

Chapter 5

Indian Economy and Society: Globalization and Economic Reforms¹

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1. Markets in Economic Theory and Policy

Markets today remain integral to the politics and economics of mainstream neo-liberal doctrines. Policy prescriptions as follow from dominant official circles often share an uncritical acceptance of such positions, thus attaching a great deal of importance to the expansive path of the market. Views as above treat the market as a major institution which holds the key to a path of maximum growth with efficiency, by enabling producers, consumers as well as the labourers to operate and exercise options according to their rational choice. Based on the foundations of methodological individualism, an exercise of free will as above is also consistent with the much celebrated optimality principle formulated by Wilfred Pareto back in the 1920s. The doctrine is considered to provide a unifying link between the markets for final output and those for labour and capital, the latter with inputs rewarded according to their individual contribution in the production process.

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A free market as viewed above in neo-liberal economic doctrines is supposed to provide opportunities for an economy to maximise, at a point of time, potential output and its utility from consumption, while providing the best possible returns to capital along with the best available wages for labour.

With disproportionate power as is usually enjoyed by the advanced nations in material terms and with their geo-political significance, advocacy for the opening and liberalisation of markets has continued to prevail, both on the official view of the advanced nations and on positions taken by the international financial and trading institutions, dominated by the same set of countries. As for other nations, which include the developing, the least developed and the transition economies, these have been at the receiving end, with their policy makers either too ready or obliged to adopt and put to practice the market-oriented policy prescriptions. Moves to launch market-oriented reforms reflect the desire to remedy what is seen as the so-called inadequacies/imperfections of markets in these economies, which are also held as responsible for their lack of development!

Viewed from an orthodox Marxist perspective, the market as an institution can be seen as necessary to promote the expansion of capitalist production processes. Thus capitalism accumulation is made possible as the free market enables production to be based on wage labour, commodity production and exchange². From this angle advances of the market are treated as a necessary pre-requisite of a capitalist expansionary process. It provides a run up to transformations by compulsions, on the part of capital, to improve productivity and to extract surplus (labour) value by employing labour who works at low wages (equivalent to necessary labour) for survival.

Some debates within the Marxist circle, on the historic and institutional specificities of capitalism (as a form of production, exchange and distribution), also connect the role of markets to capitalism. For the school led by Immanuel Wallerstein and Gunder Frank,

² Dobb (1946).

markets have remained central in bringing about a world system of trade and exchange, as happened since a period as early as the 16th century. The process, according to them, also heralded the advent of capitalism³.

For other scholars, like Maurice Dobb, trade, exchange and markets, *while necessary, are not sufficient* to warrant a path of capitalist expansion. Thus trade can be there even with serfdom or its variations, which limit accumulation and the expansionary effects of the market. As pointed out, in absence of wage labour, commodity production for exchange and the ability of capitalists to accumulate by using surpluses from wage labour, it is not possible to have an expanded reproduction which makes for capitalism⁴.

However, positions as above, while relevant in the context of the accumulation process under advanced capitalism, cannot be applied to the developing or the least developed countries, where production and exchange have continued to dwell on several non-market relations. For mainstream economists markets here are other than perfect or fully functioning, a factor responsible for their backwardness. The call for liberalisation and opening of markets thus follows as a logical cure-all for low growth and underdevelopment⁵.

It may be relevant here to point out that, to understand the dynamics of capitalist accumulation in market economies, one has to go beyond the standard tools of economics. As it can be found in the classic work of Karl Polanyi, there exist, in all societies, a set of protective as well as countervailing forces which regenerate and sustain the 'mutually supportive relations' in society. As capitalist expansion enlarges the sphere of the market, the latter tends to subordinate the society and to destroy the social fabric through the imports of standardized capitalist values, body and soul as embedded in the culture of the global market. This is done by the violation of both the basic human nature as well as such requirements of indigenous people as are

³ Wallerstein 1974, see also Sweezy 1950 pp. 134-57.

⁴ Dobb, 1946, in Jomo and Reinhart 2005.

⁵ See, for a short account, Sen 2007.

fundamental and intertwined with family, community and social relations. In terms of this position, unlimited expansions of the capitalist system along with the market, while generating fast growth of output and accumulation, are capable of causing “dispossession, displacement and human degradation”⁶.

