World Economics Association
(WEA)
Conferences

Inequalities in Asia:
The interaction with growth, structural change, economic openness and social and political structures

Conference n. 3, 2013: 12th May- 8th June

Growth and Distribution Regimes in India after Independence

Abstract: The Indian economy witnessed four qualitatively different regimes of capitalist growth and distribution since independence. The first two regimes in the period - 1951-1980 - operated under the hegemony of the Indian state, the third one under the mixed hegemony of the state and private capital (1980-1991), and the last one under the hegemony of private capital (1991-2012). These four regimes are associated with very different growth and distributional dynamics, roles of the State, and ended with crises of diverse kinds that then ushered in new regimes. The contribution of this paper is to show how Indian political economic history after independence is a patchwork of periods of short-lived stability that were in turn shaped, and produced by various crises and contingencies. It is certainly the case that through this entire period, even as economic growth has been achieved, there is an unmistakable emergence of private capital and professional classes as the dominant (without being hegemonic) classes that have become adept at using markets and the State to further their own interests. We argue that this dominance itself has come about through a series of contingent outcomes.

Key words: Capitalism, Regimes of Accumulation, Political Economy, Crisis, Inequality, Indian Economy.

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I. Introduction

We can conceptualize post-colonial Indian economic development in two broad narratives. First, we can construct a narrative of macro *development* indicators since 1947. In this narrative, economic development can be presented in terms of overall economic growth, or per capita income growth or changes in income/consumption poverty, and so forth. Or, development can be understood in terms of structural change, in terms of GDP and employment, or the contradictions between the structural change in the sectoral composition of GDP (with a declining share of agriculture in the overall GDP), without a concomitant adjustment in the employment structure. The policy structures that produced these phenomena can be analyzed. Second, instead of using a linear narrative, this period can be understood as a succession of different regimes of accumulation with very different sets of growth and distributional dynamics. As a particular regime of accumulation enters a period of crisis it is gradually or suddenly replaced by a new regime based on the enabling forces and constraints in place at that point in time. Both these narratives yield different sets of insights that are useful in making sense of Indian economic reality. However, we believe that the second approach is more interesting for several reasons, notably for its ability to draw attention to the concrete political and economic factors that determine different rhythms of capitalist accumulation in the post-colonial Indian economy without losing the main insights of the first narrative. In addition, this approach is able to avoid the teleological traps that the first approach is prone to fall into. In the second approach, the entire period is marked with various attempts at economic development, failures, crises, contingencies and then emergence of new stable institutions without a pre-determined logic to the whole process. Despite these advantages and its greater proximity to the complexities of reality, the second narrative has not been deployed with adequate rigor and insight, or frequently enough, in making sense of Indian economic development. Our paper aims to correct this by offering one plausible way of constructing these regimes.

Attempts to construct regimes for the Indian economy and politics have been undertaken by various scholars over the last couple of decades. Nagaraj (2012) divides the post-independence period into three regimes - planning era (1951-1966), period of shocks and crises (1966-1980), and creeping liberalization from 1980 that then becomes full-fledged liberalization from the 1990s. Balakrishnan and Parameswaran (2007) conduct an econometric exercise to identify two growth regimes, one up to 1978-79, and one after. Patnaik and Chandrasekhar (1995) and Bhaduri and Nayyar (1996) divide the post-independence Indian economic experience into two regimes – dirigiste (pre-1991) and liberalized or structurally adjusted (post-1991). Kohli (2004) divides the same period into three political economic regimes – Nehruvian (1951-1966), Indira (1966-1984), and liberal regime (Post-1984). The above authors have characterized regimes based on homogenous economic and social policies, growth dynamics, role of the state, and political orientations respectively. Although each of these analyses in insightful in making sense of the Indian economy, we believe that the authors have not adequately theorized how a particular regime enters into a state of crisis, and the dynamics through which a new regime is created. In this paper, we use a multi-dimensional characterization of regimes that focuses on growth, macro-economic dynamics, distributional dynamics and policy orientation. We seek to periodize the dynamics of accumulation and distribution in the Indian economy, during 1950-2012, into four different regimes based on a clearly defined methodology that we outline in the section below.[1]

The rest of the paper is organized as follows. Section II lays out our methodology for the paper. Section III identifies the broad growth and distribution regimes that we identify using the method outlined in Section II. Section IV concludes.

II. Methodology

II.1 Theoretical Framework

We use concepts derived from the Paris Regulation School (henceforth RA) to analyze the regimes that help us better understand the dynamics of the Indian economy (see Aglietta 2001, Jessop 2001). An accumulation regime is defined as a complementary pattern of production and consumption that is reproducible over a finite period. The RA school focuses on the question of stability, or in other words, the institutional configuration that ensures stable periods of accumulation. The RA school breaks down the development of economies within periods of stable reproduction (institutions or relations that facilitate production and consumption of goods and services), followed by a crisis, and the rise of a new period of accumulation, which is qualitatively different from the previous regime. Crisis forms an important foundation of RA literature. A crisis indicates that the contradictions within a regime cannot be contained anymore and a structural transformation is required to stabilize contradictory forces. RA literature focuses on analyzing developed capitalist economies like the USA, France, England and Japan. Since these economies developed in a different socio-historical context, the dynamics of their economies differ significantly from India's case in the following ways:

1) These nations possessed a predominantly capitalist sector in their overall economies. The Indian economy is instead characterized by a large capitalist and non-capitalist sector, and the dynamics between them determine the accumulation process. In a developmental sense, the question of structural change that has been relevant for the Indian economy since independence is not relevant for the already developed economies that RA usually theorizes.
2) The role of the State in these western developed nations was very different from that of the Indian state. The State in the west did not directly intervene in the accumulation process but played a more facilitating role. The Indian state, on the other hand, especially during the period, 1950-80, was actively involved in the development process and was the leading engine of accumulation.
3) The agricultural sector formed a very small part of these western economies. However, agriculture is still an important part of the Indian economy, both in terms of contribution to output and employment.
4) The role of the informal sector progressively dwindled as these western economies developed. In the case of India, the informal sector continues to be a major part of the economy (50% of GDP and more than 90% of employment) even after 60 years of development.

