Capitalism’s Crises


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The global financial and economic crisis that unfolded from 2008 onwards in the epicentre of capitalism appeared to have affected large ‘emerging’ economies such as India and China less in its initial phase. This was explained by some experts using a ‘decoupling’ hypothesis, where it was hypothesised that the high growth rates of these economies did not seem to be affected by turbulence in the international economy, particularly the crisis in the US economy. While the idea of decoupling had its origins in the explanations for India’s and China’s supposed relative immunity, it was also used to explain the cases of Brazil and other Latin American countries regarding the independence of their growth rates from the growth rate of the US (Wyrobek and Stanczyk 2013). In fact, for over a year from when the crisis unfolded, it appeared that many emerging Asian economies, especially India and China, would not only remain relatively insulated from the crisis, but would also play a major role in moderating the global downturn and paving the way for a worldwide recovery.

Several features distinguished the recent crisis from the various financial crises that affected mostly emerging economies in different parts of the world in the phase of globalisation. Firstly, the origin of the crisis was at the core of capitalism, in the US economy, rather than in emerging markets that were typically perceived as more vulnerable. The rapid spread of the crises’ contagion to the entire global economy differed from previous crises that were usually
confined to one region or a small number of countries. Indeed, the intensity of the crisis was revealed as a complex financial entanglement exposing the fragility of even supposedly healthy institutions and countries. This global crisis spread rapidly and extensively to economic agents, sectors and economies that were previously perceived to be relatively immune. The fact that the crisis could not be blamed on faulty domestic policies of ‘errant’ governments in emerging economies, as had happened previously with crises in Asia, Latin America and Russia, called into serious question the rationale for full openness and complete reliance on market signals in economic activity under neoliberal economic regimes.

In such a scenario, when large parts of the globe were reeling from the impact of the crisis by the latter half of 2008, the idea and supposed evidence for decoupling in some parts of the world, particularly India and China, also allowed for the argument that these emerging economies had offered a new model of successful and sustainable growth based on economic reforms. Particularly in the case of India and China, the new model that was being referred to increasingly consisted of being able to break out of the stagnation of pre-reform economic regimes on the one hand, while maintaining prudence with regard to financial deregulation on the other.

India’s ‘success’ in withstanding the crisis thus drew attention to the monetary and financial management methods adopted by its central bank, the Reserve Bank of India (RBI). Joseph Stiglitz stated:

… your policy makers, particularly the Reserve Bank of India, are already doing a great job. I wish the US Federal Reserve displayed the same understanding of the role of regulation that the RBI has done, at least so far … India was one of the countries that resisted the wholesale deregulation movement that the United States had been exporting … They [India] did it against political pressure … and now I think the financial markets are thankful that they did resist those pressures. The result is that India’s financial markets are in better shape than they would have been if they had engaged in the kind of wholesale deregulation that the United States engaged in.²

Further, by 2011, advocates of the Indian success story focused again on the recovery of the growth rate from 2009/10 onwards. One leading academic noted:
From all accounts, except for the agricultural sector initially … economic recovery seems to be well underway. Economic growth stood at 8.6 percent during fiscal year 2010/11 per the advance estimates of CSO [the Central Statistics Office] released on February 7, 2011. GDP (gross domestic product) growth for 2009/10 per quick estimates of January 31, 2011 was placed at 8 percent. The recovery in GDP growth for 2009/10, as indicated in the estimates, was broad based. Seven out of eight sectors/sub-sectors show a growth rate of 6.5 percent or higher. The exception, as anticipated, is agriculture and allied sectors where the growth rate needs to be higher and sustainable over time. Sectors including mining and quarrying; manufacturing; and electricity, gas and water supply have significantly improved their growth rates at over 8 percent in comparison with 2008/09. When compared to countries across the world, India stands out as one of the best performing economies. Although there was a clear moderation in growth from 9 percent levels to 7+ percent soon after the crisis hit, in 2010/11, at 8.6 percent, GDP growth is nearing the pre-crisis levels and this pace makes India the fastest growing major economy after China. (Bajpai 2011: 11)

The nature of India’s financial deregulation and the stability of its growth process is the evidence that is cited above as being indicative of India’s relative immunity on the one hand and its bounce-back after some turbulence experienced on the other. Even if the decoupling hypothesis were seen to be irrelevant, orthodox evaluations observe the 2008 financial crisis as a mere interruption in a highly successful growth path because of the interconnectedness of countries under globalised regimes, and not as something that calls into question the features of India’s growth process or the economic reforms regime.

