Globalisation and Neo-liberal Economic Reforms in India: A Critical Review

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Abstract:

The objective of this study is to analyse the impact of neo-liberal economic reforms also known as 'pro-market' reforms in India. It is widely believed that India's growth acceleration has taken place mainly due to changes in the government's attitudes towards business and export orientation rather than earlier domestic policies. This paper shows that the turnaround growth took place in the early 1980s rather than the early 1990s as portrayed by international financial institutions and media. We find the current discussions overlook other aspects such as inter-sectoral and inter-regional imbalances. The importance of the manufacturing sector is not properly examined, which could play an important role in creating jobs, and its crucial role in employment generation is being underplayed.

This research presents the broad macro parameters of the growth of the Indian economy in both periods, i.e. pre and post reforms period, and also very briefly comparison is made with the colonial period, however, simply looking at the economic growth figures might be misleading. Therefore, we decided to analyse other variables, such as inter-regional and inter-sectoral changes and also look at the issue of poverty during pre and post-reform periods. The author critically examines the issues of foreign direct investment, particularly during the neo-liberal period in India, also focusing on cross region evaluation, drawing out the patterns discernible from available data. The study provides an overview of the on-going debate on the components of Indian-growth and the relative importance of government policies. The study has questioned some assertions concerning neoliberal reforms and growth in India in particular the argument that poverty has been reduced, is problematic.

Introduction

This paper is concerned with the effect of adoption of neoliberal policies and its effect on India. There have been various studies carried out on this subject in recent years, however, we find there is a gap on the current discussions on Indian economic liberalisation and growth. (Ahluwalia 2002; World Bank 2003) Other aspects such as inter-sectoral and inter-regional and the importance of the manufacturing sector is not properly examined, which could play an important role in creating jobs in industrial sector, and its crucial role in employment generation is being underplayed. (World Bank 1997; The Economist 1997; Ahluwalia 2002) The issue of economic growth in India is often distorted by perceptions, which shape conventional wisdom. This is a misconception that will not only affect our analysis and understanding of the past but also predictions about the future.

The optimistic view predicts that India will in 2025 catch up with the industrial societies and membership of the G8. Its economy will become third largest economy in the world in terms of national income at purchasing power parity, and poverty will be eliminated. The supporters of neoliberal reforms regard the recent upsurge in growth primarily gives credence to capital inflows, liberalisation, deregulation and privatisation. The neoliberal policy was expected to boost commodity exports mainly through exposure to international competition, thus increasing efficiency and to restructure economic activity in order to increase exports. More than eighteen years experience behind us shows that those expectations are still not realised. We find firstly that such views raise several questions due to their incorrect understanding of the reasons behind this recent growth. Secondly it relies on too simplistic thinking about the future prospects.

This explanation is inadequate due to the following considerations. First, higher growth was observed ten years before the liberalisation reforms in 1991. Secondly, uneven growth among Indian states has accelerated. [1] Third, India's acceleration in the rate of economic growth has been accompanied by growing inequality, the growing concentration of ownership of private industry and nearly stagnant growth in employment and manufacturing industries. We find that along with the impressive growth particularly in the second phase, poverty and deprivation persists for at least one-quarter of India's 1.1 billion people. A deeper analysis shows that recent growth has left the lives of most Indians' unimproved, while widening incomes, regional and sectoral disparities have reduced food availability and has not eliminated widespread malnutrition.

If we focus on the performance of Indian economy, it is clear that the turning point in economic growth came in 1980, 10 years before the adoption of neo-liberal policies in 1991. For example, if we look at the trends in GDP at constant prices during period from 1980-81 to 2004-05, divided this into two sub-periods: 1980-81 to 1990-91 and 1991-92 to 2004-05. A clear picture emerges that the same upturn continues, without any break throughout the period. During the period from 1950-51 to 1979-80, growth in GDP was 3.5 % per year while per capita GDP growth was 1.4 % per year. During the period from 1980-81 to 2004-05 growth in GDP was 5.6 % while growth in GDP per capita was 3.6 % per year. This sharp rise in growth suggests that 1980 was turning point. Rodrik and Subramaniam (2004) suggest that the Indian economy will grow faster over the next two decades and achieve growth rates around 8% per year. This optimism is shared by others such as Goldman Sachs. The high levels of institutional development such as democracy and pluralism appear to be the major reasons for this optimistic assessment of the Indian economy. This suggests that 'institutions' are the most important determinants of the economic development.

The argument is outlined in four sections. The first section outlines briefly the adoption of new-liberalism in India and economic growth performances. The second section, we critically evaluate the issues of foreign direct investment, particularly during the neo-liberal period in India. The third section briefly analysis the changing perception on India in the West and finally section challenges the claims made for neo-liberalism that growth will reduce sectoral and regional imbalances.

The adoption of Neo-liberalism and Economic Growth

Neo-liberalism claims that people are best served by maximum market freedom and minimum intervention by the state. The role of government should be confined to creating and defending markets. All other functions are better discharged by private enterprise, which will be prompted by the profit motive to supply good and services. Neo-liberalism is a set of economic policies that have become widespread during the last 25 years or so. Neo-liberalism has been imposed by powerful financial institutions like the International Monetary Fund (IMF), the World Bank. (Harvey 2005) Neo-liberalism entails expenditure deflating policy package at the macroeconomic and India has been no exception. The external debt crisis of 1991 brought India close to default in meeting its international payment obligation. The fiscal crisis was looming and the balance of payment crisis was getting out of control. Under such circumstances India adopted neo-liberal also known as ‘market-friendly’ economic policies with support from the IMF and World Bank. However, the neo-liberal market reforms were not new. The World Bank and IMF have already applied such measures in Latin America and Sub-Saharan African countries in response to the debt crisis in the 1980s. This new policy adopted by India constituted a departure from previous policy and increased reliance was put on market forces in resource mobilisation. In addition the state role’s in sphere of economic development was considerably reduced. Finally, the degree of openness of the economy was increased significantly. FDI and foreign technology were given the leading role in the economy. (Kurien 1994; Siddiqui 1990)