Markets (with their adjunct, which is capitalism), in the alternate view as above, are sustainable only when “embedded” in society. This is partially achievable with attempts on part of institutions, including the state, to act in a manner which conforms to the preferences of the society. It is usually done by regulating and stabilising the market economy to achieve some degree of political legitimisation.

Markets, as described above, have come up in a large number of countries today, often carrying the label of “Emerging economies”. For the majority of these countries, and in particular for the developing countries, the expanding market most often remain “dis-embedded” from society. Often the process generates reactions from what is known as civil society, which also can take the form of political struggles/resistances. This has the general pattern which takes the form of social and political protest movements. Reactions as above, while impairing the pace of market orientation of the society, also help the market itself by bringing up to the surface what all are acceptable to members of the society. Described by Polanyi as a “double movement”⁷, the process is one which is but expected in a functioning democracy.

There remain, however, considerable discrepancies between what all are sought after in terms of the social and political movements within a country and the realm of what are achievable. The mediating role provided by the state here assumes a great degree of significance in these liberal market economies, where the state is subject to an “existentialist contradiction” between unfettered competition and expansion of capitalism on the one hand and the political necessity of sustaining a minimal façade of a mutually

⁶ Levitt in Jomo 2005

⁷ Ibid. see also Polyani 1944.

supportive and self-reinforcing society on the other. Rejecting this position, the neo-liberal mainstream view continues to treat the market as the sole arbiter, using the narrow economism of supply and demand. It thus ignores the role of social institutions which shape up the civil society, the social and political movements in such societies and the responses which the latter is capable of eliciting, from the state, the community and other voluntary groups.

2. Markets, State and Society in India

India, since her independence from the British rule in 1947, has witnessed, between 1950s and 1990s, a rapid transformation of the economy from state-led industrialisation to *laissez faire*. Following the theoretical frame of Karl Polanyi in his classic book titled “*The Great Transformation*”, one observes the following four sequences of what Polanyi described as the ‘double movement’ in market economies:

1. economic reforms and liberalization;
2. impact on economy with regressive consequences;
3. resistance from people-centred organisation, the society;
4. redressals from state with limited measures.

We would touch upon the above four issues in our analysis of the Indian economy in the subsequent part of this paper.

3. The Transformation

Problems as arise with steady expansions of the market are amply demonstrated in the rapid transformations of the economy and society which India has gone through, especially, in moving away from state-initiated partial planning and industrialisation during the first two to three decades of the country’s independence to full scale economic reforms in 1991. To dwell on these changes, we need to pay attention to the early pattern in India of a developmental state and its transformation with the market at the centre-stage.

We document, in the following pages, the four elements of the 'double movement' in India, as spelt out above. These deal with state policies (intervention/liberalisation), the related state of the economy and society, movements from civil society and political groups and finally, the responses from the state as arise in way of remedial measures.

Early years of industrialisation followed by gradual erosion of state authority and steady advances of the market.

Policy makers in independent India led by the Congress party initially stood for a path of industrialisation in terms of a closed economy model. Following the pattern of Soviet industrialisation it relied on an import-substituting industrialisation strategy, using heavy industries, large public sector, licensing and controls over trade, industry as well as external payments and an emphasis on development of science and technology. By the mid-sixties the initial growth spurts were followed by economic stagnation. Faced by a balance of payments crisis, external pressures, especially from the World Bank and the United States, led the country go through a steep currency depreciation and deflation with cuts in capital expenditure. Fuelled by cuts in private investment, there resulted an industrial stagnation, intermittent agrarian crisis, rising food prices, agrarian protests, intensified labour unrest and mass movements, all at an unprecedented level in independent India.

Resentments and protests were voiced by opposition political parties as well as by the general public, and matched by armed resistance movements in the countryside of Eastern India (Naxalbari) demanding land reform. Largely in response to above, the state launched a 10-point programme of regulation which included nationalisation of banks and the insurance sector, state trading, controls over monopolistic practices, abolitions of the managing agency system and privy purses in princely states, introduction of public distribution in food grains and some measures of land redistribution. In the coming years exchange control in the external sector was consolidated with the Foreign Exchange Regulation Act (FERA) to prevent leakages of foreign exchange and money laundering. A brief period of a regime with alternate policies followed, with a populist pro-poor

agenda to help small industry, decentralised administration, food subsidy and employment schemes which provided options for 'Food For Work'. However, the trend was to be reversed soon as authorities who came back to power shared an agenda endorsed by the conditional loan package from the IMF in 1981, directing a right-ward shift in official policies. Strict limits were imposed on fiscal deficits as a proportion of the GDP and within a few years several de-regulatory measures followed, relating to trade, technology and finance.