This chapter attempts an evaluation of the 2008 financial crisis on the Indian economy, locating it in the trajectory of Indian capitalist development and the dynamics of the accumulation process, particularly from the time when neoliberal reforms were initiated in the 1980s. The chapter argues the following. First, the growth rate of the Indian economy from the 1980s, while sustained over a long period of time, has also been characterised by, for example, structural features such as high inequality, low levels of (mostly poor-quality) employment growth as well as rising and unsustainable current account deficits. Second, the fragility as well as the built-in inequity of the Indian growth process was apparent even before the world crisis broke out and its manifestations began
to be seen in terms of economic slowdown, slow growth in consumption demand and in the numbers of people who could be classified as ‘poor and vulnerable’ in the high-growth phase. Third, even if the ‘decoupling’ hypothesis may have appeared to be true for a certain period, the Indian economy was affected through trade, finance and export channels, calling into question the degree of supposed immunity, and reflecting the vulnerability induced by the overall economic reform process as well as its class dynamics. Fourth, the structural constraints inherent to the globalisation and growth process are far from being addressed by the policy interventions that followed the crisis, while even partially sustainable or mitigating alternatives are not being implemented.

ECONOMIC REFORMS AND STRUCTURAL FEATURES OF INDIA’S GROWTH PROCESS

The Indian economy has experienced high growth rates over more than three decades. This growth experience has been lauded, first for being able to break out of what was termed the ‘Hindu rate of growth’ of 3.5 per cent per annum that characterised the period until the early 1980s, and second, along with China, for setting an example for emerging economies to reap the advantages of globalisation. Between 1980 and 1990 and in the decade 1990–2000, the decadal growth rate rose from 5.38 per cent to 5.58 per cent, and then jumped to 5.99 per cent by the period 2000–2005. In fact, annual growth rates remained above eight per cent for several years between 1999 and 2000, and 2004 and 2005 (Dutt and Rao 2000; Government of India 2000–2009).

The so-called break in the growth trajectory occurred in the 1980s. India broke away from a policy regime that was characterised by relatively dirigiste policies and initiated partial economic reforms in the foreign trade and industrial sectors, under what came to be known as the New Economic Policies (NEP). It was argued, in radical analyses of the growth process from the 1980s, that a very serious demand constraint was previously generated by the low purchasing power of the vast majority of the people, engaged particularly in the agrarian economy. This was counteracted to some extent, from the 1980s onwards, by purchasing power in the hands of a middle class constituted by the wealthier agriculturists, employees in public enterprises and in the service sector, which had started contributing to more than half of the GDP by then.
Patnaik (1985) argued that a persistently slower rate of industrial growth, generated by the demand constraint and by slowing down public investment, put a damper on the investment outlook of the big bourgeoisie … it has attempted to break out of the shackles of the constricted home market by setting up projects abroad, by entering the international market from its home base and by entering new avenues, eg., certain luxury consumption goods, for which a pent-up demand has built up in the economy over the years. For many of these options however it needs to collaborate with metropolitan capital, and it also needs the lifting of a number of controls in the economy. Just as controls in a growing market can be an instrument for preempting rivals and building up monopoly positions, likewise decontrol in a sluggish market with entrenched monopoly positions can be a means for the monopolists to oust others. (Patnaik 1985: 12–13)

In this set of partial reforms which focused primarily on increasing trade openness and industrial delicensing under the NEP, policies were rolled out that provided high incentives to ‘sunrise’ industries and services that would be consumed by a burgeoning middle class. These ‘sunrise’ industries, such as consumer durables and automobiles, were in contrast to basic industries under import substitution industrialisation (ISI). Kohli (2006) termed this the pro-business policy shift by the Indian state, referring to the Indian state’s changing role since 1980, especially the prioritising of economic growth and a slow but steady embrace of Indian capital as the main factor ruling all. This stood in contrast to a supposedly socialist or pro-poor policy. Thus, there was an attempt to mitigate the large demand constraint that had put brakes on the growth process by the late 1970s by the demand from a burgeoning middle class. The public-sector bureaucracy was a significant part of this middle class. The class also included groups of ‘intermediate classes’ (constituted by self-employed groups, small- and medium-enterprise owners, traders in urban areas and middle peasants in the rural areas), as well as a whole range of traditionally dominant classes, in other words, the rich peasantry and the big bourgeoisie. The state, which had functioned ambivalently with respect to often conflicting dominant-class interests while also appearing to take on a broadly
developmentalist role in the dirigiste phase, thus began to gradually abandon the pro-poor agenda from the mid eighties.

The major economic regime shift took place in 1991, when India introduced market-oriented economic reforms in most of its sectors and increased its openness to the global economy. The reform package, implemented in steps, consisted of what are known as ‘first generation reforms’ in the literature. These reforms involved extensive trade reforms, domestic financial-sector reforms, agricultural opening up, almost complete industrial delicensing, liberalisation of foreign investment, both direct and indirect, and disinvestment of public-sector enterprises. In analysing the class forces that pushed for major reforms, implemented under standard Stabilisation and Structural Adjustment Programmes initiated by the World Bank and International Monetary Fund, Patnaik (1985) argued that even domestic monopoly capital would be averse to blanket reforms and might in fact resist policies such as complete import liberalisation. However, a so-called consensus was beginning to be forced on the economy. In this, the groups that pushed for the reforms were new business houses which were on the rise, aspiring to break existing monopoly positions in the domestic market with the help of metropolitan capital, an ‘upstart’ group of Indian capitalists (many non-resident and many resident with large assets abroad) and international financial institutions.