After independence in 1947, the educational and legal frameworks were developed to help the market economy. Thanks to public initiative higher academic institutions were developed to encourage entrepreneurial and management skills along with science and technology. However, each of these changes in the production structure was made possible through state intervention in the economy. The public sector played a crucial role in building capital goods industries where the private investors were reluctant to invest because large amount of capital was required, long gestation period and high risk involvement. The public sector became the primary instrument for developing the technological ability of the economy such as fertilizers, heavy electrical, power generation plants, off shore oil exploration and so on. Even the green revolution success would not have been possible without the availability of finance from nationalised banks, subsidised inputs, New Seeds research conducted into the public institutions and government procurement prices. In short, India, like many Latin American countries, adopted an “import substitution strategy” by making products artificially more expensive by means of tariff duties on imports. Until recently India maintained severe restrictions on Transnational Corporations, especially in terms of their entry, ownership, and various performance requirements. (Girdner 1987)

The supporters of market liberalisation regarding the recent upsurge in growth primarily give prominence to capital inflows, liberalisation, deregulation and privatisation. They claim that the Indian economy has taken off into self-sustaining growth. While in the early 1980s a small degree of deregulation in industrial polices was also introduced. These policies then did help to import capital goods and thus increase productivity in certain industries. All these contributed to the productivity increase in manufacturing sector and to economic growth. In 1991 with the adoption of neo-liberal reforms, economic growth and efficiency were seen as key objectives and there seems to have been a conscious decision to reduce the role of state in the economic development and increased reliance on market forces. The government was no longer guide the allocation of resources, whether directly through industrial licensing or indirectly through intervention in financial sector, these were left on the market forces. Finally, the openness towards foreign capital was expected to perform a strategic role in the process of bringing India closer to western economies. The change in policy did represent a shift from previous policies.

However, there is another answer, which focuses government attitudes towards private sector & pro-business policies. There were several contributing factors such as expansionary macroeconomic policies which led to increase in aggregate demand, which in turn stimulated in rate of growth in output. Also there was a substantial increase in public investment which was sustained through 1980s. Such investment improved infra structure and some de-regulation in industrial policies along with liberalisation of the regime for the import of capital goods appears to have contributed to increase in productivity. (Girdner and Siddiqui 2008) Neo-liberalism is quite different from neo-mercantilism. The former intends to get greater access to foreign markets while at the same time opening their own domestic market to foreign companies. The latter is very protective about domestic markets, while very aggressively pursuing to capture foreign markets for their products. What British neo-mercantilists adopted in the 19th century was recently followed by East Asian countries from the 1960s. (Bagchi 1984)

In India, the reduction of trade barriers since the 1990s appears to be associated with an expansion of exports, consisting mostly of capital and skill intensive products, such as software, services, pharmaceuticals, and so on. Total factor productivity in industry in India rose from 0.3% in 1978-93 to 1.1% in 1993-2004. [2] However, this “service-led growth” was seen in the service sector, where annual productivity grew from an average of 1.4% in 1978-93 to 3.9 % in 1993-2004. Table 1 clearly shows that Indian population more than doubled since 1960, GDP has increased more than eightfold since then. Given that India’s population growth rate is much slower than three decades ago (i.e. 1.5 % in 2004-05 as against 2.2 % in 1971-72). This means that the rise in per capita income growth rate from 1970s to current times has been even more marked.

Table1: Indian Population, GDP and GDP per capita at market prices, selected years

Year	Population (in millions)	GDP (in millions constant at 2000 US$)	GDP per capita (constant 2000 US$)
1960	435	76,283	175
1965	487	91,054	187
1970	548	113,606	207
1975	613	130,913	213
1980	687	152,621	222
1985	765	198,167	259
1990	850	268,023	316
1995	932	345,394	371
2000	1,016	457,377	450
2005	1,095	641,926	586

Source: World Development Indicators 2006, World Bank

We find that it will be important here to examine the earlier period growth rates in historical context. For example, pre-independence growth rates were much lower (a period dominated by neo-liberal policies), compared to post-independence period (1950-80), which was often known as state controlled and in-ward looking policies. (Bagchi 1984) In historical perspective, the data shows the trends in GDP growth and per capita GDP at constant prices during the period from 1900-01 to 1946-47 reveals that during the first half of the 20th century, there was near stagnation in per capita GDP, while growth in GDP was minimal. British economic historian Maddison estimation suggests that the growth in national income in India was 0.8 % per year, whereas the in per capita income was almost negligible at 0.4 % per year. Moreover, this colonial period was characterised by open economies, balanced budget and unregulated markets. (Maddison

1995) During the 19th Century a transfer of surplus took place from India, which financed industrial development in Britain (Bagchi 1972). India was integrated into the global economy as primary producers with very limited development and resulted in the process of de-industrialisation and a substantial labour reserve being created.

The available data indicates that the turnaround came in the early 1950s. The trend in national income and per capita income, at constant prices, during the period from 1900 to 1947 reveals that during first half of the 20th century, the economy witnessed near stagnation in per capita income while growth in national income was negligible as shown in Table 2. Another estimate by Sivasubramonian indicates that in real terms, the growth in the national income was 1 % per year, whereas the growth in per capita income was 0.2 % per year (see Table 2).

Table 2: Rates of Economic Growth in the India. (%)

Period/Sectors	Sivasubramonian estimates
First half of 20th Century	
1900-01 to 1946-47	
Primary sector	0.4
Secondary sector	1.7
Tertiary sector	1.7
National income	1.0
Per capita income	0.2
Second half of 20th century	
1950-51 to 2004-05	
Primary sector	2.5
Secondary sector	5.3
Tertiary sector	5.4
GDP total	4.2
GDP per capita	2.1

Source: Sivasubramonian (2000) National Accounts Statistics of India, and Central Statistical Organisation, various years, Government of India.