Some limited employment programme and some measures to improve health, education and the status of women in the economy also followed. However, policies towards liberalisation continued in full steam with the successive regimes which came to power subsequently, each bent on following a market-oriented neo-liberal policy.

India formally launches economic reforms in 1991.

Economic reform was the main agenda of the Congress party which again came to power in 1991. Depleted official reserves, large deficits in balance of payments, and sharp declines in GDP growth (which was reflected in similar declines in almost all sectors of the economy), demanded urgent attention. For those in power, economic reforms were considered as the panacea and a cure-all to combat the economic crisis as had engulfed the country. Those changes in economic policies targeted the prevailing controls and regulations as still existed in the economy, relating to trade, technology, finance and even labour.

Looking back, the year 1991 can be treated as the turning point in economic policies, with the launch of wide-ranging measures to de-regulate the economy. Those were to continue and gain momentum in the coming years, despite short-lived changes in regimes.

By mid 1990s there was an implicit consensus or unanimity among political parties in India regarding the need to continue with the reform process as an irreversible path or TINA (There is No Alternative) syndrome. The deviations, at level of state governments run by left-wing parties, were no exceptions when it concerned the major decisions. As mentioned above, these policies were backed by

the neo-liberal doctrines of growth via efficient market which by this time was already an accepted mainstream position.

We deal in the next few pages with the major changes in policy as have taken place since the onset of the major reform drive in 1991, in specific areas of trade, technology, finance and labour.

4. Liberalised trade and technology

The steady opening up of the domestic market with liberalisation of trade which started in mid eighties geared up its momentum in the following years. This came with the scrapping of quota licensing and with steep reductions in import duties both of which were in compliance to the WTO norms. This led to subsequent increases in import intensity of output. As it can be expected the measures also led to changes in the composition of output and the pattern of technology as used in industry. With new products catering to the domestic market with demand by the middle class and the rich, the upgraded technology, now availed of by industry from the global market to gain a competitive edge, production required less labour and more capital and skill.

As one can expect, proportion of imports to GDP at current prices had moved up significantly, from 8.3% in 1990-91 to 22.06% in 2001-12. It is worth recalling here that a rise in imports as a proportion of output, while providing requisite inputs to investment as well as consumption with the new import-intensive technology, dampens simultaneously the demand for domestic output by an equivalent amount. Moreover the displacing of the import-substituting industries by those which are import intensive can, in extreme cases, be a cause for what we have labelled elsewhere as an 'import-led GDP compression'⁸.

⁸ Sunanda Sen, "Import Liberalisation as a Tool of Economic Policy since mid-Eighties", *Economic and Political Weekly*, 27(12), 1992 (also in Idem, *Trade and Dependence. Essays on the Indian Economy*, Delhi: Sage India, 2000).

The above process of import liberalisation, which started off with the conditional loan package from the IMF in early 1980s gathered momentum, with compulsions, in terms of the WTO negotiations, to abide by the tariff cuts and the scrapping of quantitative import controls. This had several implications, with some having serious consequences for agriculture; especially with the entry of subsidised agricultural products from the advanced countries. The latter made it difficult for local production units to compete in the domestic market. For industry the shift in the pattern and technology of output has made it difficult for local units to access the newly opened up opportunities of import-intensive and high-tech pattern of production in the arena of global markets. In the process some of the major industries including cotton and jute textiles, light engineering industry went through a process of decay, and to that extent a process of de-industrialisation.

Import liberalisation also had an impact on technology inflows to the country which were linked with the WTO initiative for Trade Related Intellectual Property Rights (TRIPs). In India advances in R&D for science and technology as had taken place over the earlier decades can be viewed as a fall out of the national patent regime, granting patent rights only to process technology which ruled in India and other developing countries for in-house innovations with indigenous technology by local producers. As it is held by the neo-liberal school, technology is a free public good which, if markets are free, would be accessible to all countries and all individuals within, thus conforming to the notion that the world is flat⁹. Policies as logically follow are for opening up the technology frontier, and to build and expand the 'knowledge economy', across and within nations.