The essential point about liberalisation is that it represents a move towards greater accommodation with metropolitan capital in a situation of economic crisis. This move, spearheaded by certain sections of upstart big bourgeoisie, draws qualified support from the entrenched big bourgeoisie in the context of the crisis, and seriously threatens not only the economic position of the working people, but also that of large sections of petty bourgeoisie and non-monopoly bourgeoisie. Greater penetration of the domestic market by metropolitan capital which such liberalisation entails and which even domestic monopoly capital is worried about, must lead to the going under of large sections of non-monopoly capital whose staying power is necessarily limited. This would be the case not only in industries where metropolitan capital and products directly enter, eg., electronics, auto-ancillaries, etc., but also in other industries, from which demand shifts away in favour of the new and sophisticated products turned out under the aegis of metropolitan capital. (Patnaik 1985: 13)
Indeed, this came true, with the whole package of reforms being initiated in response to a foreign exchange and balance of payments crisis in 1991.

The structural break in India’s growth trajectory, therefore, came before the formal initiation of comprehensive economic reforms in 1991. The break came with several structural features. First, in a primarily agrarian country, where over half the population still earns its livelihood from agriculture and allied activities, the growth rate of agriculture remained meagre, even as the breakthrough was made in overall growth in the economy. Between 1991 and 1992 and 2006 and 2007, during the economic reform phase, the compound annual growth rate of agriculture was a mere 1.3 per cent (Vakulabharanam, Zhong and Jinjun 2010), implying that the high overall growth of the economy may have been quite independent of the largest segment of the population. However, while the economy may have grown irrespective of conditions in the agricultural sector, India also faced a serious food crisis as production fell and food inflation hit high levels. More than 271,000 farmer suicides occurred between 1995 and 2011, according to the official National Crime Records Bureau, with an aggravation in the yearly figures from 2001 onwards. Economic reforms resulted in a reduction in public investment in agriculture, as well as partial withdrawal of state support to various small farming groups. Especially before 2004/05, the cutback in subsidies and the slow growth of subsidised agricultural credit on the one hand, and the introduction of trade liberalisation on the other, which caused agricultural output prices to fall for some key agricultural commodities, caused a ‘double squeeze’ of the farming community (Vakulabharanam, Zhong and Jinjun 2010).

Second, in the phase of very high growth, particularly from 1999/2000 to 2003/04, the proportion of people who were found to be ‘poor and vulnerable’ was as high as seventy-seven per cent of the population. In a highly publicised 2007 report by the National Commission for Enterprises in the Unorganised Sector (NCEUS), it was shown that in 2004/05, a large proportion of the population was consuming less than half a dollar a day per capita, less than half of the US$1 norm fixed by the World Bank for the poorest countries of the world (Government of India 2007). In fact, India did not enter such a category by the reckoning of the World Bank, with its absolute poverty level being determined at US$2 a day. Indeed, official poverty estimates of the government projected a fall in numbers of people in absolute poverty based on income, but in consumption terms more than three-quarters of the population had abysmal consumption levels. This was also reflected in a significant change in...
the propensity to consume, which has an important bearing on GDP growth. Between 2005/06 and 2006/07, growth of private consumption declined by as much as 1.6 per cent even though there was a 0.5 per cent rise in GDP growth. The slowdown of consumption in relation to aggregate income was also due to the decline in personal disposable income as a ratio of GDP, apart from the high numbers of poor and vulnerable people. Additionally, there was an almost four per cent increase in the Gini coefficient between 1993/94 and 2004/05 (Vakulabharanam, Zhong and Jinjun 2010).

The coupling of poor agricultural performance and low levels of consumption may have established the conditions for a classic underconsumption crisis characterised by low effective demand from large segments of the population. However, the factors that mitigated the possible adverse effects of low mass consumption were also seen as structural features of the growth process, in turn generating potential constraints that were expressed with the outbreak of the financial crisis.

Indeed, the so-called independence of the growth rate from conditions in the agricultural sector, even as the majority of people continued to be dependent on it, was based on the argument that India had acquired lucrative export markets, especially in services, which sustained high growth rates for long periods of time. It was also argued that the existence and consumption pattern of the large Indian middle class, consisting to a large extent of salaried people in the government and the public sector, delayed the potential dampening effects of low consumption by the large agrarian majority on the growth rate. Both of these factors, although initiated through partial industrial and trade reforms from the second half of the 1980s, as mentioned earlier, became structural features with the onset of the formal economic reform package.