[1]The literature on Indian growth is voluminous and we do not need to survey it here. For a comprehensive account, and some important references, see Balakrishnan (2010).

The characterization of regimes was very different for those western developed nations considered under the purview of RA literature and the concepts and categorizations that have been applied have to be modified to fit the Indian case. As an initial attempt to theorize regimes in the Indian case, we focus on growth dynamics, distributional dynamics, and policy structures.

In this paper, we break down the development of the Indian economy, in the years, following Independence, into four regimes, namely: 1950-67, 1968-79, 1980-91 and 1992-2012. In each of these periods, the economy experiences different growth dynamics, distribution dynamics and policy orientation. The periods are divided by crises, which are caused by contradictions arising from the accumulation dynamics of the preceding regime. These crises are then overcome by the development of a new regime, which stabilizes the contradictions of the previous regime.

II.2 Measuring Growth and Distributional Dynamics

Our calculation of the drivers of growth is informed by the method outlined in Zhu and Kotz (2011) that they applied to the Chinese economy. Zhu and Kotz set out to chart the evolution of China’s growth model during 1978-2006. They assume that growth is driven by components of aggregate demand. They derive a formula for calculating contribution share of components of aggregate demand from the categories of Gross Domestic Product (at market prices) provided in the National Income Accounts. The different positive contributors of demand are Private Consumption (C), Government Consumption (G), Investment (I) and Exports (X). Imports (M) are a negative contributor to demand.

A component is considered to be leading GDP growth in a certain period, if it fulfills the following conditions:

1) The component is growing at a faster rate than GDP growth.
2) The component's share in GDP is large enough that its "contribution" to GDP growth over the period is significant share of GDP growth over that period. The "contribution" of any component of GDP -- for example, household consumption to GDP growth is defined as follows:

$CON_C = \Delta C/C * C/Y$

The sum of the contributions of all of the components of GDP over a period is identically equal to the growth rate of GDP. The contribution of each component is traditionally measured in "percentage points." They define the "contribution share" of any component of GDP as its contribution divided by the growth rate of GDP over the period. Thus, if the GDP growth rate over a period is 10 percent and the contribution of consumption is 5 percentage points, then the contribution share of consumption would be 50 per cent. Consumption would have contributed half of GDP growth over the period. The formula for contribution share of consumption in GDP is:

$$\mathbf{\{(\Delta C/C) * (C/Y)\}/ (\Delta Y/Y) * 100}$$

The contribution share is measured as a percentage. The contribution share of imports is considered a negative contribution.

We modify their derivation to take into account the differences in trends of data on sources of growth in these two countries We have used the absolute value of the growth rate, in calculating the contribution share of a component of GDP, because certain years in the Indian economy have registered negative growth rates. The years considered, by Zhu and Kotz, for the Chinese economy have not registered negative growth. Moreover, we change the conditions for identifying the major driver of growth of GDP (at market prices). This is because there are periods in the Indian growth model, where no component fulfills both conditions laid down by Zhu and Kotz's model. For them, the contribution share of a component is considered significant if it is more than 50%. In our calculation of the contribution share of components to the growth of GDP, we found multiple periods where consumption contributed more than 50% share of GDP growth. However, the growth rate of consumption was substantially slower than GDP growth rate. This was because the absolute value of a component is a determinant of total contribution share of GDP and the absolute value of consumption is significantly higher than other components of GDP. We believe that using Zhu and Kotz's conditions would obfuscate an understanding of drivers of India's growth model. Instead, we have categorized a component as driver of growth if it satisfies either of the two conditions. Hence, we have multiple drivers of growth for certain periods in our analysis. All our data on National Income Accounts have been sourced from the RBI Handbook (2012).

There is a dearth of data to calculate inequality in India from 1950-1980. We have calculated a proxy for measuring consumption inequality, in this period, based on calculations made by Suryanarayana (2012: p.74-78). Suryanarayana provided data on percentage share of consumption for the top and bottom 10% of the population based on National Sample Survey Organization data. We use the ratio of these as a proxy for consumption inequality for that period. Similarly, for the 1960-1977 period we use gini coefficients calculated by Suryanarayana (2012). For the 1983-2010 period, we use regular Gini coefficients derived by Vakulabharanam (2012) from the NSS quinquennial consumer surveys.

III. The Four Regimes of Accumulation in Independent India (1947-2011)

India on the Eve of Independence

The policies of the colonial government were designed to benefit Britain at the cost of the people of Indian until 1947. The colonial regime destroyed traditional industries and had effectively de-industrialized the country. At the time of independence, industries including mining accounted for only 17% of national income as opposed to the 49% accounted for by agriculture (Patnaik 1990). Agricultural performance in the interwar period (1918–1939) was dismal. From 1891 to 1946, the annual growth rate of all crop output was 0.4 percent and food-grain output was practically stagnant. There were significant regional and intercrop differences. In the interwar period, population growth accelerated while food output decelerated, leading to the declining availability of food per head (Blyn 1966).

By the time of the first five-year plan under Nehru, India had undergone a relatively long period of economic stagnation and political unrest. The newly created Indian state needed to simultaneously address a number of problems, the most important of which were: the need for accelerated economic growth to feed its population and become self-sufficient in its non-agricultural needs, to bring consensus amongst heterogeneous vested interest groups within the nation, and to reduce their technological dependence on metropolitan economies.

III.1 Pre-eminence of Planning[2] *and State Capitalism (1950-67) led by Investment and Government Spending*

The Indian economy under Nehru followed a State-directed, heavy industry oriented development model that would allow private capital to grow alongside. The State committed itself to the creation of the necessary industrial and infrastructural base. In this period, industry grew at a relatively fast pace, of 5.8% well above the growth rate of Gross Domestic Product (at Factor Cost) in this period, which grew at 3.8%. Government consumption (G) increased by 6% within this period, which further validates the importance of the state in the economy. Nehru's policies had ensured that the state was the main driver of GDP growth in this period, their investment in heavy industries insured that investment (I) was the fastest growing component, at more than 7%, over this period. Infact, Investment contributed about a fourth of GDP growth in this regime. Public investment had a dual role of crowding in private capital, as corporate capital grew along with public capital (RBI Handbook: Table 13).