During the colonial period the record in assisting the development and economic growth was rather very insignificant. For instance, in 1947, the year the British left India, about 84 % Indian were illiterate and 85 % of the economy was rural. The colonial legacy was summarised by the *Cambridge Economic History of India* in such words:

> Capital formation (about 6 percent of the NDP) was inadequate to bring about rapid improvement in per capita income, which was about one-twentieth of the level then attained in developed countries in developed countries. The average availability of food was not only deficient in quantity and quality, but, as recurrent famines underscored so painfully, also precarious. Illiteracy was about 84 percent and majority (60 %) of the children in the 6 to 11 years age did not attend school; mass communicable diseases (malaria, smallpox and cholera) were widespread and, in the absence of a good public health service and sanitation, mortality rates (27 per 1000) were very high. The problems of poverty, ignorance and disease were aggravated by the unequal distribution of resources between

groups and regions. (Kumar and Desai 1983) [3]

At the time of independence, India inherited a colonial economy. It was largely agrarian and industries were limited to textiles, some steel and chemicals, sugar, cement. The import of new technology was limited, and export items consisted of low value added items like cotton, tea, jute, spices etc. A transformation of this colonial economy could not occur with the spontaneous operation of the market. The state had to take lead in the production of capital goods industries and the institutional reforms in agriculture enabled the country to increase agriculture production. During the 1950s and 1960s various agrarian legislation were passed but did not succeed in breaking land concentration. While it did encourage large farmers to become capitalist farmers and also the rich tenants acquired ownership rights over land, marginal and landless agricultural workers did not benefit from it. Later through the Green revolution did increase the overall agricultural output and made the country self-sufficient in food grains.

However, the overall GDP trends and GDP per capita at constant prices from 1950 to 2004 are dramatically different. There was a steady growth in both GDP and GDP per capita since independence. For example, between 1950-51 and 2004-05 the GDP growth was 4.2 %, while GDP growth per capita income 2.1 % per year. Looking at sector wise growth from 1991-92 to 2004-05, growth rates in the primary sector and the secondary sector was slower while during the same period growth in the tertiary sector was higher (see Table 2).

During the period between 1980-81 and 2004-05 a clear trend of rise in growth rates is observed, a decade earlier than the economic liberalisation began. For instance, during the period from 1950-51 to 1979-80, GDP growth rates was 3.5 % while in GDP per capita 1.4 % pear year. During the period from 1980-81 to 2004-05 growth in GDP was 5.6 %, while per capita was 3.6 % per annum. As we see in the next table that there was a sharp increase in growth rates, not only aggregate but also sectoral, suggesting that 1980-81 was the turning point.

The Central Statistical Organisation (CSO) has estimated the GDP growth averages were 8.7 % from 2003-04 to 2006-07 per annum. This optimism led to government to claim that recent acceleration in growth is not a short-lived phenomenon. Underlying this turnaround in growth is a sudden rise in investment in the economy. Compared with an average level of 24.6 % during 1999-2000 to 2002-03, the gross domestic investment rate rose to 28.2 % in 2003-04 and then further rose to 35.9 % in 2006-07 – a more than 40 % increase from its previous level.

The question arises: what factors may have induced this turnaround. Government cites exports and external markets as stimulus to this rapid growth in investment. However, we should not only look at gross value of exports of goods and services but also net exports (i.e. export minus imports). The reason is that any extra export markets that increase could be neutralised by rise in imports from overseas markets. Once we take into account of the net export data, we find that it has been consistently negative throughout post-economic reform period.

In recent years the public sector investment has been growing at slower rates and its share in total capital formation (at constant prices) has actually fallen from 29 % in 2001-02 to 22.5 % in 2005-06, whereas the private corporate sector has risen from 22.5 % to 40 % during the same period. Moreover, the growth has been accompanied by an increase in domestic savings rates, meaning an increase in incomes of those who have surpluses to save i.e. an increase in income inequality. And this would have implications for patterns of demand and consumption as well. Finally, the easy access to credit with relaxed requirements has not just fuelled a construction boom in land-property, housing, etc. but also resulted in a sharp increase in credit financed consumption demand. The fact that in India growth seems to have been based on easy access to credits, consumption induced and service dominated has implications for its long period sustainability. (Patnaik 2000)

Capital in-flows

India needs to draw a lesson from the 1997 East Asian financial crisis and the danger associated with a world dominated by fluid finance. This experience tells us if the country chose to liberalise his financial policies to attract financial investors to its markets, the country will be prone to boom-bust cycles, with adverse impact for economic stability. There is recent increase in developing country exposure, despite a high degree on concentration of flows to developing countries, implying high exposure to a few countries. In a situation when an economy is experiencing upturn, under such situation the risk assessments may underestimate the risk, when investments are booming, and over estimate when markets turn downwards. (Singh 2001) Liberalisation is expected to bring in a large amount of foreign investment. What we find in India after liberalisation most of the ‘hot money’ was interested in speculation. We have witnessed ‘globalization of finance’ rather than a ‘globalization of production’. Under these circumstances economic stagnation may be expected rather than rapid industrial growth.

Developing countries’ drive to attract FDI compels them to open themselves up to international capital flows. This pushes them into the mercy of international finance ‘hot money’ finances. If finance can flow in and out as they wish, then the country has to make every effort to keep itself attractive and ‘confidence-worthy’. To stay competitive, the country has to offer higher interest rates to offset relative disadvantages and low tax rates, because higher tax rates might frighten off capital. (Singh 2001)

Foreign direct investment the 1990s became a predominant source of external finance for developing countries. At the same time, the need for external finance became greater. There was increased competition among developing countries to attract FDI. As a result, the power shifted away from national governments towards multinational corporations. Ajit Singh finds (2001) ‘FDI as a source of long term finance for developing countries indicates that unless it is adequately regulated by their governments, in particular circumstances of these countries, where they are subject to frequent internal and external shocks, it would lead to short and long term financial fragility.’ (Singh 2001:1)

Capital inflows of both portfolios and direct foreign investment have risen to a combined total of $17 billion. However, the trade deficit of both goods and services has increased because of rapid increase in oil imports i.e. $40 billion, up by 40%. Along with it foreign exchange reserves have kept rising.