Thus, third, India experienced substantial opening up in response to economic reforms that were formally initiated in 1991. This, for one, was reflected in very high trade ratios as well as external financial liberalisation as its economy opened up, with the combined ratio of exports and imports to GDP increasing to more than fifty per cent even as the economy began to slow down. Another reflection of this was seen in extremely high import elasticities and a consequently high current account deficit over the reform period, creating a foreign exchange constraint from trading activity.

Financial opening brought an end to a policy regime which was characterised by segregated banking, with preferential credit availability for agriculture, small businesses and other ‘priority’ sectors, and restrictions on the
flows of overseas capital. However, banking per se, in comparison to the extent of liberalisation in other parts of the world, was subjected to greater prudential norms. For example, due to the high degree of exposure of the banking system to the real estate sector, banks were advised to establish a proper risk management system to contain the risks involved, to formulate specific policies around limits to exposure, collaterals and margins. Similarly, with the strong growth of consumer credit and the volatility in the capital markets, the Reserve Bank of India increased the risk weight for consumer credit and capital market exposures.

However, the changes in the financial sector were substantial, even though the banking sector had not been as exposed to financial fragility as elsewhere. Successive reforms that were implemented over the next decade and a half introduced several changes in India’s financial sector. For example, foreign institutional investors were allowed free access to stock markets, bans on derivative trading were lifted and they were treated an a par with securities in stock markets, thus ending the restrictions imposed earlier in terms of the Securities Contract and Regulation Act. Traded derivative markets were simultaneously opened where options, futures and swaps on interest rates and currencies could be traded, and the ban on commodity futures was also lifted. India’s balance of payments subsequently saw extremely favourable portfolio investment flows, rendering the overall foreign exchange position comfortable, but highly volatile and susceptible to disturbances in international financial markets. As was the case with other emerging economies in the globalisation period, cross-border flows of capital, especially those with short-term duration, have today gained a large presence in India’s capital market. Short-term capital flows, highly incentivised under the liberalised policy regime, have also caused a lot of problems for Indian monetary authorities, especially in achieving the twin goals of managing a competitive real exchange rate along with some degree of autonomy in catering to the goals set for the real domestic economy (Sen 2010).

Further, since financialisation of markets, an offshoot of financial deregulation, does not remain confined to financial assets alone, the systemic potential for fragility and spillover effects to the real economy also existed in India. As channels of speculation are opened up for short-term capital, it spills over across markets which include financial assets, real estate and commodity exchanges and this became evident in India’s case as well, even if the much talked about sub-prime loan crisis kind of situation that was seen in the housing markets of the US was not seen in India. As Sen (2010: 9) points out:
On the whole, official policies in India to manage the surges in speculative short term capital inflows in the money market have not been able to arrest its spillover to the commodity market, which continues to provide profits to financiers on futures and forward trading. The end result has been the unrelenting inflation as at present, in food prices which affects the survival for large sections of the population in India … The benefits of financial deregulation remain confined to those who can speculate in markets, while the costs are borne by those who are affected by speculation on commodity prices and cuts in social sector spending by the government.

Fourth, the growth process was characterised by rising capital intensity and slow growth in employment, as emphasised by the NCEUS. It was seen that in the liberalised environment, the product composition of exports was in favour of higher capital and skill intensity (Chandrasekhar 2009; Goldar 2009). Further, it was also seen, in a situation where mass demand was constrained, that the expansion in domestic demand was in favour of products demanded by high-income groups, such as automobiles and white goods, whose consumption grew at a much higher rate due to rising incomes and credit-induced expansion in demand. These product groups on average tend to be more capital intensive and generate less employment. For example, Bhaduri (2008) notes:

Jamshedpur steel plant of the Tatas employed 85,000 workers in 1991 to produce one million tonnes of steel worth $ 0.8 million. In 2005, the production rose to five million tonnes, worth about $ five million, while employment fell to 44,000. In short, output increased approximately by a factor of five, employment dropped by a factor of half, implying an increase in labour productivity by a factor of 10. Similarly, Tata Motors in Pune reduced the number of workers from 35,000 to 21,000 but increased the production of vehicles from 1,29,000 [129 000 in the international numbering system] to 3,11,500 [311 500] between 1999 and 2004, implying a labour productivity increase by a factor of four. Stephen Roach, chief economist of Morgan Stanley, reports similar cases of Bajaj motor cycle factory in Pune. In the mid-1990s the factory employed 24,000 workers to produce one million units of two-wheelers. Aided by Japanese robotics and Indian information technology, in 2004,
10,500 workers turned out 2.4 million units – more than double the output with less than half the labour force.

Fifth, the high growth period saw the share of wages in value added consistently declining and real wages of workers being virtually stagnant. Also, with the worsening distribution of income between those engaged in what came to be referred to as ‘sunrise sectors’ and the vast and growing majority of the populace working in unorganised, informal enterprises, as well as the rise in prices of articles entering the consumption basket of workers, the impact on consumption demand was significant, as noted.