The Nehruvian model was clearly designed to benefit large private capital through the allocation of scarce resources to long-term investments. While public sector investment created conditions for the prosperity of private capital, there was a tendency amongst larger capitalists to abuse state regulation into creating artificial monopolies. This tended to crowd out smaller capitalists and over this period, we find that Household capital formation fell from above 50% of total I in the early 1950's to under 20% (RBI Handbook: Table 13). Private Consumption (C) grew slower than GDP growth over this period and from being the largest contributor to GDP growth (by a large margin) in 1950, it declined until its contribution was equal to investment.

On the external front, Nehru followed an import substitution regime in order to protect infant domestic industries from external capital through an overvalued currency and a regime of high tariffs. This ensured that exports played a fairly insignificant role in driving the economy. Exports grew at a negligible rate of less than 1% (the lowest growth rate in independent Indian history). However, imports remained high under this regime, as India was still dependent externally for its energy and machinery needs. Despite high tariffs, imports grew at more than 4% and the current account deficit reached a peak of 3% of GDP by 1965. Furthermore, India's dependence on the external world increased due to the need for foreign aid to finance the current account deficit. External assistance was the single largest component of the capital account and increased significantly between 1955 and 1965 (RBI Handbook: Table 143). The imbalances within the external regime would culminate in the balance of payments crisis of 1965-66.

Class Dynamics and Distributional Effects

The largest benefits of this regime were reaped by domestic capital. Chibber (2003) has traced the coalition between domestic large capital and state to the Bombay plan (1944). Nehru was careful to keep public sector expansion within the bounds that were acceptable to Indian business houses. Almost every major body setup to design policy and new state institutions in the aftermath of independence was dominated by business leaders (Chibber 2012:175). Further, the Nehru government, protected domestic capital from competition by instituting an import substituting external regime. Secondly, urban skilled workers benefited from the drastic increase in public sector jobs. Nehru also planned extensive land reforms. However, efforts to introduce land redistribution were blocked by large landlords who controlled state legislatures. While there

[2] See Chakravarty (1987) for a comprehensive account of Indian planning.

was some success in the acquisition of surplus land, the progress of land to tiller reform never got far. Landed power remained largely intact in many parts of the country. Through the limited redistribution of land, a new stratum of rich landed peasants was created. Low growth in the agricultural sector and lack of land reforms left a large ocean of agrarian laborers clutching on to marginal holdings. The lack of any redistributive measures from the government forced many of these rural dwellers to become underemployed landless proletariat or migrant workers (Chibber 2012:176).

The increasing allocation of resources to investment led to greater urban-rural inequality and a concurrent slowdown in C. These years were marked by a near absence of any real welfare policy, except in health and education. State policy was geared towards economic development and distributive matters were folded into the domain of economic planning (Chibber 2012:173). However, primarily due to public sector job creation in the urban industrial sector, urban inequality (as measured by NSS surveys which do not capture big capital or the super rich in its surveys) declined. Similarly, while land reforms were not implemented in any significant sense, the overall progressive bent of the State ensured that rural inequality also declined marginally. Based on calculations made from data provided by Suryanarayana (2012) that are available from 1961-62, the extent of inequality (the ratio of consumption average of the top to bottom decile) decreased slightly in rural areas from 6.83 in 1961-62 to 6.32 in 1967-68 and significantly for urban areas from 9.58 in 1961-62 to 7.68 in 1967-68 (see graph 2).

<u>Crisis towards the mid-1960s</u>

Apart from the external imbalance alluded to above, the imbalances of the Nehruvian regime were felt most strongly in the agricultural sector. Agriculture was the largest employer and the largest sectoral contributor to national income before independence. However, the focus towards industries in independent India meant that public investment in agriculture was not adequate. The agricultural sector grew at only 1.7% in this period. This sector was highly unstable and dependent on the vagaries of the monsoon. There were early warnings that agriculture was structurally unstable, with negative growth in 1955 and 1957. However, the government deflected this issue by importing cheap food grains, through the PL 480 agreement with the US. Moreover, by failing to invest in agriculture, Nehru missed an important opportunity to alleviate poverty significantly. The Nehru-Mahalanobis plan had envisaged large-scale land reforms in agriculture in order to compensate for the lack of public investment, which in the end turned out to be politically infeasible. The structural imbalances of the Nehruvian regime would culminate in an agricultural and BOP crisis of 1965 and 1966. The lack of monsoons, between 1965 and 1967, also led to a fall in agricultural production by more than 10%. The immediate impact was felt in the form of a drastic fall in private consumption. The Government was forced to import food grains in 1966 to compensate for the shortage. Imports grew from 11% in 1965 to 28% in 1966. The sudden spurt in imports led to a BOP crisis and there was a heightened external pressure on India to devalue and bring down the import substitution regime.

III.2 Green Revolution and Populism (1967-80)

The agricultural crisis forced the state to bring about an urgent change in its agricultural policy, in the context of failed land reforms. The New Agricultural strategy, introduced in 1965, was aimed at improving productivity by means of rapid technological modernization, based on the adoption of new High Yielding Variety (HYV) seeds, tube-well irrigation, chemical fertilizers and pesticides. It deliberately concentrated investments crop-wise (chiefly wheat) and region wise (better endowed higher productivity areas). It led to a shift from public sector directed and financed investment to private investment in irrigation and mechanization. The state responded with increased agricultural credit and fertilizer subsidies, while also making a commitment to minimum support prices (Rao and Storm 2000: 203-207). The agricultural sector overall, performed slightly better in this period, growing at 2.4%. Moreover, the state was able to stem the food grain shortage, as output of wheat and rice improved significantly. However, the returns were uneven - regionally and class-wise.

