

Economic Reforms in India

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Introduction:

India's post-liberalization era since 1991 has witnessed a surge in populist politics, most pronounced at the state level within its federal structure, while national governments have shown increasing tendencies. This paper examines how populism shapes economic governance and business interests, focusing on economic reforms. National personalistic rule under Prime Minister Narendra Modi since 2014 has introduced policy unpredictability through measures like demonetization and GST, deterring capital inflows. In contrast, state-level populism in regions like Tamil Nadu, West Bengal, and Odisha balances liberalization with welfare, fostering relative stability for investors.

India's post-liberalization era, inaugurated by the economic reforms of 1991 amid a severe balance-of-payments crisis, marked a pivotal shift from a dirigiste, socialist-inspired economy to one embracing market liberalization, privatization, and globalization. This transformation dismantled the "License Raj," reduced industrial licensing, and opened doors to foreign direct investment (FDI), propelling India from near economic collapse to one of the world's fastest-growing major economies. Yet, this era has also coincided with a surge in populist politics, manifesting most pronouncedly at the state level within India's quasi-federal structure, even as national governments have exhibited growing populist tendencies. This paper examines how populism—characterized by charismatic leadership, anti-elite rhetoric, and direct appeals to "the people" against entrenched interests—shapes economic governance and business interests, with a particular focus on the implementation and trajectory of economic reforms.

At the national level, the ascent of personalistic rule under Prime Minister Narendra Modi since 2014 exemplifies populism's disruptive potential. Modi's Bharatiya Janata Party (BJP) has blended Hindu-majoritarian nationalism with economic nationalism, promising "minimum government, maximum governance." However, bold interventions like the 2016 demonetization—abruptly invalidating 86% of currency in circulation—and the rushed rollout of the Goods and Services Tax (GST) in 2017 have injected profound policy unpredictability. Demonetization, ostensibly aimed at curbing black money and terrorism financing, led to a sharp contraction in GDP growth, disrupted supply chains, and eroded formal sector employment without achieving its stated goals. Similarly, GST's complex compliance structure burdened small and medium enterprises (SMEs), many of which collapsed under the weight of digital filing mandates. These measures, while politically popular among Modi's rural and lower-middle-class base, have deterred capital inflows, with FDI dipping in key sectors and investor confidence surveys (e.g., from CII and FICCI) highlighting regulatory uncertainty as a primary barrier. Modi's centralizing tendencies—evident in the abrogation of Article 370 and farm laws protests—further amplify risks for long-term business planning.

In stark contrast, state-level populism in regions like Tamil Nadu, West Bengal, and Odisha has pursued a more calibrated approach, balancing liberalization with expansive welfare schemes to foster relative stability for investors. Tamil Nadu's Dravidian parties have long championed "social justice" populism, channeling industrial growth (e.g., in automobiles and electronics) through subsidies and skill programs while maintaining fiscal discipline. West Bengal

under Mamata Banerjee's Trinamool Congress has revived investment via land reforms and incentives post-Singur backlash, attracting firms like Tata Nano alternatives. Odisha's Naveen Patnaik has blended BJD's regionalist populism with pro-business policies, leveraging mining revenues for welfare like the KALIA scheme, positioning the state as an FDI hotspot. These models demonstrate how subnational leaders negotiate federal constraints—via Finance Commission transfers and GST Council—to deliver predictable governance, underscoring India's federal asymmetry where states often outpace the center in reform implementation.

Historical Context of 1991 Reforms:

India's 1991 economic liberalization marked a pivotal shift from a socialist, inward-looking economy plagued by the "License Raj"—a system of excessive regulations, industrial licensing, and public sector dominance. Triggered by a severe balance-of-payments crisis, with foreign exchange reserves dropping to cover just two weeks of imports, Prime Minister P.V. Narasimha Rao's government, led by Finance Minister Manmohan Singh, implemented sweeping reforms. These included devaluing the rupee by 20%, slashing import tariffs from over 300% to around 50%, abolishing industrial licensing for most sectors, and opening doors to foreign direct investment (FDI) in key areas.