What these structural features meant, in combination, was that the fragility of the growth process was beginning to be felt even before the actual crisis broke out in the advanced countries. The Indian economy was already in a highly demand-constrained situation, reflected in the low levels of consumption of the majority of the population, and dependent on sources of demand from the external sector and on capital flows that are inherently volatile, which were affected by the financial crisis.

Macro-economist Mihir Rakshit (2010) outlined the domestic as well as the external features of the Indian economy before and during the crisis. India’s GDP growth, he argued, had started decelerating in the first quarter of 2007/08, nearly six months before the outbreak of the US financial turbulence and considerably ahead of the surge of recessionary tendencies in all developed countries from August to September 2008. The slowdown, which occurred in industrial and service sector growth, was not compensated enough by agricultural growth, which picked up by 2007/08, lending greater credence to the argument that the Indian economy’s growth rate has been quite independent of the agricultural sector’s performance.6

IMPACT OF THE CRISIS

After the outbreak of the crisis it was concluded that the Indian banking sector was unaffected to a large extent because of prudent regulations, a proactive regulator, and its very limited operations outside India or exposure to sub-prime lending by foreign investment banks. A higher provisioning requirement on commercial bank lending to the real estate sector, imposed by the
RBI, helped to curb the growth of a real estate price bubble. This, it is argued, has been one of the few global examples of a counter-cyclical capital provisioning requirement by any central bank. Further, Indian banks were not overly exposed to sub-prime lending, allowing them greater protection.

The decoupling hypothesis, however, appeared to be flawed as India began to experience the impact of the crisis soon enough. The direct impact was seen in the capital account of the balance of payments, in remittances and exports within the current account and in the exchange rate, all significant variables from the point of view of the neoliberal policy regime. Further, even if banks were not affected in the same way as elsewhere, in India the real economy was affected through various channels and banks were impacted by the slowing down of the economy. Rakshit (2010: 100) notes:

… despite the resilience of Indian banks, the global financial meltdown has had some adverse consequences for credit-financed economic activities. Widespread banking troubles created a serious credit crunch for traders. Instances of banks delaying or not honouring guarantees extended to traders became more frequent. Domestic exporters were also finding it increasingly difficult to secure credit … The difficulty of importing components or raw materials directly required for producing exportables also has had a negative impact on domestic demand. Again, with the globalisation of the supply chain in the production process, a disruption anywhere in the cross-border flow of intermediate inputs tends to create a disproportionately large effect on output and employment in both the domestic and the international economy.

The capital account, whose net balances reflect capital inflows and outflows for a country, saw a decline in three crucial inflows – foreign direct investment (FDI), foreign indirect (or portfolio) investment (FII) and external commercial borrowings (ECB) – which were adversely affected by the turmoil in the financial markets in advanced economies. Between September 2008 and 2009, the capital that Indian corporates managed to raise in international markets fell by over a half. Portfolio investment was extremely volatile and largely negative (indicating net outflows) from the beginning of 2008, and this dominated the overall foreign investment trend. Likewise, FDI inflows witnessed negative growth in 2008/09. The sluggishness of the inflows of FDI and ECBs, combined
with the massive outflow of FII, resulted in a significant deterioration of India’s capital account following the crisis, eroding the capital account surplus.

With the capital account of India’s balance of payments turning negative after a long period, it brought forth an important vulnerability in the economy that arose from the deregulatory processes that had taken place in the period of economic reforms. Large inflows of short-term capital in the form of portfolio investments, which are also volatile and unpredictable, have been encouraged as part of financial deregulation. However, monetary authorities in India had also been active to arrest what they considered untoward effects of these flows on money supply or exchange rates. Their role in creating a capital account surplus and keeping India’s foreign exchange position comfortable thus also carries the downside of rendering the capital account vulnerable to shocks in international financial markets. One of the most critical aspects that came out of the crisis has been the demonstration of the fact that, as Jayadev and Kapadia (2009) note, importers of capital, especially importers who do not have the reserve currency or are not hegemonic, are always at substantially more risk than is easily seen because of the network effects of the global financial system. They argue that,

as a result, east Asia broadly took the route of a ‘neo-mercantilism’. The countries moved from being importers of capital to undervaluing their exchange rate (already low after the crisis) and earning export revenues. As export revenues soared, several developing countries became exporters of capital, especially to the US. Large developing and emerging economies, such as India, Brazil, Russia and China, as well as other countries gathered an enormous stockpile of reserves as self-insurance, although, especially in the case of Russia, such insurance appears to be rapidly being run through … As many have noted, these self-insurance policies are enormously costly, but the cost of insurance is weighed against the benefits of security, export-driven growth, and technological development. (Jayadev and Kapadia 2009: 167)

On the current account, the main variables that were affected were remittances and exports. Remittances, an important source of inward foreign capital flows that in the past have helped to balance India’s large trade account deficit and keep the current account deficit at a reasonable level, were affected from late
2008 onwards. Further, there was a steep decline in demand for India’s exports in its major markets. One of India’s top export categories, gems and jewellery, which was the first sector to feel pressure at the very beginning of the global meltdown, saw a sharp decline in export orders from the US and Europe, resulting in direct retrenchment of over 300,000 workers. Following this, other export-oriented sectors such as garments and textiles, leather, handicrafts, marine products, and auto components were also strongly affected (Kumar and Vashisht 2009). Exports of services, which constituted one of the main drivers of economic growth in India, also saw a steep decline, from a thirty-four per cent growth rate to less than six per cent during 2008/09.