The increased support of the state towards the agricultural sector meant that fewer resources were allocated towards industry. Industrial growth in this period dropped to 4.8%. Heavy industries like machinery, transport equipment, chemicals and rubber, experienced a significant decline in growth after 1965-66. The slackening of real investment, particularly in the public sector from the mid 1960's, was one of the chief factors behind deceleration of growth rate of industry. In absolute terms, public investment recovered by the mid 1970's and a concurrent recovery in industrial production can be seen by the 1980's. The role of the state in industrial development, however, declined steadily from this period. The fall in public investment adversely affected private corporate capital (questioning the crowding out argument!), whose share in capital formation reduced from 25% to 8%, within this period. However, the household sector significantly improved in this period and its share in investment doubled to over 40%. (RBI Handbook: Table 13)

The industrial stagnation caused the overall economy to grow (GDP at Market Price) slowly at about 4.5% over this entire period. I, the major drivers of growth in the first regime, significantly declined in the late sixties. While C continued to be the largest contributor to GDP growth in absolute terms, it continued to grow at a slower pace than GDP growth. G was the only component whose contribution share increased significantly in this period, and while it did not drive growth in this regime, it does represent an increasingly important role of government expenditure in a regime of accumulation. Exports grew at 7.5% in this period, however it cannot be considered a driver of growth as its contribution share remained fairly insignificant. The increase in exports was complemented by a corresponding fall in import growth rate. The growth of exports was largely a result of a more militant import substitution policy, following the BOP crises and the enforced devaluation of 1965. Over this period, government regulation towards private enterprise in general, and foreign enterprise in particular, increased, which culminated in the introduction of the Foreign Exchange Regulation Act 1973 and Monopolies and Restrictive Trade Practice Act 1969, nationalization of banks and the public dismissal of companies like Coke and IBM from India. The external policy was meant to improve the current account and decrease the country's dependence on external powers (an important trope of the congress regime) and by 1973, India managed to generate a positive balance in the current account for the first time after independence.

Class Dynamics and Distributional effects

The green revolution marked the first major instance of the Indian state actively collaborating with petty producer classes to facilitate economic growth (Kohli 2012:203). Moreover, agricultural reforms generated sustained growth for certain crops and regions. This agricultural growth benefited large agricultural landholders and rural elites, at the cost of smaller landholders and rural proletariats. This period saw a jump in the income received by the top 10% in rural areas (see table 3) and a slight decrease in the income received by the bottom 10%. The growing power of the rural rich culminated in this interest group becoming organized politically by various rich peasant political outfits such as Lok Dal (led by Charan Singh) that would go on to dethrone the congress government at the Center in 1978. The increased subsidization of the agricultural sector came at the cost of a fall in public investment in industries. The Indira Gandhi government took a turn towards nationalization, and increased its attempts to regulate both domestic and foreign capital. This regime witnessed a slowdown in the formation of domestic private capital.

The green revolution contributed to an increase in rural inequality. However, this was partially compensated by an active policy of redistribution (Garibi Hatao) under Indira Gandhi, who was trying to create a new voting bloc for the recently separated Congress (I). Starting in the 1970's, some well-known policies were passed that were directed at the poor – the renewal of the Public Distribution System and the Integrated Rural Development Program, the scheme for rural employment and credit programs for rural producers (Nagaraj 2012: 38-39). In terms of rural poverty, this period witnessed significant reduction from 50% to about 40%, primarily due to populist redistributive measures undertaken by the government from the early 1970s onwards. There was however a significant increase in inequality in both rural and urban areas in this regime. Our calculations based on data provided by Suryanarayana (2012) show that rural inequality increased from 7.02 in 1968-69 to 8.19 in 1977-78. As the industrial economy slowed down, those at the bottom lost out more significantly than those at the top resulting in a rise in urban inequality, which increased from 7.34 in 1968-69 to 8.54 in 1977-78 (see graphs 2 and 3).

Looming Crisis of the 1970s

This export led revival led to a general improvement in the economy over the latter half of the seventies and steady improvements in all three important components C, G and I. Counter-intuitively, these improvements would culminate in the worst crisis to strike the economy since independence. In 1979, the economy registered a negative growth of over 6% with both C and I decreasing at 2% and 5% respectively. This sudden crisis of such depth in 1979 can be understood as the cumulative effect of four interdependent instabilities within the economy in this period. First, the decrease in public investment had led to a stagnation of private corporate investment to an all-time low. Second, the state had changed its expenditure patterns from productive capital to revenue expenditures over the 1970's (RBI Handbook: Table 103) and increasingly funded this expenditure by raising its fiscal deficit (RBI Handbook: Table 100) and taking in more commercial borrowings (RBI Handbook: Table 143). Third, the ISI regime started imploding in the late 1970's due to the crash of the Bretton Woods system and the twin oil price shock of the 70's. Lastly, the congress, due to frequent infighting, had lost its hegemony as the director of the development state and was voted out from the Center for the first time in their history in 1978. The culmination of all these processes led to the deepest crisis in independent Indian history and created the conditions that gave impetus to the liberalization of the economy.

III.4 Broad-based Growth Driven by Consumption: High Growth with Stagnant Inequality (1980-91)

The newly elected congress party took a loan from the IMF worth $5.2 billion dollars, to stem the different crises in the economy. Partial liberalization was introduced as a condition for the loan, which included a relaxation of industrial licensing, decontrol of prices of certain essential commodities and slashed duties on imports. The crisis of the 1970s enforced a structural transformation of the Indian economy. The economy attained a higher growth trajectory with GDP (at Market Prices) growth of more than 5% for this period. Moreover, growth rates of all sectors increased, albeit with differing trends. The benefits of the green revolution were partially reaped and the agricultural sector grew at 3.8%. Industry achieved growth on par with the Nehruvian regime of 5.8%. However, services emerged as the fastest growing sector with more than 6% growth. This structural transition was accompanied by an unstable nature of growth in investment over this period. While investment grew at about 5.8% for the whole period, it was well below the high of 7.9% achieved in the Nehruvian regime. The instability of investment growth can be observed by focusing on a high growth period (over 7.5%) during 1983-88, while it was hampered by negative growth in the remaining years culminating in a crisis of investment by 1990. Such instability in investment was largely a result of the changing nature of public investment. There was a secular decline of public investment over this period, which was counteracted by a newly resurgent private corporate sector. Household investment also grew impressively over this whole period.