In India the software industry of the Information Technology (IT) sector has witnessed a phenomenal expansion in recent years, which is largely a fall-out of both the initial advantage in terms of skill-formation (which started during the early years of industrialisation) and the man-power to access advanced technology. Both have provided incentives to foreign capital in the IT sector. However, de-

⁹ Friedman, 2005.

spite the success of the IT industries to compete in the world market and to create a hub for jobs as well as to provide newer facilities for communication in the country, and an ability to provide additional sources of exchange earnings, the functioning of the market has failed to narrow down the gap between those who can access the new-found prosperity and benefits and those who cannot. In effect the expanding market for software revolution in India has created a 'Digital Divide', with a large number of the poor in the wrong side of it. Furthermore, the future prospects of the IT sector entirely depend on the global economic conditions. This is reflected in the recent sub-prime crisis and recession in USA which led many global and local IT companies shed off their strength.

Advances in technology and facilities for its open access have encouraged capital from overseas to enter India. Thus FDI (Foreign Direct Investment) inflows have shot up from \$113mn in 1990-91 to \$37.74bn in 2009-10. While the current inflows of FDI do not compare with the spectacular inflows to China, India still stands out as a major destination among the Emerging Economies¹⁰. Relaxation of the prevailing controls on flows of external finance as well as fiscal incentives along with labour market reforms provided further incentives for foreign capital, which was keen to enter and make use of the expanding domestic market in India.

¹⁰ However, there are some anomalies between FDI definitions as used in China and India. Attempt was made in 2002 to correct these anomalies by changing the FDI definition in India as per IMF norms to include re-invested earning and inter-corporate borrowings. As a result the gap between FDI inflows in India and China was little narrowed down since then. However, still some gap exists in accounting practices as imports of capital goods used in Foreign Enterprises are treated as FDI in China which is not the case in India.

5. *Financial Reforms*

Reforms in India encompassed several aspects of the economy in the realm of finance. Initiated in 1981 as a part of the IMF-package of financial liberalisation, official policies in India have continued to follow policies with a drive to lower fiscal deficits, monetarist measures to combat inflation with occasional tightening of credit, banking reforms in the interest of financial stability (thus limiting access to credit for the productive segments as well as the poor) and finally, a steady pace of liberalisation of the external financial sector.

Fiscal discipline, initiated in the country during the early 1980s, has gathered momentum over years. Following the Fund-Bank position relating to the stabilisation package, a ceiling now is binding on fiscal deficit in terms of the Fiscal Reforms and Budget Management Act (FRBMA) of 2003. Successive cuts in fiscal deficit as a proportion to GDP has reduced it from 6.2% in 2001-02 to 4.8% in 2010-11 (and dipping even lower during the next year according to budget estimates). Cuts in the primary deficit have continued to be even lower, at -0.9% in 2007-08 and 1.8% in 2010-11. In terms of budgetary classification the primary deficit equals the fiscal deficit less interest payments. Thus it covers the gap between expenditure on defence, capital expenditure and subsidies over tax and non-tax revenue. With expenditure on defence remaining steady at around 1.2% or 1.3% as a proportion of GDP, the axe naturally comes on major subsidies (for food, fertilizers and petroleum) as well as capital expenditure by the government, with the two actually dropping respectively from 1.7% in 2002-03 and 3.0% in 2003-04 to 1.6% and 2.2% of GDP in 2010-11. The gap between the fiscal deficit and the primary deficit as proportion to GDP kept widening over time, reflecting the rising interest payments on the marketised borrowings by the state, an item which was an inflexible component of the budget. As already mentioned above, fiscal discipline has made it obligatory on the part of the government to meet the expenditure (as remained uncovered from other sources) by borrowing from the market instead of from the Central Bank (Reserve Bank of India) as had been the

practice earlier. These marketised borrowings against government guaranteed securities turned out as lucrative for risk-averse investors which included financial institutions who readily purchased those government bonds.

