only true for big business, but high exports of cereals especially in the first decade of the twenty-first century shows that also agricultural commodity flows are directly to when the highest purchasing power is.

There is a danger that dissatisfaction is increasing and like in 1967, 1975, 1989 and 1996 this dissatisfaction easily destabilized not only the Congress Government, but the country as such. This does not necessarily mean that huge sections of India's population get poorer as a result of the reforms. It however seems that the gap between the really poor and those doing well is increasing. Such social polarization causes more dissatisfaction, frustration than if all would be poor. Here is an enormous potential for conflict, which might explode once the Government becomes stricter on cutting down subsidies, especially food subsidies. Both poor consumers, but even more the middle and big farmers who receive bigger parts of these subsidies would be affected by this.

In 1975 and 1990 destabilization brought the country close to civil war. On both occasions it was poorer sections of India's society who had demanded their share from the development process. If it is not possible to transfer economic success into a social success story then the dangers of political instability and violence so far unheard of in India have the potential to plunge the entire Asian region into chaos and violence.

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