

## **The Neoliberal Reforms of 1991 didn't Work as Claimed\***

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There is a common trope, fed especially to generations born after 1991, that economic progress and modernization in India really occurred only after 'liberalizing' economic reforms were introduced three decades ago. This is a travesty of the truth. Certainly, conditions for most Indians have improved since that watershed year. Per capita income went up more rapidly than before, life expectancy went up, infant and maternal mortality decreased, income poverty probably went down (though this is hard to tell because of changes in the official estimation of poverty over this period). But this would not have been possible without the foundations set by earlier trends, and in terms of most indicators, the rest of the world did even better.

Some developing countries with a more heterodox strategy that retained significant state control (like China) did much better. In comparative terms, progress in India has been minimal or even non-existent.

India's overall Human Development Index (HDI) score (a composite of per capita gross domestic product, or GDP, life expectancy and education indicators) improved from 0.433 in 1991 to 0.645 in 2019 (before the pandemic). But India's HDI rank slipped from No. 114 to No. 131, a dismal performance even allowing for the increased number of countries. Even this was largely because of per capita income; other indicators remained woeful even compared to poorer countries like Bangladesh. The Multidimensional Poverty Index (MPI) shows 28% of India's population in multidimensional poverty, with another 20% vulnerable to it, much higher proportions than the developing-country average.

The stated goals of the 1991 reforms were higher rates of income growth with more employment generation and diversification into higher value-added activities. Of these, only higher income growth was achieved, but at the expense of massive environmental destruction and without enabling structural change. Employment stagnated and then fell from 2011; industrialization did not take off beyond what was already achieved before 1991; most workers remain stuck in low-paying informal work; women's employment participation declined significantly. Nutrition indicators are poor, with declining per capita calorie consumption, and worse outcomes for women and young children, even before covid hit. Farming is under threat, and small and micro enterprises that employ the bulk of workers face an extreme crisis.

So the question is why higher GDP growth did not translate into better conditions for most Indians. The answer lies in the pattern of growth, which was highly unequal and provided benefits mainly to a small minority of people. This increased inequality was not just an unfortunate by-product of the reform process, it was embedded in its very framework. The neoliberal reforms were based on the idea that removing restrictive regulations on different markets and providing incentives and concessions to large capital would lead to increased private investment, which would become the engine of growth, increasing employment, incomes and standards of living. Opening up to global finance was supposed to further add to domestic investment.

These proved to be false expectations. The process of incentivizing large capital became an endless one, as big business demanded ever more incentives and next

generation ‘reforms’, even though its investment was effectively subsidized and insured by the government. International financial integration created domestic asset bubbles, and vulnerabilities to global capital movements that restricted fiscal expansion for fear of capital flight and losses due to interest rate differences between India and advanced economies. ‘Incentivizing business’ led to major resource grabs (sometimes exposed as ‘scams’ but really an inevitable feature of this strategy), the privatization of utilities and social services that are best provided by the state, an inability to ensure the basic rights of most workers (and undermining of the few that did exist), and declining ability to tax the rich, whether large corporations or extremely rich people, who were benefiting from all the subsidies and access to ‘cheap’ natural resources.

This Faustian pact with the devil is reaching its apotheosis in the extreme crony capitalism of the current phase of Indian development, as a major public health crisis and catastrophic increases in poverty and hunger occur along with incredible increases in wealth and income of a tiny handful. The fallout is growing hunger and livelihood loss, desperation among those who grow food, massively increased material insecurity for the bulk of people, rapidly worsening ecological constraints, inadequately funded and overpriced basic social services, and a younger generation cheated of the promised demographic dividend because of poor employment prospects. This inevitably generates unrest, as farmers, students and workers rise in protest against policies that would further worsen their conditions; and others are diverted by rulers into irrational hatreds and internecine conflicts that keep them distracted from real economic concerns.

The point is that all this is not a pandemic-created aberration, although it has surely been made worse by blatant acts of omission and commission of the current government. It is a logical extension of a neoliberal economic strategy. Similar outcomes—even if less extreme—are evident in other parts of the world, except where domestic political pressures have provided some counter. In phases over these three decades, the Indian state has recognized this and tried balancing it with attempts at ‘inclusive growth’. But the broader trends cannot be reversed without abandoning the basic neoliberal premises that still guide economic policy.

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