One can here mention other measures to reform the financial sector. Those included the strict credit-risk norms to conform with the Bank of Settlement (BIS) norms of the Capital Adequacy Ratio (CAR) and the Credit Risk Adjusted Ratio (CRAR). While measures as above improved the quality of bank portfolio by reducing the ratio of their Non-performing Assets (NPAs) to total assets, the new rules created hurdles for the poor borrowers as well as the small and medium industry who became the victims of financial exclusion. One notices a sharp decline in the flow of credit to poor and the SMEs whose share of credit from Public Sector Banks and private banks respectively fell from 17% to 10% and from 20.6% to 7.1% between 1999-2000 and 2003-04¹¹. Reforms in the area of finance has also de-regulated the interest structure and banks today can fix interest rates on both deposits and advances according to what they consider as profitable in terms of the state of the capital market. While norms for priority sector lending by the Scheduled Commercial Banks has remained at 40% of net bank credit since banks were nationalised in 1979, the practice is now subject to the anomaly that no targets are set for lending to the small sector industry (SSI). With advances to agriculture and to weaker sections within the priority sector set respectively at 18% and 10% of NBC, SSIs are effectively left with no more than 12% of NBC as a residual. In addition one can observe tendencies, even in terms of priority credit, to introduce new items as priority credit, as consumer loans, housing credit etc., which openly flout the social norms of the credit policy, as it used to be earlier.

The steady process of capital account opening in the country includes the free entry of Foreign Institutional Investors(FIIs) to the country's stock markets and large number of concessions offered to FDIIs. These facts have created profit opportunities, both for foreign direct investments and for portfolio capital through speculation and

¹¹ Sunanda Sen and Soumya Kanti Ghosh, 2005.

arbitrage. The late inflows of portfolio capital have far exceeded those of FDIs, creating an atmosphere of speculation-led high finance in the economy. Thus net inflows of FDI were at \$ 9.3bn as compared to net inflows of portfolio at \$30.2bn in 2010-11. Unlike what could be achieved in the real economy by Initial Primary Offers (IPOs) of equities with FDI inflows in the primary market of stocks, short-term portfolio investments, which cater to the secondary markets of stocks, are incapable of generating fresh investment demand, at least in the first round. Instead these flows create fresh opportunities for profits on speculation by generating uncertainty and volatility in the stock markets and push up the returns on financial assets to levels much higher than those on industrial securities. Higher returns on financial securities as compared to those on securities held with the industrial sector have prompted corporates and banks to hold a large part of their assets as financial securities. One can confirm the current tendencies in the corporate sector of India to switch their portfolio in favour of financial assets. Investment of these firms in industrial securities has actually fallen from 43% to 34% of their total investments between 2002-03 and 2004-05¹². The pattern tallies with the asset-liability structure of these units, with “quick assets” covering more than half of total liabilities for the large firms having a sales value over Rs (rupias) 1000 crores (equivalent to Rs 10 billion) during 2004-05. The pattern was roughly of the same order for firms with lower sales values. Financial liberalisation has thus opened up profit opportunities in the financial sector, which in effect is mopping up a considerable part of the re-investible surpluses in the industrial sector. Interest shown by corporates and banks to invest in the high yield financial assets are found to have an added impetus with the on-going employees’ stock option (ESOP) system. It encourages the company managers to invest more in financial assets, not only in the interest of the corporate they are engaged in but also

¹² Source: Prowess India on line data. Cited in my article “De-regulated Finance: Some Concerns for India’s Industry and Labour”, in Philip Arestis and Luiz de Paula (ed) *Global Finance and Emerging Economies*, London, Palgrave-Macmillan, 2008.

from the pure self-interest of an enhancement in their personal wealth. Use of ESOPs in the IT companies in US has been followed by the use of the device in the Indian IT subsidiaries and elsewhere, as a device to attract and retain the skilled employees. In effect little of those short term investments as well as the re-investible earnings on such assets with finance companies can be directed to pockets of real growth in the economy, since major parts of such assets are deployed to fetch higher returns on speculative finance. It is much easier to speculate in the stock market today with trade in derivatives having a major role. According to the latest estimates, derivative trade has been several times the value of spot transactions, during recent years. As for the average size of the deals, those in derivatives have been more than 25 times an average deal in the spot market¹³. Much of the zeal in the derivative trading is due to the uncertainty relating to stock prices which in India are connected to similar forces in both the domestic and the international market.