The impact of sharply declining exports was seen in employment. The government of India’s Labour Bureau stated that 500,000 jobs were lost during October–December 2008 and 1 million jobs were lost during January 2009 alone (Government of India 2013). In the agricultural sector, those producing export crops confronted collapsed prices, aggravating the abysmal conditions in the agrarian economy. Small-scale producers in all sectors were faced with the ‘pincer movement’ of falling demand and severe credit crunch, with actual investment being limited due to conditions in which banks are willing to lend only to the most secure borrowers, who in turn are unwilling to invest because of greater uncertainty.

These aspects, which point to ways in which a highly demand-constrained situation can lead into a seriously recessionary one, with strong multiplier effects that aggravate the dismal real conditions of the majority of the population, have been underplayed in most conventional assessments of the impact of the global crisis on India. In fact, the government has paid hardly any attention to these real conditions its response to the crisis. In turn, the so-called turnaround in terms of the growth rate and of capital flows has obfuscated the nature and extent of the impact of the crisis.

INDIA’S RESPONSE TO THE CRISIS

How did India respond to the different aspects of the crisis? The contrast with China is interesting here, with differences in the political economic understandings of the crisis, the nature of their tradable sectors, and the relative openness of their capital accounts. Thus, in contrast to China, with an export-led
economy and a highly managed capital account, India, with a porous, de facto open capital account, has been faced with flows that are generated, as mentioned above, by portfolio inflows and external commercial borrowings, making the current account deficit precarious due to falling export earnings with the crisis.

There has been no significant move to question the logic of financial deregulation that allows for large-scale, short-term international capital flows (Sen 2010).

As far as the domestic economy is concerned, the initial responses of the government focused on the financial rather than the fiscal side of the crisis, with the understanding that the economy was constrained by a shortage of liquidity. Thus, there were confidence-building measures to infuse liquidity into a banking system that had become very constrained, to reduce interest rates, and to provide some relief to non-bank financial institutions, particularly insurance companies. These were measures that became necessary, as Ghosh (2010) points out, not because the international contagion was spreading to the banking system but because the Indian banking system had (in a less extreme form) several of the fragilities that undermined the US banks. However, in reality, credit conditions did not ease in any significant way, because in the absence of a serious fiscal stimulus, banks’ actual willingness to lend as well as borrowing by enterprises to stimulate production were constrained by stringent demand conditions.

There was a great delay in employing an expansionary fiscal stance to create more economic activity, boost demand, and thereby lift the economy from slump, in contrast, for example, to China. The government of India took an inordinately long time to announce the required fiscal stimulus and, when the much awaited fiscal package was finally announced, it turned out to be relatively small. It was less than 0.5 per cent of GDP, a tiny fiscal input where some of the most critical areas of spending that were creating serious constraints were neglected or ignored and which was, in any case, too small to have much effect. This reflected, again, an understanding that the effects of the crisis were temporary or a mere interruption in a growth process that could be sustained (Ghosh 2010). Additionally, there was little or no resource allocation to state governments, direct investment to ensure mass and middle-class housing, interventions to improve the livelihood conditions of farmers and enlargement of employment schemes to provide relief to working people as well as a macro-economic model case.
CLASS DYNAMICS AND THE HINDU FUNDAMENTALIST RIGHT-WING GOVERNMENT

With the formal adoption of wholesale economic reforms from 1991, it has been suggested that there was a consolidation of a new class structure in India (Chatterjee 2008), with the rising inequality being reflected by winners and losers in class terms. Vakulabharanam, Zhong and Jinjun (2010), in a careful study of consumption-based inequality, show that from 1993 onwards, the urban–rural divide widened considerably, with urban classes gaining over rural ones taken as a whole, even as intra-urban and intra-rural inequality also worsened. In the rural areas, marginal farmers, tenants and agricultural workers saw worsening conditions, especially in the context of the severe agrarian crisis. Urban professionals, capitalists and managers gained substantially in relative terms, making the urban areas crucial centres of worsening inequalities, even as the urban–rural divide worsened. The study notes:

The rural intermediate classes are not quite as important in this new scheme, although their interests are usually protected, directly or indirectly. Members of this class have also unevenly moved on to urban occupations to become constituents of urban capitalist classes. The working groups (the rural poor – small and marginal farmers, agricultural workers; as well as the urban poor – unskilled urban workers) are no longer among the main foci of the state but their interests have continued to be addressed mainly through a populist mode in order to enlist their support during elections. The owners and managers in the informal sector in urban areas are quite heterogeneous and certain groups (e.g. wholesale and retail) have probably benefited (even this may not last long once liberalisation takes deep roots in these occupations) while a large section (petty vendors) has probably not. However, the employment numbers suggest that the informal sector as stated above plays the key role of absorbing employment in the face of insufficient employment opportunities in the formal sector, although this does not apparently improve the consumption levels of the informal workers. (Vakulabharanam, Zhong and Jinjun 2010: 19)

With the consolidation of entrenched dominant-class interests as well as the creation of newer groups that sustain their ideologies, the Indian state's
response to the crisis, as noted, has been to view it as a temporary interruption in a successful growth strategy and a resilient developmental model.