The government, however, stepped up its expenditure (G), which became the main driver of GDP and grew at over 6.6%. Along with increased consumption, the size of government transfers also exploded, largely due to new redistributive and poverty alleviation programs like the Integrated Rural Development program, and a six-fold (RBI Handbook: Table 103) increase in subsidies. C was also an important driver of growth and grew at over 4.6%. Growth in this regime was primarily driven by Consumption (both public and private) which contributed three quarters of the GDP growth. This increase in C was a result of increasing subsidies and redistributive measures of the government and a surge in the service sector, which grew tremendously both in terms of income generated and numbers employed.

<u>Class Dynamics and Distributional Effects</u>

While the first two regimes were low growth ones with a mild increase in inequality, the next two regimes ushered in high growth for the Indian economy with very different distributional dynamics as pointed above. After returning to power in 1980, Indira (and later her son Rajiv Gandhi) moved the Indian state away from its weak commitment to a progressive nation state to a growth promoting state that was pro-business. The policy shifts were not only extended to limiting the role of the state in the market, but went beyond, to actively support profitability of the large domestic capitalists (Kohli 2012: 205). New business groups (partly rural elites migrating to urban spaces, professionals who began to experiment in new areas like Information Technology and smaller constituents of old capital), which found themselves, blocked by the cozy nexus between the state and large industrial houses, emerged and established themselves in regional as well as national parties as vocal opponents of the 'License Raj' (Chibber 2012:186). Agricultural rich and rural elite continued to receive ample subsidies from the state. Aside from benefiting domestic capital and the rural elite, the high growth generated under this regime translated into a decrease in income inequality. This decrease was distributed amongst different classes marginalized under the previous regimes. Rural marginalized classes benefited from the increased allocation of state resources to redistributive programs such as Integrated Rural Development Programs (IRDP). Increased political unrest in certain pockets of the country from the Maoist struggles, contributed to significant increases in rural wages. Accelerated land reforms in communist ruled states such as West Bengal and Kerala also contributed to a decline in rural inequality. Urban skilled and semi-skilled workers benefited from an unprecedented rise in wages (Nagaraj 2012). This is a regime that witnessed broad-based improvement in the living conditions of all classes, although the extra fillip received by the large businesses and emerging new businesses, along with the urban professionals craved for more, i.e. a radical restructuring of the state, which is discussed in the next regime.

The increase in C during this period was also a result of mildly declining inequality in this period. Vakulabharanam (2010) has concluded that at the all India level, the rural, urban and overall Gini coefficients stayed roughly the same or showed a marginal decline between 1983-84 and 1993-94. For most states, there was a slight decrease in inequality. Suryanarayana (2012) has also concluded that there was a marginal improvement in average consumption and a reduction in inequality from 1977-78 and 1993-94.

Deepening Twin Crises by Late 1980s

Partial liberalization introduced by the government in the external sector encouraged a boom in imports, which grew at more than 7%. Exports, which had been an important driver of growth in the previous period declined in terms of their growth in this period, causing the current account deficit to soar once again to 3% of GDP. The economy’s dependence on foreign aid, to finance the current deficit, was replaced by an increasing dependence on foreign commercial borrowing (RBI Handbook: Table 143). While the changing orientation of public expenditure drove the rate of GDP growth up, there existed an inherent instability within it, owing to an increase in fiscal indiscipline by the government and the feedback effects of a fall in public investment. The increasing expenditure by the government was funded increasingly by commercial borrowings. Fiscal deficits as a proportion of GDP increased from a manageable 3.5% to 5.5% (RBI Handbook: Table 100), by the end of this period. Furthermore, an increasing share of the borrowings was spent in debt servicing and transfer payments (RBI Handbook: Table 103), which didn’t generate returns. The state was caught in a trap of financing debt by more debt. The fall in public investment created instability in the investment environment and a steady deterioration in public infrastructure, which fed into an investment crisis in 1990-91. The rising fiscal and current account deficit would culminate in a crisis in 1991. The crisis was mainly felt in a reduction of investment by 9.5% in 1991, and a low GDP growth of 1%. The crisis would itself be politicized to bring in major changes in economic policies and a significant change in the macro-economic dynamics of the economy. The transition to the post liberalization period will be discussed in greater detail in the next section.

III.5 Neoliberalism: High Growth (driven by investment and exports) with Rising Inequality (1991-2011)

The economy was facing twin crises - on the fiscal and BOP fronts - which fuelled a fall in it’s international credit rating in 1991. This crisis coincided with the failure of any dominant party to remain at the Centre and a change in the geo-political environment, with the demise of Soviet Union and consolidation of the US as the sole super power. A coalition based Congress government came to power, on the platform of liberal reforms, which appeared quite radical, given its state directed development orientation of the past. In the previous three regimes, the development process was directed by the state (through the planning process in the first regime and high public expenditure in the second and third regime). This regime saw a shift in development process from being state directed to market directed. The liberal reforms package included fiscal austerity measures in government expenditures, liberalization of the external regime and domestic investment climate, opening up the economy to private capital, financial reforms and market directed development. The reforms era generated the fastest growth in any regime in it's independent history. However, the growth dynamics went through two distinct phases in this regime - the first decade witnessed medium growth, a fiscally disciplined state, unstable investment, and low exports with high imports; the second decade witnessed high growth, fiscally active state, high investment, and high exports with high imports.