As for the impact of FII inflows to the market, in 2006 the FIIs transacted business amounting Rs 2855 thousand crores which is as much as 37% of the country's GDP! FII transactions (mostly in derivative markets which are for speculation) are 6.5 times the primary market transactions (which create equivalent physical assets). It is not difficult to draw the conclusion that financial reforms in India have neither been for growth in terms of the creation of physical assets nor for a fair distribution of the financial flows which are not only equitable but also productive. Instead the country has provided opportunities for speculation in financial assets in a manner as had never been witnessed before. This has considerably been facilitated by the new communication technology, with investors having the facilities to manage their portfolios at the press of a button!

Financial liberalisation, with uncontrolled flows of short term finance from overseas and the rising levels of FDI inflows, have impacted the autonomy of monetary policy on the part of the authorities. As pointed out in the literature, an open capital account (which in India is nearly complete but for resident outflows) and a managed

¹³ Government of India, Economic Survey 2010-11, New Delhi 2011.

exchange rate leaves little leeway for autonomy in monetary policy. Pressures to manage the exchange rate within an acceptable band, to ensure both external competitiveness for goods produced within the country and to sustain the net flow of foreign investment from abroad, often give a dual signal to policy makers. Thus an appreciated local currency while continuing to attract foreign investors, may be a disaster for local exporters making it obligatory for the central bank to mediate and tone down the currency appreciation by buying up foreign currency from the market. Additions to official reserve of foreign currency, contributing to high powered money, can, in absence of sterilising actions by the monetary authorities, push up the supply of money. It thus becomes one more responsibility for the central bank to control money supply, by raising the domestic rate of interest and or, as the RBI(Reserve Bank of India) had been doing, by selling bonds to the public as well as by raising the CRR (cash reserve ratio) ratios. Monetary policy, no longer determined by the domestic requirements thus ceases to be autonomous. This reflects the trilemma faced with open capital markets, managed exchange rates and achieving autonomy in monetary policy. We have mentioned earlier the further problems in terms of the fiscal burden of the interest cost on the state.

6. Reforms relating to labour

Economic liberalisation in India has also impacted the status of labour in the economy, especially with the introduction of ‘flexibility’ in terms of labour market reforms for achieving competitiveness and efficiency. By freeing labour from formal employment under the prevailing labour legislations, labor flexibility was supposed to provide incentives to capital inflows from overseas, with assured labour market flexibility within the country. It has often been claimed that labour in the process can not only be more productive but also would get back the much needed freedom (option) over her/his own “time”. The approach, originating from methodological individualism which provides the theoretical background for achiev-

ing complete laissez-faire, has been used in mainstream economics to justify unemployment in advanced countries with notions such as the Non Accelerating Inflation Rate of Unemployment (NAIRU).

The scrapping of labour laws in terms of labour market flexibility in India permits “hire and fire” policies, not only for the units in the private sector but also in the EPZ (export processing zones) units in different parts of the country which were privileged to operate without following the laws of the land. Pressures to dismantle the existing labour laws, even for the organised sector where they were relatively protected, often were devised to encourage larger inflows of FDI and to meet the compulsions for cost-cutting faced by industry, both local and foreign controlled. The need for the latter was for achieving global competitiveness by using cuts in the wage bill. The official position on the matter was made explicit in the National Commission on Labour Report which came out in 2002. It recommended, in no uncertain terms, the use of contract labour in view of the uncertain demand from global markets. Also, the move for privatisation of industries, which was often used by the government to raise resources in the name of gaining efficiency in those units, has given a push to labour flexibility. Use of casual labour today has been common in units as are owned by foreign as well as local capital¹⁴.

7. The failed performance of reforms and remedial gestures by the state

Economic reforms, operational in full swing since 1991, has not achieved the goal of efficient growth as is usually claimed on its behalf. It is only the service sector which has seen a remarkable upsurge, much to its leanings on the IT sector, the latter with an annual growth of 11% during 2006-07 and contributing more than half (54%) of the annual GDP with an export growth rate of software at 75%. However, the prosperity in the services sector, as mentioned

¹⁴ See, for details, Sunanda Sen and Byasdeb Dasgupta, 2009.

above, was mostly confined to IT and finance, with Business Processing Organisations (BPOs) in the IT sector responsible for outsourcing of services for overseas companies. As mentioned above, these services were made possible with the country's track record of skill formation during the earlier years along with the newly accessed technology.