The reforms unleashed rapid growth: GDP expanded at 6.5% annually in the 1990s, rising to 7-8% in the 2000s, lifting millions out of poverty—absolute poverty fell from 45% in 1993 to 21% by 2011. Private investment surged, with FDI inflows jumping from \$97 million in 1991 to over \$30 billion by 2010. Sectors like IT services, automobiles, and pharmaceuticals boomed, positioning India as a global back office and manufacturing hub.

Yet, this growth was uneven. Regional disparities widened, with southern and western states like Tamil Nadu and Gujarat outpacing Bihar and Uttar Pradesh. Inequality, measured by the Gini coefficient, rose from 0.32 in 1993 to 0.38 by 2011. Unemployment persisted, especially among youth, and agricultural distress fueled rural discontent. These fault lines created opportunities for populist mobilization, promising redistribution and protection against globalization's disruptions.

Federalism played a crucial role post-1991. The 1992 constitutional amendments empowered states via Panchayati Raj institutions and fiscal decentralization through the Finance Commissions. States began competing as "laboratories of policy," offering incentives like tax breaks and land banks to attract investors. This subnational entrepreneurship drove reforms, but it also allowed populist welfare experiments tailored to local identities and grievances.

Defining Populism in India's Economic Landscape:

Populism, broadly, pits "the pure people" against "the corrupt elite," often led by a charismatic leader who claims direct representation. In India, it blends economic redistribution (subsidies, freebies) with cultural majoritarianism or regionalism. Post-1991, it intensified as neoliberal growth clashed with demands for social justice.

National populism under Modi embodies personalistic rule: centralized decision-making, anti-elite rhetoric targeting "urban Naxals" or "Khan Market gang," and Hindu majoritarianism framing Muslims or liberals as outsiders. This echoes global cases like Trump or Orbán, where leaders bypass institutions for direct appeals via social media and rallies. State populism, conversely, is more programmatic—institutionalized welfare machines sustaining long-term regimes, like Tamil Nadu's Dravidian model or Odisha's Naveen Patnaik era.

Economically, populism challenges reforms by prioritizing short-term gains over sustainability, inflating fiscal deficits and eroding business confidence. Yet, India's federal diversity tempers extremes, allowing states to buffer national volatility.

National-Level Populism: Modi's Personalistic Reforms:

Modi's BJP victory in 2014 rode a wave of anti-corruption fervor, promising "minimum government, maximum governance." However, personalistic traits dominated: policy announcements via radio addresses or tweets, bypassing parliamentary debate. Demonetization exemplified this—on November 8, 2016, 86% of currency (₹14.3 lakh crore in ₹500 and ₹1,000 notes) was invalidated overnight to fight black money, terrorism, and fake currency.

Intended to digitize the economy and broaden the tax base, it backfired spectacularly. Cash shortages crippled the informal sector (45% of GDP), where 90% of workers earn in cash. GDP growth slowed to 6.6% in FY2017 from 8.2%, manufacturing output fell 1.2%, and job losses hit 1.5 million, per CMIE data. Small businesses reported 47% revenue drops; weddings and festivals halted. Remonetization via new notes took months, exposing poor planning. Critics noted only 99.3% of old notes returned, undermining the black money rationale.

GST, launched July 1, 2017, unified 17 taxes into one, aiming for a seamless national market. A federal triumph via the GST Council, it boosted logistics efficiency, raising interstate trade 15-20%. Yet, initial glitches—multiple tax slabs (5-28%), IT portal crashes—caused compliance costs to spike 20-30% for SMEs. Automotive sales plunged 18%; overall growth dipped to 5.7% quarterly. Long-term, collections hit ₹1.7 lakh crore monthly by 2023, widening the tax net.

Other reforms reflect unpredictability: the 2016 bankruptcy code eased creditor rights, but farm laws (2020, withdrawn amid protests) alienated rural voters. Corporate tax cuts to 22% in 2019 spurred capex, yet cronyism allegations—Adani Group's rapid rise—eroded trust. Internet shutdowns (84 in 2022 alone) deterred tech investors, while data fudging (e.g., unemployment stats withheld) heightened risks.