One of the key objectives of the neo-liberal policy of the government in opening the capital account was that capital inflows would increase output and export growth. It would be interesting to examine what it has done towards this goal. The supporters of the neoliberal policies suggested that lowering the barriers to capital inflows would increase growth, as did happen in East Asia. Mazumdar (2005) argues that, ‘after 1993, when the capital account was partially liberalised, it was hoped that capital inflows would contribute towards economic growth. However, result from our model suggests that capital inflows have not contributed towards either industrial production or economic growth.' (Mazumdar 2005:2188)

Much of the FDI inflows into India concentrated in the service sector (telecommunications in particular) in response to liberalisation policies designed to attract FDI, such as easing ownership restrictions. FDI outflows from Indian are also on the rise due to increasing cross-border M&A purchases by Indian companies mainly in the rich countries. Since 2004, FDI flows from India to United Kingdom exceeded flows from the UK to India. Tata acquired the Dutch steel company Corus and more recently Jaguar and Land Rover in the UK. Neo-liberalism is a policy pursued by an economy where state acts in accordance with the interests of big businesses and global finance with which the upper sections of Indian elites make common cause. These sections see their own interest no longer contrary to the interest of metropolitan capital. (Girdner and Siddiqui, 2008)

Total in flows of FDI into Asia, China and Hong Kong were able to increase their share over 68 % in 2002, with China receiving over 45 % of the total FDI flows to Asia and Hong Kong over 22 %. They are only to be followed by Singapore whose shares have fallen from 25 % in 1991 to only 8.5 % in 2002. The amount of FDI flows to India only modestly from 0.66 % in 1999 to 3.3 % in 2002. (Reserve Bank of India 2006; Desai 2003)

Changing Perception in the West

Earlier the perceptions were very different. Indian economic policy was seen in the West an example of failure. Slow growth and continuing poverty represented failure. But after the adoption of neoliberal policies, there was a dramatic change in the perception. Now India is seen as successful story, if not a role model. The current picture of India in the Western world is completely different from the earlier image as poverty, slums, illiteracy, snake charmers etc. The more recent image calls India a 'knowledge society' despite a third of its population being illiterate. The opinion in rich countries about the prospects of the Indian economy has changed enormously since early 1990s. This is because India's huge progress in Information Technology (IT) and also new thinking in economic development in respect to policy.

In 1980s perceptions were that failure was associated with India e.g. inefficient industrialisation, state regulation and slow growth. However, by 2002 (i.e. two decades later) the same India came to be seen as a star performer. For some the impressive economic performance combined with strong 'institutions' such as political democracy and freedom and more recently the adoption of free markets and openness have been the prime factors behind this recent upsurge in growth.

According to the proponents of neoliberal, the rapid growth is primarily due to liberalisation and openness. (Srinivasan 1999; World Bank 2003) Further it was said that 50 years were wasted and according to them, the free market polices of 1991, which reduced the role of state, cut back on public sector, increased the openness in the economy, dismantled price controls to rely on market forces, unleashed economic growth and finally led to dramatic increase in growth rates. (Ahluwalia 2002)

For instance, the picture of India's macro economic performance in the early 1980s was seen less than optimism and perhaps, best captured in these words:

> A review of the economic development of India in the last three decades reveals an astonishing fact: a large number of the indicators of development have remained stuck at very unsatisfactory levels… The stability of numerous parameters would not be a matter of concern but for the fact that their stable values epitomise a large and a growing mass of unrelieved suffering… For 32 years the rate of growth of national income has been stagnating around a miserable mean of about 3.5 %. This rate keeps India as low as 71st in the list of 104 countries ordered according to the rate of growth in income per capita. (Krishna 1984:62-63)

Now two decades later, it appears the whole academic discourse has radically changed and the most optimist assessment of post-reform India's macroeconomic performance was presented as:

> During 1980-90, the rate of growth increased to 5.8 % and was exceeded by only eight out of 113 countries. During 1990-98, the growth rate further increased to 6.1 % was exceeded by only 9 out of 131 countries. Only after the growth accelerated in the 1980s, was there a significant declining trend in poverty, a trend that appears to have continued after the recovery from 1991 crisis and reform. (Srinivasan 1999)

Further the proponents of neoliberal economic reforms claimed that the economic reforms initiated in 1991 besides increasing economic growth also to reduce poverty. According to Lal, '(the)…dispute about the poverty numbers in India merely reflects the fact that rapid growth has not occurred or has not been sustained to make a marked dent on poverty. The stalled reforms have failed to raise growth rate appreciably. Some estimates that I have made show that if the growth rate rises to 9-10 % that China has seen, by 2006 the poverty ratio can fall from its current rate over 30 % to just over 5 percent.' (Lal 1999) These academic views reflect the dramatic change in the perception about India's economic performance within a short period.

Media in the West is projecting India as emerging an economic superpower. The headlines describe India as the 'back office of the world'. The global press often reports about India's economic boom, with high expectations and admiration for its consumer elites. The euphoria by the international financial institutions over India's growth seems to have total ignorance of realities such as the rising number of farmer's suicides. According to government records 100, 248 farmers committed suicide between 1993 and 2003. (Patnaik 2007) These happened not in backward states but developed states in terms of agriculture output and productivity. The acute agrarian distress caused by falling returns from agriculture (especially food crops), coupled with debts and usurious interest rates and occasionally crop failure. (Patnaik 2007)

It will be interesting to quote a Financial Times journalist based in New Delhi about his most recent observation on poverty:

> From the stunted and wasted frames of landless, they would have observed how malnutrition rates, already higher than in parts of sub-Saharan Africa, are rising in many places, as wages lag behind soaring food prices. They would have learnt how 120 million families, who depend on land for subsistence agriculture, generating no marketable surplus from one season to the next, live in terror of

expropriation by state governments operating land scams in the name of development. (Johnson 2007)

Inter-Sectoral and Regional Changes

In this section we will discuss some of the empirical facts about the contribution and importance of manufacturing and service sector in Indian economy since the adoption of economic reforms. Table 3 provides some basic information about sectoral growth. After 1991, in India the growth rate of service sector became much faster than either manufacturing or agriculture. Despite the higher growth of service sector, its overall significance in the economy is limited. For example, the service sector accounts at present for less than 1 % of the GDP and employs less than 1 million people in total labour force of about 500 million. However, the IT sector makes a significant contribution to the balance of payments. Despite its fast growth, it is only able to employ educated people. Only 5 % Indian youth receive college education, which means employment needs of uneducated youth are not going to be met by IT sector growth.