The service sector in areas of finance could take off as a result of financial liberalization which allows the free entry and exit of foreign capital and their deployment along different channels. A major consequence of the latter has been the sharp volatility in stock prices and even in exchange rate, volatility of which has been a common feature. Short term flows of capital have been responsible for an added degrees of uncertainty in the financial market which, paradoxically, provides further incentives for short term inflows in a booming market. The pattern with a boom has been in the reverse gear when stock prices moved in the downward direction, reinforcing flows of capital in the outward direction. The unprecedented accumulation of exchange reserves by the country, which is currently around \$300bn often generates a sense of complacency for monetary authorities, calling for a move to full capital account convertibility of the Indian rupee and even investments in the equity-linked Sovereign Wealth Funds (SWF). Pressures from the WTO in terms of the GATS to open up the services sector including banks and the insurance sector has provided a major incentive to foreign finance.

However, in terms of employment potential, the contribution of services had been abysmally low, providing not more than 1% of jobs in the organized sector

The structural shifts in the economy, away from brick and mortar industries and from agriculture, in the direction of the sun-rise services sector, while generating high growth rates of GDP, proved a failure in terms of employment growth. One thus observes a scenario of 'job-less growth', with employment in organized industry and services growing at around 1% per annum. The pattern even prevails in the high growth industries with annual average output growth at 20% and above and employment growth falling far behind. The arithmetic behind it is the rise in labour productivity which was made possible

by raising capital-intensity per unit of labour¹⁵. In absence of offsetting factors which included expansions in the scale of production of these units, employment growth in industry failed to keep pace with output growth, even in units where these were robust. The core dynamic sector of the Indian economy today consists of IT and finance in the services sector, which so far has a limited capacity to absorb greater numbers, especially from the majority in the country who possess neither the requisite skill nor the resources to access skill-formation.

It thus remains for agriculture and the informal sector in both industry and services to fill in the vacuum in the job-less market laden with the so-called flexible norms for the labour market. These are the sectors which continue to support at least 75% or more of India's working population who live in the countryside. But the slow or even negative growth of agricultural output in recent years, along with the use of new technology in terms of fertilizers etc. as are needed for the new crops, have made agriculture less dependent on labour as an input, especially in North India. But that does not reduce the dependence, of large numbers of people in the countryside, on avenues of subsistence around this sector. Annual growth rates of agricultural output reflected a dismal picture in recent years, with low growth in several years of the new millennium. Facts as above along with job-less industry explain poverty, with one third of population living on \$1 to \$2 dollars per day and with their well being as indicated by the rank of India in global human development index as low as 123 in recent times.

8. Public Protests, Responses from the State

Unemployment, poverty, malnutrition, rising food prices and shortages, agrarian distress and farmer suicides, widening disparities and aspiration gaps prepare the grounds for protest movements which have been widespread in recent years. Contrasts between the

¹⁵ Ibid.

high-income consumptions in pockets of the economy and abject poverty as well as acute distress for the majority created an atmosphere of growing discontent and anger at a scale which was not witnessed before. Mention can be made of various organizations from the civil society, with demands which range from employment, food under public distribution, primary and other education, abolition of child labour, displacements by big dams, industrialization by the setting up of Special Economic Zones, rights of women, trade unions rights for casual labour and similar issues which are important. Sometimes these demands are also voiced by political parties in the opposition, attacking the policies of the party in power but co-opted by mainstream thinking when they come to power in individual states.

Demands as above unfold a story which speaks of a total denial of developmental needs and equity in the country. However, to continue with the minimal façade of democracy by an elected government, the 'double movement' of Polanyi under capitalist expansion keeps repeating, despite the innate apathy on part of the authority in power, which introduced reforms in a remedial mode. Of late these include in India the National Rural Employment Guarantee Act (NREGA), the Right to Information Act (RTI), Farm loan waiver scheme, Anti-hoarding drive to combat food prices and the frequent announcements by those in power to endorse an 'inclusive development'. The changed mood also reflects itself in the moves on the part of the private sector to shoulder a minimal corporate social responsibility. While none of these are supposed to halt the steady advances of the market or to attack the roots of poverty in the country, the moves continue to remain as symbolic gestures which help to bring back some minimal semblance between growth and equity or development.

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