Business clout diminished: pre-2014, corporates influenced policy via FICCI/CII; now, they navigate "ease of doing business" rhetoric amid regulatory raids. FDI inflows volatile—\$81 billion peak 2021, dipping post-COVID. Policy uncertainty index rose 25% post-demonetization, per RBI, deterring long-term capital.

State-Level Populism: Balancing Acts:

States, governing 60% of revenue expenditure, tailor populism to local contexts, blending welfare with investor-friendly policies. This mitigates inequality (Gini lower in states like Tamil Nadu at 0.30) without national-scale shocks.

Tamil Nadu: Dravidian parties (DMK/AIADMK) epitomize welfare populism since the 1960s, intensified post-1991. Free laptops, gold for brides, and ₹1,000 monthly aid for women (Kalaigarnar scheme) coexist with industrial hubs like Chennai's auto corridor (Ford, Hyundai). The 2018 Industrial Policy and single-window clearance attracted \$12 billion FDI (2015-2020). Poverty halved since 1994 via targeted spending (12% budget on education). Fiscal strain exists—debt at 25% GSDP—but growth at 8% outperforms national averages.

West Bengal: Mamata Banerjee's Trinamool Congress (TMC) since 2011 shifted from Singur-style land acquisition resistance to pro-business overtures. Schemes like Swasthya Sathi (health insurance) and student credit cards build clientelism, while IT and real estate FDI rose 30%. Yet, industrial decline lingers from 1970s militancy; manufacturing share fell to 5% GSDP.

Populist subsidies (₹10,000 crore annually) risk deficits, but policy predictability reassures investors versus national volatility.

Odisha: BJD's Naveen Patnaik (2000-2024) mastered populist longevity via KALIA (₹10,000 farmer aid) and loan waivers, spending 20% budget on welfare. Post-1991 mining boom fueled 8% growth, with FDI in steel (POSCO plans). However, human capital lags—education spend low, prioritizing giveaways over skills. Fiscal populism ballooned debt to 30% GSDP, prompting recent belt-tightening.

States' edge: electoral accountability tempers excess; competition (e.g., Gujarat vs. Maharashtra) drives reforms. Freebies cost 1.5% GDP nationally but stabilize coalitions, cushioning liberalization shocks like jobless growth.

Comparative Analysis and Business Implications:

National personalism heightens "time inconsistency"—policies flip with leader whims, per Feldmann and Morgan, costing 1% annual growth globally. Businesses "exit" via diversification (e.g., to Vietnam) or "voice" through quiet lobbying. State stability attracts 55% of FDI, per DPIIT.

Federalism's genius: states absorb shocks. During demonetization, Tamil Nadu's cashless push minimized damage. Populism's downside—state debt rose 3x since 2011—threatens national finances via bailouts. Yet, it sustains demand via consumption (70% GDP driver).

Challenges and Future Prospects:

Populism erodes reforms: protectionism (PLI schemes) reverses liberalization; farm subsidies distort markets. Climate vulnerabilities amplify risks—Odisha cyclones demand resilient spending. Modi's centralization (e.g., GST compensation delays) strains federal ties.

Prospects: Digital India (UPI handles 50% global transactions) and infrastructure (₹100 lakh crore NIP) counter uncertainty. States like Andhra Pradesh eye "Tamil Nadu model." Depersonalizing via institutions (e.g., independent RBI) and fiscal rules (FRBM targets) is key. India's growth trajectory—projected 7% amid global slowdown—relies on federal bargaining. Populism, managed federally, may evolve into inclusive growth rather than derailment.

Populism and Economic Governance in India's Post-Liberalization Federal Polity:

India's post-liberalization era since 1991 has witnessed a surge in populist politics, most pronounced at the state level within its federal structure, while national governments have shown increasing tendencies. This abstract examines how populism shapes economic governance and business interests.