Table 3: Sectoral Economic Growth since 1951 (% per year)

Sector/Period	1950-51 to 1979-80	1980-81 to 2004-05	1980-81 to 1990-91	1991-92 to 2004-05
Primary sector	2.2	2.9	3.1	2.5
Secondary sector	5.3	6.1	6.7	6.0
Tertiary sector	4.5	7.1	6.6	7.8
GDP total	3.5	5.6	5.4	5.9
GDP per capita	1.4	3.6	3.2	4.1

Source: National Accounts Statistics of India, 2005; Government of India Economic Survey, various issues (http://indiabudget.nic.in) Primary sector includes agriculture, forestry & fishing. The secondary sector includes: manufacturing, mining, electricity, gas, construction. The tertiary sector includes: transport, insurance, banking, real estate, services, hotel restaurants, social and personal services.

We also find that importance of agriculture sector is underestimated by the supporters of neo-liberal reforms. Agriculture provides employment even now to about 60 % of the total labour force in the country. However, when we look at the data we find that share of agriculture sector in the gross domestic product (GDP) has been falling continuously during the decades as follows 1990-91 -13 %; 2000-01 – 26 %; 2001-02 – 24 %; and 2007-08 – 17.5 %. Compared with the sharp decline in the share of the agricultural sector in GDP, the proportion of the workforce depending on agriculture has only declined marginally from 69 % in 1991 to 58 % in 2001. Thus it means that the per capita earning capacity in agriculture sector has fallen, forcing the farmers into increased debts and eventually leading to suicide.

Some suggest that because of technological development, services in future may replace manufacturing as the engine of growth in developing countries. Therefore, in changing global environment the service sector could play leading role and replace the importance of manufacturing sector as a new dynamic force in economic development. Manufacturing despite some pocket of excellence, is struggling to become globally competitive and failing to play a traditional role as a sponge for surplus rural labour in India. Experiences of other developing countries suggest that economic growth has often been led by the manufacturing sector such as South Korea, Taiwan and more recently China.

We find it crucial to revisit the role of manufacturing sector in economic development. In Kaldor's model (1967) assumes that the development of manufacturing sector is seen as key to country's long term economic growth. Kaldor emphasises the role of manufacturing sector in his structural theory of growth model for developing countries. He took account of both supply and demand side factors in the economy. According to him the manufacturing goods have greater income elasticity of demand compared to the agricultural goods which is considered to have low income elasticity of demand for its products. He also assumed similar rate of growth of productivity in agriculture and industry because the technological advancement in agriculture tend to be both labour and land saving. The growth of productivity would be lower in services than agriculture and manufacturing. The higher levels of income will have greater income elasticity of demand for services than manufacturing.

However, this effect may be nullified due to faster rise of productivity in manufacturing than services. Kaldor further suggested that as economy progresses, there will be a shift of labour force engaged in agriculture towards manufacturing, which will lead to increase productivity in both sectors. This will also lead to the demand of less labour force in agriculture at higher outputs due to increased productivity. Moreover, the technical progress in manufacturing will beside increasing the productivity of agriculture by producing higher capital inputs and will also benefit the balance of trade through increased exports. India faces two major challenges namely large scale under employment and unemployment. Its labour force is growing at an average rate of 2 % per year. The task to find job for existing unemployed and under employed is immense.

Table 4: Growth of Employment by Sectors in India per annum (selected years)

Industry	Employed workers in millions (%)			Annual growth rates %	
	1983	1993	2000	1993 (pre-reform period)	2000 (post reform period)
Primary	208.99 (69%)	245.16 (65.5%)	239.83 (60.4%)	1.6	-0.34
Secondary	41.66 (13.8)	55.53 (14.8)	66.91 (16.8)	2.91	3.14
Tertiary	52.11 (17.2)	73.76 (19.7)	90.26 (22.7)	3.53	2.42
Total Employment	100	100	100	2.04	0.98

Source: Adopted from S. Joshi (2004) 'Tertiary Sector-Driven Growth in India-Impact on Employment and Poverty', *Economic and Political Weekly*, 11th September.

Table 4 provides information on growth and share of employment by sectors in Indian economy over the two decades. The table shows that share of primary sector in total employment was much greater than in GDP i.e. 60.4 % compared with 27 % of the GDP in 2000. There was a small increase in the share of secondary sector in the employment from 13.8 % in 1983 to 16.8 % in 2000

There is seems to be no clear linkages between growth and reduction in the poverty levels. We will look at both pre and post neo-liberal reform period that despite rapid growth the trickle down effect failed to materialise. The Indian economy in the post reform period has emerged as one of the fastest growing economies of the world. GDP growth during the 2002-07 averaged 7.6, what is more important that the higher growth rates have been achieved along with significant improvement in macroeconomic stability. However, higher growth has not been inclusive. While India is now the second highest GDP growth rates in the world, but it ranks in terms of Human Development Index (a composite measures of life expectancy, adult literacy etc) has slipped to 128 among 177 countries in 2007 from 126 in 2006.