Six years after the financial crisis broke out at the global level, what are the challenges that are faced by the broad public due to the persistence of neoliberal policies as a new right-wing Bharatiya Janata Party (BJP) government has been voted to power in India?

In May 2014, the right-wing Hindu fundamentalist government of the BJP was voted to power in India under the leadership of Prime Minister Narendra Modi, a rabid reformer and ‘moderniser’ with the track record of having presided over one of the worst genocides in post-independence history as chief minister of the western state of Gujarat in 2002. The BJP’s rise on the electoral scene in India happened in substantial terms from 1989 and it emerged as the single largest party from the second half of the 1990s. After this rise, it was argued (for example, by Sridharan 2004; Yadav, Kumar and Heath 1999) that a new social bloc had come into existence, consisting of groups that were united by relative economic and social privilege, and was forming the support base of the BJP. Consisting of urban rich and middle classes, upper castes and rising landed peasant castes, the picture of ‘shining India’ consolidated these groups into the main support base of the party, which translated into a massive mandate in the 2014 elections.

The economic policies that were outlined in the BJP’s election manifesto and that have unfolded under the new regime, while rhetorically enveloped in ideas of restoring ‘national dignity’, show equal commitment to deepening economic reforms as the previous governments, euphemistically referred to as ‘minimising government’ and ‘maximising governance’. Specifically, this has involved enhancing the degree of privatisation of the economy, fiscal consolidation and discipline by bringing down the fiscal deficit (like under the previous governments), hikes in railway fares and freight rates, cutting down allocations to public programmes and liberalising foreign investment norms. More importantly, the commitment to deepening reforms is seen in a clear agenda for labour law reform that aims to provide incentives to private capital and further flexibilise an already flexible and vulnerable workforce. Indirect tax structure modifications aimed at improving private profitability and direct tax changes aimed at increasing the disposable incomes of the middle classes (and within them the better-off segments) have been effected in the new government’s first Union Budget, which clearly indicates a continuity with previous neoliberal policies. It is unlikely, therefore, that the economic crisis and its
impact on the largest segment of the population will abate and that the serious demand constraint will be eased.

ALTERNATIVES FOR GENUINE DECOUPLING

The alternative policies that have been discussed, or seem necessary in the context of the serious economic crisis, fall into two categories. First, there are those that can mitigate the effects and make them relatively manageable within the contours of the existing development strategy. Second, there are those that can point towards alternative production and consumption systems rooted in local economies and domestic markets. The policies suggested as ones that could mitigate the crisis have involved the following measures: (i) to begin with, as mentioned above, a standard Keynesian device of using an expansionary fiscal stance to create more economic activity and demand, and thereby lift the economy from slump; (ii) a shift in the focus of spending towards those that have hitherto been ignored under neoliberal policies, such as resource allocation to provincial governments, direct investment in mass and middle-class housing, employment schemes in sectors like construction; (iii) the expansion of rural employment guarantee schemes and revival of credit availability for the farming sector; (iv) the allocation of significantly increased resources towards expanding, universalising and improving the functioning of the public distribution system for essential commodities; and (v) the reversal of financial-sector liberalisation, given the huge imperfections in such markets and the ability of unregulated finance to destabilise real economies.

It is important to underscore that such policies that aim to boost demand and create purchasing power among larger segments of the population to counteract the tendencies towards underconsumption will do little to address fundamental structural inequities in the economy. It is true that public spending will be more economically effective and more welfare-improving if it is directed predominantly toward employment schemes, social spending and rural and urban infrastructure that is used by large numbers of people. However, they neglect some essential elements for moving towards a new economic paradigm that could address the structural inequities, including land reform as well as the creation of democratically accountable systems that also aim to alter consumption and production patterns in more sustainable directions.
An example of such a participatory and accountable system was seen in the south Indian state of Kerala in the 1990s under a left government led by the Communist Party of India (Marxist) (CPI[M]) where, as a unique experiment in participatory democracy, the state devolved forty per cent of its finances to local government institutions that came to be in charge of drafting local development plans along with local communities. This became possible because land reform as well as participatory politics initiated under a left government in the late 1950s and successive mobilisations created a culture of devolving developmental outcomes in response to demands from below, which in turn translated into decentralised planning involving collective mobilisation. As Williams (2008) noted, a substantial proportion of the funds allocated were for local economic development projects, mostly through cooperatives. The methods used were participatory, with local communities involved in visualising, developing and implementing these projects.