Recent national administrations, particularly the Hindu nationalist government under Prime Minister Narendra Modi since 2014, exhibit personalistic traits akin to global populist projects, fostering policy unpredictability that deters capital inflows and diminishes business political clout. Key examples include abrupt reforms like demonetization (2016) and the Goods and Services Tax (GST, 2017), which prioritized welfare redistribution and majoritarianism over market stability.

In contrast, state-level populism—evident in regions like Tamil Nadu, West Bengal, and Odisha—poses less uncertainty for investors. These regimes often balance economic liberalization with social welfare schemes (e.g., freebies, subsidies) to mitigate disruptions from rapid growth, such as inequality and unemployment, thereby stabilizing environments for private investment despite occasional encroachments on economic freedoms.

Conclusion:

Economic Reforms in India's Post-Liberalization Era

The 1991 economic liberalization marked a pivotal rupture in India's developmental trajectory, propelled by a balance-of-payments crisis that necessitated structural adjustments under Finance Minister Manmohan Singh. Dismantling the License Raj, devaluing the rupee, slashing tariffs from over 300% to around 50%, and liberalizing foreign direct investment (FDI) caps ushered in an era of market-oriented growth. GDP growth accelerated from an anemic "Hindu rate" of 3.5% in the 1970s-80s to 6-7% annually through the 2000s, fostering a burgeoning middle class, IT services boom, and manufacturing hubs. Yet, this reformist zeal intersected with India's federal diversity and rising populism, yielding a dualistic economic landscape.

National-level reforms post-1991 emphasized macroeconomic stability and integration into global value chains. The 1990s saw privatization of public sector units and fiscal responsibility acts, while the United Progressive Alliance (UPA) governments (2004-2014) expanded welfare through the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA, 2005) and the Right to Food Security Act (2013). These blended neoliberalism with redistributive populism, sustaining growth amid coalition politics. However, Modi's National Democratic Alliance (NDA) since 2014 intensified personalistic leadership, enacting bold supply-side measures like GST—a unified indirect tax replacing a fragmented state-centric system—and the Insolvency and Bankruptcy Code (2016) to resolve non-performing assets. Initiatives such as Make in India (2014) and Production Linked Incentive (PLI) schemes aimed to revive manufacturing, targeting 25% GDP share from 15%. Demonetization, though disruptive (GDP growth dipped to 6.8% in FY2017), accelerated digital payments, with UPI transactions surging from 1 billion in FY2017 to over 100 billion by 2025.

State-level dynamics reveal a more pragmatic populism attuned to local exigencies. Tamil Nadu's Dravidian parties have long championed "welfare capitalism," offering subsidized rice, laptops, and gold schemes alongside FDI-friendly policies in automobiles (e.g., Ford, Hyundai plants). Odisha's Biju Janata Dal under Naveen Patnaik balanced mining liberalization with poverty alleviation via the KALIA scheme, attracting investments in steel (POSCO, JSW). West Bengal's Trinamool Congress post-2011 shifted from Singur-era land acquisition rows to pro-industry pacts, exemplified by IT parks and power sector reforms. These states exemplify "competitive federalism," where chief ministers leverage populist freebies—free electricity in Punjab, farm loan waivers in Telangana—to secure electoral mandates while courting capital through single-window clearances and eased labor laws.

This federal interplay has sustained post-1991 growth, with states contributing 60% of FDI inflows by 2023. Yet challenges persist: national personalism amplifies volatility, as seen in farm laws (2020, repealed amid protests) and retrospective tax raids eroding investor confidence. Inequality has widened—Gini coefficient rose from 0.32 in 1993 to 0.36 by 2022—fueling subnational populism that strains fiscal federalism (states' debt at 30% GDP). Encroachments on economic freedoms, like Karnataka's 2024 job reservation quotas for locals, risk deterring multinationals.

Overall, while national populism heightens risks through unpredictability, regional variants stabilize growth by negotiating socio-economic tensions in India's diverse polity. Future reforms must prioritize institutional predictability—strengthening the GST Council, insulating the RBI from executive overreach, and harmonizing state-level welfarism with national competitiveness. As India eyes a \$5 trillion economy by 2027, balancing populist imperatives with liberalized governance will define its federal resilience.

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