India's disparities scenario is pattern of wealth disparities in the liberalisation period. The National Sample Survey data shows that there was a perceptible increase in inter-personal wealth inequality in India between 1991 and 2002. The top 10 % of the population increased its share of total national wealth to 52 %, while the share of bottom to 10 % fell to just 0.21 %. The present growth has potential for widening in-equality. It is claimed that percentage of population below the poverty level has fallen from 36 % in 1994 to 27 % in 2005, however, the absolute number of total poor stood at 302 million in 2005, accounting a quarter of world poor. Poverty and widespread malnutrition and illiteracy have still to be addressed. For example, in 2005 about 40 % adult suffered from chronic energy deficiency, 35 % workers were illiterate, 20 % workers were in the households below the poverty line, leading to low productivity of labour. (Das 1999)

A decline in the growth of the agriculture sector during the 1990s has been noted and this has continued. (Patnaik 2007) This decline has been marked by recent declines in yields per hectare for a number of food crops. Indian agriculture is currently passing through a crisis. The annual growth of agricultural growth output decelerated from 3.08 % per annum during the period 1980-81 to 1991-92 to 2.38 % per annum during 1992-93 to 2003-04. The post reform period there had been a sharp decline in the per capita availability of foodgrains (Bhalla 2007:67) Disparities between primary, secondary and tertiary sectors are growing alarmingly. An analysis of the data for the period between 1990-91 and 2003-04 suggests that governmental expenditure in agriculture, including public investment and subsidies for fertilizers, have been significantly undercut in recent years. It is widely agreed that growth in agriculture, for the production of both food and non-food crops, is based on a number of assumptions pertaining to government expenditures, input prices, rainfall, price behaviour and so on.

The achievement in human development in India which is revealed through measures of Human Development Index (HDI) – a rank 124 out of 173 countries in the year 2000. While the HDI is an indicator of achievement, the Human Poverty Index (HPI) provides a measure of deprivation. Here India rank of 55 out of 88 is the lowest in the line of sub-Saharan African nations. The percentage of people below the international poverty line of 1 US$ a day is 44 % in India. It is one of the highest and its magnitude is certainly alarming. According to such estimates, Indian poor numbered about 450 millions out of estimated total 1.2 billion in the world.

Table 5: The size and share of upper middle class (including rich class)

	2001-02	2005-06	2009-10
Size (millions)	62	67.26	173

Share	6.1 %	8.9 %	14.5 %

Source: National Council of Applied Economic Research, New Delhi, 2006

Despite the optimist projection about increase in the number of middle class in India (see Table 5), the large proportions of Indian people have been left out of the benefits of recent economic growth as capitalism function on the principle of exclusion. With higher rate of growth there appears to be rise in inequalities as well. Some people have benefited from this growth, while the large numbers of people are being left out.

The critical question is whether rapid growth (proponents of neoliberalism claims that due to economic reforms started in the 1991) has led to faster decline in the proportion of the population below the poverty line. In terms of absolute numbers, those below the poverty line declined from 324 million in 1993-94 to 315.5 million in 2004-05. But over a third of the population still remains in poverty in spite of the claim that the Indian economy has taken off into self-sustaining growth rates.

Rapid industrialisation in 1950s hoped to absorb the surplus labour force in the industrial sector, but this did not happen. Six decades later still, almost 60 % of the labour force in India is still engaged in the primary sector contributing about 21 % of the total GDP. Manufacturing sector employs 17 % of the labour force producing 27 % of the GDP. It is quite unique for India, but China is today a third largest country of the world for manufactured commodities still has 49 % of its labour force engaged in agriculture producing only 15.2 % of GDP. Industry engages only 22 % of the labour force contributing 52.9 % of the GDP. (The Economist 2007:66-67) It appears that good macroeconomic indicators have failed to create improved prospects for rural poor to acquire productive assets, gainful employment or an increase in their income.

During the 1960s the emphasis in India was towards agriculture development, which is known as ‘Green Revolution’. The aim was to increase the output of foodgrains. It was suggested the food shortage has led the poor to go without food and increase in foodgrains output was seen as crucial element to remove poverty and hunger. The solution was seen by providing agricultural inputs to better endowed farmers and regions would lead to increase in marketable agricultural surplus. The support was provided in the form of subsidised prices of inputs such as fertilizers, new seeds, water, electricity, credits and also higher procurement prices for farmers. As a consequence, in the 1980s there was a rapid increase in agricultural products, which did ensure food security (given the very low income base of the large proportion of India’s population). But it did not lead to significant reduction in poverty.

The Indian economy has been growing around 7-8 % for the last two decades. But this high growth, the manufacturing sector instead of drawing surplus labour force from the primary sector, is itself experiencing a downward trend in labour absorption. So the government and neoliberal economists over optimism has not been realised. In 1991 total employment of both public and private sector was 26.73 million, which rose to 28.28 million in 1997. Since then it has been continuously declining. In 2004, the figure was 26.4, which was 0.3 million less than in 1991 when liberalisation was started. Moreover, there is a gradual increase in temporary jobs or causal employment.

India achieved impressive growth in food production after the adoption of green revolution, which led to increase in per capita production of food grain from 183 kg 1971 to 207 kg in 1996, even as the India’s population increased by more than 50 %. (see Table 6) However, after the 1995-06 the food production failed to keep pace with population growth. Per capita production of cereals has declined by 17 kg and pulses production 3 kg during the last decade. This could pose serious threat to food security of the country. Some academics point out that this is due to dietary diversification due to increase in income levels, the consumers have shifted their preferences from cereals to livestock products. (Pengali and Khwaja 2004) However, in order to increase production of livestock requires high growth in the use of grain as feed for livestock. Because of these reasons food grains continue to be important for food security and any decline in their production will push the prices, which will have adverse impact on poor people.

Table 6: Per Capita Production of Food grains 1971 to 2007 (in kg).

Period	Cereals	Pulses	Food grains
1971-75	164	19	183
1976-80	172	18	190
1981-85	179	17	196
1986-90	182	16	198
1919-95	192	15	207
1996-2000	191	14	205
2001-2005	177	12	189
2004-07	175	12	186

Source: Economic Survey, New Delhi; Agricultural Statistical at a Glance, Ministry of Agriculture. New Delhi.

