Resistance to Economic Reform in India

By

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In spite of the hype in the international media about India's global integration, economic reform there has been rather halting and hesitant. Cheerleaders of reform among corporate tycoons and financial columnists are often not aware how unpopular reform is, rightly or wrongly, among the general public in India. In the National Election Survey 2004 more than two-thirds of about 23000 sample respondents (who had any opinion on the subject) say that the reforms benefit only the rich or none at all. Politicians are, of course, too savvy not to notice this. Even any of the ruling parties over the last decade which supported reforms played them down during election time. A party that initiates some reforms is quick to oppose them when out of power.

This duplicity is also currently in display within the Left: in the states they are in power, they are often driven by the inexorable logic of fiscal near-bankruptcy and competition for investment to be pro-reform; but in Delhi their leaders regularly indulge in ideological grandstanding. Nor is the opposition confined to the Left. The recent reversal of a cabinet decision toward some privatization was under pressure from a non-Left regional party. Trade unions of the right as well as left parties are opposed to privatization and labor reform. The Gandhians are vocal against the lifting of the policy of reservation of currently more than 300 products for the small-scale industries. In the above-mentioned National Election Survey respondents were asked about reduction in the size of government employees; among the poor, and the low-caste and indigenous respondents, who had an opinion, the majority was opposed to such reduction. The newly emergent, hitherto subordinate, social groups, often represented by primarily caste-based or regional parties, as they capture state power and reserved jobs, are obviously not too keen to give up the loaves and fishes of office or reduce the role of the public sector.

Of course reformers have also done a poor job of explaining reforms to the common people. If it were to be made clear to them, for example, that electricity reform which may involve a higher electricity price also implies a higher capacity for the public utility to provide less erratic power supply, or that deregulation means loosening the grip of corrupt inspectors over small enterprises, some of the opposition could decline.

What financial columnists call anti-reform populism is actually a product of the manifold inequalities and conflicts of Indian society. Data on inequality of household wealth distribution and that between the educated and uneducated classes suggest, along with the prevailing caste and other social inequalities, that India is one of the most unequal countries in the world. The severe educational inequality (which is worse in India than in Brazil), for example, makes it harder for many to absorb shocks in the industrial labor market, since education and training could provide some means of flexibility in adapting to market changes. In China the disruptions and hardships of restructuring under a more intense process of global integration were rendered somewhat tolerable in the 80's and 90's by the fact that China has had some kind of a minimum rural safety net, largely made possible by an egalitarian distribution of land cultivation rights that followed the de-collectivization of 1978. In most parts of India for the poor there is no similar rural safety net. So the resistance to the competitive process that market reform entails is that much stiffer in India.

In general, social heterogeneity and economic inequality make the social and political environment in India quite conflict-ridden, and it is difficult in this environment to build consensus and organize collective action towards long-term reform and cooperative problem-solving efforts. When groups don't trust one another in the sharing of costs and benefits of long-run reform, there is the inevitable tendency to go for the 'bird-in-hand' short-run subsidies and government handouts, which pile up as an enormous fiscal burden. Very few politicians dare oppose the continuing serious under-pricing of water and electricity, the over-manning of the public payroll, and a long-standing refusal to tax the better-off farmers.

Economic nationalism of the right as well as the left parties has long resisted the inflow of large-scale foreign investment in India, which despite some increase in the last few years remains a small fraction of that in China. The fear in India-- sometimes abetted by domestic companies keen to avert competition-- is of large global companies 'buying up' venal Indian politicians and generally compromising political sovereignty. This is in line with the old 'dependency theory' of development sociology, where underdevelopment is explained by foreign capital sapping the strength of domestic capital and the state. It is ironic that this is at a time when China has turned ‘dependency theory’ upside down: the regime seems more confident of controlling foreign than domestic private capital, and the latter is still discriminated against in terms of credit allocation and expansion of production outside local areas.

The discussion on economic reform is preoccupied with issues of fiscal and trade policy, financial markets and capital account convertibility. Reform would have been more popular if it were equally and simultaneously concerned with reform in the appalling governance structure in the delivery of basic social and infrastructural services for the poor in large parts of the country (in education, health, drinking water, irrigation, etc.). In the euphoria with the high growth rates of recent years one should not forget, for example, that the atrocious condition in India’s health sector (affecting the lives of the overwhelming majority of the people) is worse than that in even some African countries (the percentage of underweight children in India is not just five times that in China, it is worse than most African countries).

Resistance to market reforms is also provided by environmentalists and those concerned with the rights of urban squatters, the indigenous and other marginalized people. Markets, and development in general, have become identified with uprooting the livelihoods of the little people and despoliation of the environment. The record of resettlement and rehabilitation of people displaced by roads or dams or mining projects is dismal in India (of course, it is worse in China), and recent history of such projects is replete with arbitrary land acquisitions, defrauding by contractors, and reneging of promises to these poor people.

The pro-reform people usually do not engage in the arguments about the type of narrow development goals being pursued, except by just referring to the standard trickle-down process of growth. There are serious differences on the empirical judgment on the adequacy of growth trickle-down. In particular employment growth at the low-skill levels has been quite disappointing so far, and to blame this on the restrictive labor laws (applicable to the large factory sector) is asking the tail to wag too large a dog (in a country where more than 80 per cent of workers even in the non-agricultural sector work in informal activities where the labor laws do not apply).

The opposition to economic reform thus reflects not just the lingering nostalgia for old-style Fabian socialism that the financial press likes to lampoon. Its roots go much deeper, into the various distributive conflicts in Indian society.