In the first phase of this regime, from 1991-2002, the state instituted liberal economic policies while withdrawing from its active role in the development process, thereby allowing the market to drive the trajectory of growth. This period witnessed a rapid escalation in the non-agricultural growth rates, while agricultural growth collapsed until the mid-2000s. Agriculture continued to receive a plethora of subsidies. However, the state significantly reduced investment in rural areas and the 3% growth achieved by agriculture was significantly below that of non-agricultural sectors. In fact, the agricultural sector was delinked from the growth process in this period and this can be verified from the fact that agriculture failed to grow faster than GDP in any given year in this period. The industrial sector, after two years of double digit growth due to the euphoria (or pent up aggregate demand) surrounding reforms, remained unstable with fluctuating growth. This was largely because private corporate investment, after reaching a high of 60% composition of total I in 1995, was reduced to single digits by the end of the nineties. The reason that investment remained a fairly important component of GDP growth, by contributing 30%, was due to a resurgent household sector which emerged as the largest generator of investment in the late 1990s (RBI Handbook: Table 13). The newly liberalized external regime led to an expectant soaring of imports, which grew by 16% over the whole period, but also encouraged exports. Exports became a significant contributor of growth as it grew at 13% and contributed to 25% of GDP growth. The increase in exports was largely contributed to by a vastly expanding service sector, which maintained a double-digit growth throughout this period.

The first phase of this regime achieved a moderate GDP growth of 5%, with no one component driving the growth process. It was marked by a steady withdrawal of the state from the accumulation process through a secular decline in public investment; the disinvestment process was so drastic that within a decade, public sector capital formation transformed from the largest component of investment to the smallest (RBI Handbook: Table 13). Due to the stringent austerity measures enforced on the state by the IMF, the state tried to stabilize its fiscal deficit and repay commercial borrowings. The fall in total public spending (G and public investment) was disproportionately felt by investment although there was a decline in G too. The fall in the contribution share of G was comparatively small, from 16% to 11%, however, its proportionate fall was substantial as it decreased to become the smallest component of GDP growth.

In the second phase, from 2003-2012, the state directly supported the market driven development process, by increasing public investment, especially in infrastructure and public services, or by actively creating a more conducive environment for investment (both domestic and foreign).In 2002 the economy recovered from a minor crisis (7% decline in agriculture) by entering an investment and export led high growth phase. This growth was led by a phenomenal increase in investment, which grew at more than 15% per annum to become the single largest component of growth, which contributed to about 55% of the growth. This increase in investment was marked by high private corporate investment (RBI Handbook: Table 13) and high foreign direct investment (RBI Handbook: Table 143), both of which were attracted by a rapid increase in public investment and a strong state commitment to create conditions for faster accumulation. The massive increase in foreign direct investment, helped decrease the economy's dependence on commercial borrowings and foreign aid to finance the rapidly increasing demand for imports (RBI Handbook: Table 143). Exports and service sector consolidated their higher levels of growth since the 1990's, to grow at even higher rates of 15% and 10.5% respectively.

Class and Distributional Dynamics

The fourth regime (1991-2012) that was put in place by the early 1990s was implemented under the broad influence of IMF and World Bank and brought in neo-liberal structural adjustment even as India borrowed from these institutions to address its BOP crisis. Alongside, the state implemented a whole host of fiscal austerity measures, which stabilized the fiscal deficit, at the cost of a steady decline in public investment. The accumulation dynamics of the new regime were determined by private capital and the state that began to play an increasingly supportive role for private capitalists. The Indian economy witnessed rapid growth in private luxury consumption (initial years), private investment (through the whole period) and exports. These three components of GDP have tended to create an enclave that has pushed the growth dynamics of post-reform India even as the rest of the economy has fallen behind. Urban elites engaging in this enclave benefited the most from liberalization. This included domestic capital (both large and small), skilled formal workers and managerial classes (especially those working in the service sector). Policies of economic liberalization have tended to cause a reduction in public investment in agriculture, as well as partial withdrawal of state support to various small farming groups. While large agriculturists and rural elites were provided ample subsidies, other marginalized rural classes were significantly hit in this regime. The rate of increase in consumption inequality has been the fastest in this regime relative to all other regimes. Marginal farmers, tenant farmers and landless peasants were equivalently hurt under this regime. A significant (still a minority) part of the landless population migrated to urban areas to look for better opportunities in the swiftly growing informal sector. However, employment in the informal sector did not translate into a better income. Urban inequality and unemployment increased dramatically in this period (Vakulabharanam 2012).

Private Consumption still remained an important component of GDP and its growth. However, consumption itself became very unequal over this period. The increase in demand for luxury consumption, and the concomitant increase of investment in associated sectors drove the inequality dynamics of this period. The enclave that consists of urban private capital and urban professional/middle classes drove the rapid consumption increases while the rest of the population witnessed slow increases in consumption during this entire period (Vakulabharanam 2012). Jayadev et al. (2007) show that there has been a steady increase in wealth inequality over this period with jumps in both intra-urban and urban-rural wealth inequality. Debdas Banerjee

(2005) has demonstrated a drop in the wage share from 33% of net value added to 17% between 1985 and 2000. The profit share during the same period rose from around 16% to 30%. These datum point firmly in the direction of a shift in the balance of power towards capital. There was also a strong decline in the progressive redistributive policies (with policies like the Rural Employment Scheme being rare exceptions). Further, what is even more disconcerting is that there is a shift from universalist policies towards targeted policies, which resulted in increased leakages and misallocation of resources (Nagaraj 2012:40). The increase in inequality can be traced to an increasing support of state to private capital, a steady decrease of state commitment to redistributive policies, fall in wage growth in the organized sector along with a failure to create employment opportunities, stagnation of the agricultural sector, and the rapid growth of a subsistence-based informal sector.

Looming Crisis?

While the economy grew at a record rate of 8.5% per annum, over the last decade, there are certain instabilities built into this structure. First, this high growth regime has been achieved at the cost of neglecting the agricultural sector, promoting an enclave based growth model, ignoring employment generating growth opportunities, and reducing redistributive programs. This has meant that inequality between urban classes, between regions and between the urban and rural sectors, has risen tremendously (Vakulabharanam 2010; 2012). Second, in a very mainstream sense, there is growing fiscal instability. There is a significant increase in the State investments and expenditure. Over this period, interest payments continued to increase and the size of subsidies increased threefold (RBI Handbook: Table 103) along with transfers. Increased revenue (RBI Handbook: Table 101) generated by higher growth helped reduce the fiscal deficit moderately. However, the effects of the 2008 global crisis on exports and investment forced the state to increase its expenditure sufficiently to prop up aggregate demand. Fiscal deficit has, as a consequence, grown to be higher than its level in 1990 (RBI Handbook: Table 100). The growth of imports at more than 20% has led to the current account deficit, tending towards its 1991 level. With the slowdown of the investment bubbles in the real estate and stock markets, there is increased instability that may persist for a while.