Why the high growth rates fail to be inclusive? Output can be divided into three groups: agriculture, manufacturing and services. The share of agriculture in GDP declined from 57 % in 1950-51 to 25 % in 199-2000 and further to 20 % in 2004-05. The share of agriculture sector in total workers, however, declined only from 76 % in 1950-51 to 57 % in 2004-05. It clearly shows that a large number of people still rely on agriculture for their livelihood. However, the most disturbing fact is that growth rate in agriculture declined in recent years. When the over all growth rate of the economy was 6 %, the agriculture sector growth was only 3.2 % per annum during the period of 1985-90. The corresponding figures were 6.7 % and 4.7 % in the liberalisation period of 1992-97. During the so-called high growth period of 2002-07, the GDP growth rates increased to 7.6 % per annum, while the agriculture growth rates declined to 2.3 %. These figures clearly show us that why a large section of the population is still not included the benefits of growth.

Another point is that high growth rates after adoption of liberalisation was driven by the service sector. Its share in GDP is now well over 50 % (compared to agriculture’s 20%) and its growth rates tend to exceed the over all growth rates. The service sector has wide variations in earnings and skills (e.g. from street vendors to the corporate personal) While majority in the sector are low earners, there is a tiny minority of exceptionally high earners. It is the latter’s earnings that inflate the share of the sector in GDP. This segment also has a high propensity to generate demand for elite services. For example, highly paid executives give rise to highly paid doctors, solicitors, accountants etc. thus high valued service sector will have tendency to perpetuate inequalities. The increased reliance of market forces would result in state further withdrawing from its social and economic role, which would make it difficult to achieve inclusive growth.

It is crucial to examine the neo-liberal policy's impact on regional development in India. We find that the economic reforms carried out during the last decade show that one of its major victims has been balanced regional growth. Private investments have increasingly gone to relatively developed regions that have better infrastructure. Five major states viz. Andhra Pradesh, Gujarat, Maharastra, Karnatka and Tamil Nadu, that together account for less than one-third of India's population, accounted for almost two-third of the private investment during the 1991-2001. (Baru 2004) The same states also benefited from over 60 % of the commercial bank credit and financial flows from the national financial institutions. While, in contrast, the less developed regions of seven states, viz. Assam, Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal together accounting for 55 % of India's population received less than 30 % of the private investment and a similar share of bank credit and other institutional finances during the same period. (Kurian 2002)

The better performing states are in western and southern regions of the country and the poor-performing states are in northern and eastern regions of the country. (See Table 7) A concomitant of poor economic and socio-demographic performance is poverty and deprivation. The latest estimates of poverty in the country and its spatial spread for 1999-2000 clearly indicates this. While the poverty ratio for the country as a whole is 26.1 %, it is high as 33.1 % for the less-developed states and as low as 17.9 % for the developed states as a group. (Kurian 2002)

Table 7: Economic Growth in Major Indian States, 1980-2004. (%)

States	1980-90	1990-2004	1980-2005
Andhra Pradesh	4.81	5.33	5.1
Assam	3.91	3.00	3.4
Bihar	5.20	4.2	4.6
Gujarat	5.71	8.11	7.1
Haryana	6.68	6.63	6.65
Himachal Pradesh	6.10	6.44	6.3
Karnatka	6.10	6.38	6.3
Kerala	4.50	5.69	5.2
Madhya Pradesh	5.18	4.74	4.9
Maharastra	5.98	5.92	5.95
Orissa	5.85	3.94	4.7
Punjab	5.14	4.14	4.6
Rajasthan	7.17	5.68	6.3
Tamil Nadu	6.35	5.70	5.97
Uttar Pradesh	5.88	3.76	4.64
West Bengal	5.20	7.12	6.32
All India	5.60	5.90	5.8

Source: Economic Survey various issues. Government of India

India's most populous states, namely the Hindi-speaking region of north and central India continue to represent the least economic developed region of India. There is a wealth of literature on regional disparities focusing on economic pre-condition for growth and much of recent literature on regional patterns of growth in India is concerned with the impact of liberalisation and economic reforms on growth (Dev 2008; Sen and Himanshu 2003; Dholakia 2003; Patnaik 2000; Ghosh 1995; Bharadwaj. 1982) The debate on interstate growth trends has been summarised as:

> the low income and poorly performance major states of Uttar Pradesh, Madhya Pradesh, Bihar, Orissa and Assam, have not only persisted with their low growth syndrome but have also experienced further deceleration in growth rates in the 1990s… It is for this reason that, despite an improvement in the growth rates on many middle income states, the degree of dispersion in growth rates as measured by the coefficient of variation (cv) has widened in the 1990s. (Economic and Political Weekly Research Foundation 2004: 26)

Similar disturbing trends were seen in terms of per capita income. The gap between poorer and richer regions has grown in recent years. Per capita average income in western states was 3.8 times that of eastern states in 2000. Further, all the seven states in the less developed regions have a per capita income below the national average, while all eight states in developed states have a per capita income above the national average. The incomes of the poor states grew at lower rates than national average and also population growth was significantly higher in these states as compared to richer states. Indeed, the per capita income growth in real terms for Bihar state was negligible during the last decade. It seems the gap between developed and less developed states in India has widened during the last decade. Indeed, in respect of certain other indicators of economic prosperity like availability of telephone, public transport, and communication etc. the gaps have widened even further. (Kurian 2002)

We will argue that the neglect in primary education will have important future consequences because inequalities in primary education translate into inefficiency, as well as further inequality, in the use of new economic opportunities. The state failure to take initiative to remove educational backwardness ultimately may restrict the overall scale of expansion of skill-related modern production and also hinder to attract FDI, which is an important factor to the success of neoliberal economic reform.