While the devolution appeared, on the face of it, as a financial decentralisation initiative, its objectives were multifaceted: to use state funds to respond to the demands from below that came from a culture of social mobilisation; to stimulate productive investments and expand a stagnant and low-growth economy in sustainable ways and at appropriate scales suited to local needs; and to combine state-based financial devolution with organisation of subordinate groups in civil society into small-scale cooperative production units. Organisationally, this involved the decentralisation of decision making to neighbourhood groups and locally elected representatives at village level through publicly visible forms of mobilisations. The planning process, decentralised up to the local level, was converted into an exercise in social mobilisation as well as decentralisation to overcome economic stagnation and deterioration in the quality of social-services delivery in the state. In an assessment of the programme's impact, Isaac and Franke (2000) argued that the process, involving collective action in decisions as well as implementation at the lowest levels, allowed for the priorities of those with poor asset positions, as well as poor skill and income positions, to become recognised and integrated into developmental priorities.

The linking of state-controlled finances with devolution rooted in participatory politics made it necessary for the state to be responsive to needs from below. It also pointed out the possibilities from redistributive development that combined allocations from above with local needs which were essential for
effective service delivery as well as local development. In other words, what was attempted was the sowing of the seeds of an alternative logic of accumulation to achieve broad-based economic development.

However, these kinds of alternatives go against the grain of a standard development paradigm, particularly a neoliberal one, and do not find any voice in the existing scenario in India.

In a country where the majority of the people earn their incomes from the agrarian sector and small-scale activities, including in the manufacturing sector, it is essential to develop decentralised development models, with the Kerala experiment as one possible example, as alternatives to the neoliberal paradigm, which targets growth even as it bypasses the largest number of people in the country, as the Indian evidence clearly shows.

CONCLUSION

The Indian economy, which is supposed to have offered, as with China, an alternative model of capitalist development in recent times and which is publicised as having been impacted relatively little by the global economic crisis, is far from being so, as this chapter has attempted to demonstrate.

Apart from the low levels of consumption of more than three-fourths of the population, India is faced with an acute food crisis and food insecurity is widespread, particularly given the significant food inflation over the past few years, which continues despite large food grain stocks. In December 2013, Bloomberg tracked consumer prices in 17 Asia-Pacific economies, of which the growth rate of consumer prices was highest in India, at 9.87 per cent.\(^7\) Growth rates of the sales of consumer goods had started declining by December 2012, but from September 2013, sales by volume started contracting. Policies of neoliberalism, which aggravated fundamental structural inequalities in the Indian accumulation process, have been continued and intensified, even after the global financial crisis is seen to have had a substantial impact. It remains to be seen whether the demand-constrained situation that should have rung alarm bells in policymakers’ minds long ago will finally have a serious impact on the actual growth rate and bring some of the structural features outlined in this chapter into focus, in turn asking serious questions about the viability of the much publicised ‘India growth path’.
NOTES

1. Decoupling can mean different things, as Dervis (2012) suggests. Firstly, it can refer to the divergence of the gross domestic product long-term path of emerging economies and advanced economies, which need not mean an actual divergence, but may only indicate a higher growth rate required for catch-up. Secondly, decoupling can refer to the growing differences between business cycles, or a delinking of cyclical movements especially with regard to global shocks, which can be interpreted as different stimuli and response structures in the two types of countries.

2. See Stiglitz, J. 'India is well placed to take on round 2 of recession,' The Times of India, 10 May 2010.

3. The immediate post-independence period of 1950 to 1980, often disparagingly referred to as the years of the 'Hindu' rate of growth, had an average rate of growth of 3.56 per cent for the entire period. Although this was three times the rate of growth of the last 30 years of colonial rule, the fact remains that during the first 30 years after India's independence, the improvement in the per capita income was hardly between 1 and 1.95 per cent (Kannan and Raveendran 2009).

4. See Sainath, P. 'Farmers' suicide rates soar above the rest,' The Hindu, 18 May 2013. Sainath, an eminent journalist, notes that even such a high figure is an underestimate due to under-reporting by some states.

5. In an agrarian sector where small farmers depend on credit from informal moneylenders in interlinked credit and output markets, farmers have had to pay much higher interest rates, compared to the rates available in financial institutions. In this process farmers also sometimes lose control over production and cropping-pattern decisions.

6. There was a significant increase in agricultural (GDP) growth, from 3.8 per cent in 2006/07 to 5.1 per cent in 2007/08. In sharp contrast, the growth in the secondary and the tertiary sectors declined from 10.6 per cent and 11.2 per cent in 2006/07 to 7.5 per cent and 11.1 per cent, respectively, in 2007/08.


REFERENCES


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