The increase in instability and the rapid escalation of inequality together, in all likelihood, signal the onset of another regime changing phase in the Indian economy.

IV. Conclusion

The above discussion on regimes points to the fact that there is a consolidation of a new class structure in India since the 1980s, as has been noted in other analyses (Chatterjee 2008; Vakulabharanam 2010). Between 1950 and 1980s, the dominant classes in India were the rural elites, large capital and the bureaucrats (Bardhan 1984). While these classes jostled for supremacy, none achieved it fully, and the state more or less acted in a domain of relative autonomy (See McCartney and Harriss-White 2000 for a discussion of the variants of the class regimes idea, applied to regimes between 1950 and 1980s). The state operated with an ambivalence wherein it took part in accumulation activities, worked for the conflicting interests of the dominant classes, while also appearing to take on a broadly developmentalist and progressive pro-poor role for itself. This class structure along with the role of the state is supposed to explain both the tendencies towards stagnation in the economy as well as why the dominant classes benefited until 1980. Since the mid-1980s, the dominant classes are the urban elites – capital and the professionals (including the state bureaucrats). Urban private capital has incorporated the professionals and together they have captured important organs of the State. As discussed above, State has reduced its direct role in accumulation considerably. The rural elites have migrated in large numbers to urban areas to become constituents of urban capitalist classes (Damodaran, 2008). The voices of the working groups in rural and urban areas are heard occasionally and this too because of their numbers and their impact in the electoral domain. Nevertheless, the agrarian crisis since the late 1990s that has manifested in the hundreds of thousands of farmer suicides across the country has highlighted the unbalanced and inequitable nature of the neoliberal regime. In terms of the urban informal sector, the owners and managers in this sector are quite heterogeneous and certain groups (e.g. wholesale and retail) have probably benefited (even this may not last long once liberalization takes deep root in these occupations) while a large section (petty vendors) has probably not. However, the employment numbers suggest that the informal sector plays the key role of creating low wage employment in the face of insufficient employment opportunities in the formal sector during the liberalization period. This consolidation of an inequality inducing new class structure comes through largely in the analysis of the levels and changes in the consumption patterns as revealed by the NSS consumption surveys over the years (Vakulabharanam 2012).

The unique contribution of this paper is that Indian economic development can be understood in terms of successive regimes that operate with very different sets of growth and distributional dynamics. These dynamics seem to produce short stable regimes that end in crises that cannot be resolved in the existing regime. This then forces a regime shift. Out of the four regimes that we outlined in this paper, the regime of the 1980s is probably the most appealing, in the sense that it combined a high growth regime with declining inequality, along with the fastest declines of poverty that independent India has witnessed. Whether this was a sustainable regime, and whether it is replicable are questions that are open to debate, but the dynamics of the regime of the 1980s need to be understood afresh in the present. This is so because heightened inequality (along with increased instability) through its effects on domestic demand seems to have played a major part in the serious slowdown of the Indian economy over the last 3-4 years. While the State and the ruling classes are resorting to desperate measures (such as further liberalization in the retail and insurance sectors, and attempts to woo global capital) to avoid a serious crisis, whether the economy can be restored to a set of stable dynamics within the existing regime is in serious doubt. This tendency towards instability is also heightened by the fact that the neo-liberal economic regime that has been hegemonic at the global level over the last four decades has probably entered a terminal crisis. What kind of a new regime comes into play in the coming few years will depend on the interaction of the structural tendencies towards crises at the national and regional levels, the political economic (class) contradictions and the role that they might play in the country, and how the global capitalist dynamics are going to take shape. However, any future stable restructuring of the economy needs to break the class enclave outlined above that has emerged out of the different sets of dynamics of the four regimes. This enclave, that seems to be driving both the growth as well as distributional dynamics during the last three decades, can produce neither stability nor equity in the medium run.

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Table 13: Sector Wise Gross Capital Formation
Table 100: Key Deficit Indicators of the Central Government
Table 101: Central Government’s Receipt – Major Components
Table 103: Major Heads of Expenditure of the Central Government
Table 143: Key Components of India’s Balance of Payments - Rupees

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Tables and Figures

Table 1: Growth Rates and Contribution Share of Components of GDP Market Price[3]

Year	Growth Rate of C	Growth Rate of G	Growth Rate of I	Growth Rate of X	Growth Rate of M	Growth Rate of GDP Market Price	Contribution share of C	Contribution Share of G	Contribution Share of I	Contribution Share of X	Contribution Share of M (negative contribution)
1950-67	4.14	6.08	**7.9**	-0.1	4.23	4.69	**75.24**	8.61	**23.02**	0.58	-2.59
1968-1980	3.75	6.33	4.85	**7.56**	6.07	4.47	**60.42**	11.55	23.96	3.98	-3.69
1980-91	4.67	**6.61**	5.87	5.38	7.22	5.67	**59.17**	15.35	21.24	6.99	-6.77
1992-2008	5.26	6.36	10.87	**13.70**	16.22	6.68	**50.57**	10.99	39.08	27.19	-33.22

Calculated by Authors based on Table 3(a): Components of Gross Domestic Product (at Market Prices).Source: RBI Handbook 2012

[3] The following years have not been included for calculating contribution shares: 1957-58, 1965-66, 1966-67, 1972-73, 1974-75, 1976-77, 1991-92. These years had either negative growth rates or growth rates less than 1%. As GDP growth is in the denominator of the derivation of contribution share, figures for these years turned out to be very un-wieldly. The authors decided to not consider these years for the calculation of average contribution share in a regime, to ensure that the contribution shares have greater analytical value. We believe that these omissions provide a better representation of regimes.