On the question of poverty, Utsa Patnaik (2007) has shown that neo- liberal policies have had an adverse impact on poverty. She questioned the poverty estimation of the National Sample Survey data which, according to her, underestimates rural poverty in India. The Indian Planning Commission claims that rural poverty has declined from 37.3 percent to 27.4 percent of the population between 1993/94 and 1999/2000. [4] The World Bank's World Development Report, 2006 presents a figure of 30.2 percent poverty rate for latter date. The National Sample Survey of the 61st round, 2004/05 data, has estimated rural poverty to be at 28.5 percent.

Moreover, according to Patnaik, 'the available official data show that for the same period, a number of interrelated indicators of the rural well-off have worsened; rural development expenditures have gone down as a share of the national product and in real per capita terms; all India crop growth rates have halved in the 1990s compared to the 1980s and food-grain output has stagnated over the last five years; rural employment growth has dropped sharply and open unemployment has been growing fast. Bank credits to farmers have declined and higher dependence on private usurious credit, combined with severe price declines for many crops, has led large segments of farmers into a debt trap. Food-grains absorption per head has declined sharply to reach levels prevalent 50 years ago. Rising farm debt has led to the loss of assets reflected in rise of landlessness. All these indicators of general depression, combined with acute distress in specific regions, are quite inconsistent with the claims of decline or constancy of poverty.' (Patnaik, 2007) [5] This proposition may seem strange since India has witnessed about seven percent GDP annual growth rates.

However, the overall growth rate figures can be misleading, as they tells us nothing about the sectoral composition of growth or its distributional effects. For instance, more rapid structural shifts in the sectoral contribution to GDP have taken place than in any previous period. The manufacturing sectors' share in GDP has stagnated in the last 15 years while its contribution to employment has declined. On the other hand share of agriculture and allied industry has fallen sharply. The peak production of food-grain output of 112 million tons has stagnated over the last six years and per capita output is falling sharply. Moreover, with increasing use of land for non-agricultural purposes such as supermarkets, motor ways, golf clubs, and recreation centres for elites, the gross farmland area sown has remained static since 1991. This means that only through increases in yields can output growth be maintained. The growth in yields, however, is declining. In the past, agriculture universities played a major role in developing new crop varieties, but now cuts in state funding are adversely affecting their research activities. The matter is complicated by government-deflating expenditure policies, which have adversely affected the purchasing power of rural inhabitants.

Conclusion

This article has questioned some assertions concerning neoliberal reforms, growth and poverty in India. Contrary to wide belief that India's growth acceleration has taken place mainly due to changes in the government's attitudes towards business and export orientation rather than earlier domestic policies, we found that the turnaround growth took place in the early 1980s rather than the early 1990s as portrayed by international financial institutions and media. Neo-liberal economic reforms were introduced in India in 1991. [6] However, it seems that India's growth acceleration really began earlier, in the 1980s, which refutes the notion that 'greater openness accelerates economic growth'. [7] Moreover, even after trade liberalisation, India's average manufacturing tariffs remained above 30 %, and are still at approximately 20%. Prior to l991, India protected its industries through more substantial tariffs. [8]

The post-independence growth rates have been faster than pre-colonial period. Maddison (1995), a prominent British economist, estimated the growth rates during colonial period. According to him, if the Indian economy continued to grow at such lower rates then national income would have doubled in 87 years where as per capita income would have doubled in 1750 years. However, the GDP growth experience of post-independent India was different, period from 1950 to 1980 meant that GDP multiplied by 2.86 while GDP per capita multiplied by 1.5. This period also witnessed a rate of population growth which was more than 2 % per year. Of course growth was impressive compared to near stagnation during colonial period. However, growth as not enough to lift large number of people dire poverty.

The growth rates achieved on average from the period of 1980 to 2005, meant that GDP doubled in just 12.5 years, where GDP per capita doubled in 20 years. The growth is impressive, which led some to argue that growth is largely attributed to economic reform. However, the failure in the second half of the 20th century, not in growth, but country's inability to transform growth into development, which could radically alter the life of the poor people. The achievement would not be complete as long as poverty and deprivation remains. Moreover, it appears that the trickle down process of growth has been weak, since growth is not located in sectors where labour is concentrated (for example, agriculture) and in states where poverty is concentrated.

The argument that poverty has been reduced has been problematic. We also examined growth and its impact on inter-sectoral and regional imbalances, despite the very optimistic views of the proponents of neoliberal policies, our findings are contrary to their expectations. The inter-sectoral imbalances have increased further since the adoption of neo-liberal policies. Also the importance of the manufacturing sector is not properly examined, which could play an important role in creating jobs, and its crucial role in employment generation is being underplayed. The Indian economy has been growing around 7-8 % for the last two decades, but this high growth, the manufacturing sector instead of drawing surplus labour force from the primary sector, is itself experiencing a downward trend in labour absorption. So the government and neoliberal economists over optimism has not realised. In 1991 total employment of both public and private sector was 26.73 million, which rose to 28.28 million in 1997. Since then it has been continuously declining. In 2004 the figure was 26.4, which was 0.3 million less than in 1991 when liberalisation was started.

The regular employment in organised sector over the last decade i.e. post-reform period increased at about 1 %, while the GDP was increasing around 7-8 % per annum. In contrast to this during the earlier decade when GDP annually grew only 4 % per annum, regular employment grew 2 %. It appears that the drive to globalise and focus towards foreign markets led towards increased pressure on cost reduction to make our products competitive in international markets. This means hiring less workers by raising their productivity. Much of the FDI inflows into India concentrated in the service sector (telecommunications in particular) in response to liberalisation policies designed to attract FDI, such as easing ownership restrictions.

Indian economy achieved high growth rates in post-reform period. The average growth rates of GDP in the last 15 years have been around 8 % per annum. Despite this, the most populous states, namely the Hindi-speaking region of north and central India, continue to represent the least economic developed region of India. The available estimates suggest that more than one-third of Indian population live in sub-human poverty. A recent estimate puts about 42 % of India's population as absolutely poor by international standard. Nearly half of the children are under-nourished and food deprivation in the rural areas has not decreased.

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