Table 2: Sectoral Growth Rates

Year	Growth Rate of Agriculture and Allied activities	Growth Rate of Industrial Sector	Growth Rate of Services Sector	Growth Rate of GDP Factor Cost
1950-67	2.54	**5.82**	4.74	3.72
1967-1980	2.44	**4.70**	4.24	3.50
1980-91	3.32	5.86	**6.09**	5.06
1992-2008	3.04	**6.69**	6.09	6.86

Calculated by Authors based on Table 3: Components of Gross Domestic Product (at factor Costs). Source: RBI Handbook 2012.

Table 3: Calculation of proxy for Consumption Inequality in Rural Areas

	Per cent Share in consumption of (Rural)		
	Current Prices		
	Bottom 10%	Top 10%	Consumption inequality (top10%/Bottom 10%)
1961-62	3.79	25.88	6.83
1967-68	3.71	23.45	6.32
1968-69	3.63	25.49	7.02
1977-78	3.46	28.34	8.19
1983	3.79	24.58	6.49
1987-88	4	25.21	6.30
1993-94	4.43	22.51	5.08
2004-05	4.08	26.44	6.48

Source: Suryanarayana (2012: 78)

Table 4: Calculation of proxy for Consumption Inequality in Urban Areas

	Per cent Share in consumption of (Urban)		
	Current Prices		
	Bottom 10%	Top 10%	Consumption inequality (top10%/Bottom 10%)
1961-61	3.03	29.04	9.58
1967-68	3.4	26.11	7.68
1968-69	3.42	25.09	7.34
1977-78	3.29	28.11	8.54
1983	3.41	27.31	8.01
1987-88	3.4	28.46	8.37
1993-94	3.39	27.9	8.23
2004-05	3.08	30.08	9.77

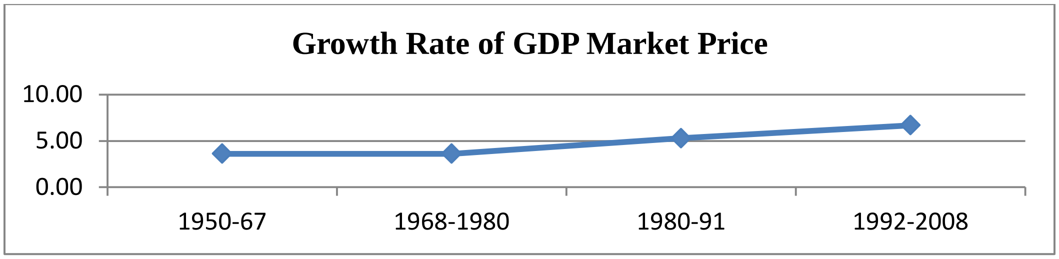
Source: Suryanarayana (2012:79)

Table 5: Inequality in India (Gini) – (1983-2010)

	Gini Coefficient of MPCE		
	Urban	Rural	Total
1983-84	0.34	0.31	0.327
1993-94	0.344	0.286	0.326
2004-05	0.376	0.305	0.363
2009-10	0.393	0.3	0.37

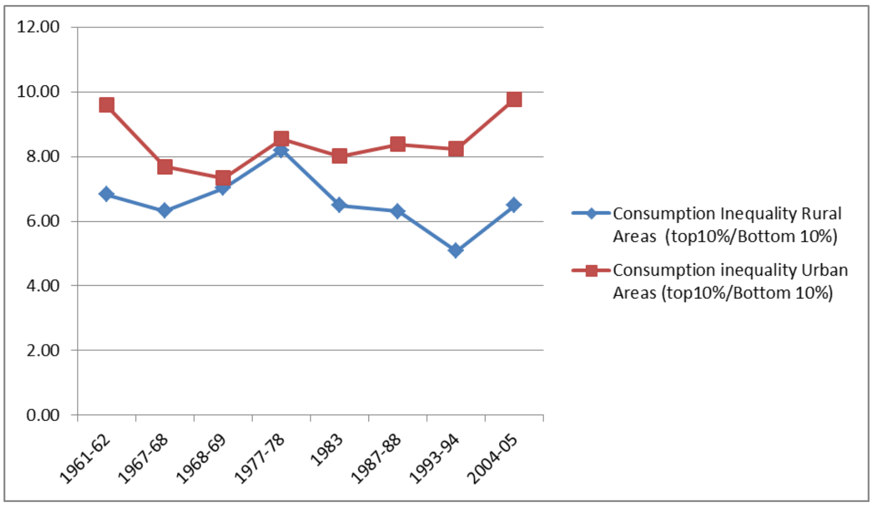
Source: Vakulabharanam (2012)

GRAPH 1: Growth Rate of GDP (at market prices) within each regime



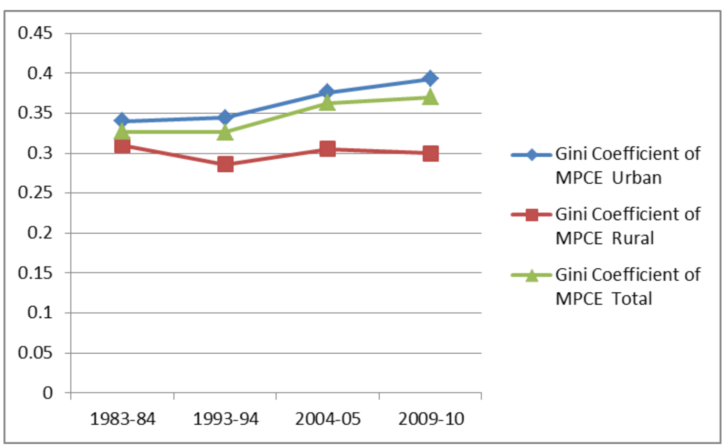
Source: Table 1

GRAPH 2: Consumption Inequality (ratio of top to bottom deciles)



Source: Tables 3 and 4

GRAPH 3: Gini Coefficients (Rural, Urban and Total: 1983-2010)



Source: Table 5