

# Evaluation of neoliberalism in india



Neoliberalism is a dominant ideology shaping our world today. It dictates the policies of governments, and shapes the actions of key institutions such as the World Trade Organisation (WTO), International Monetary Fund (IMF) and World Bank (WB). According to Saad-Filho and Johnston, it is impossible to overstate the political and economic implications of neoliberalism.

Neoliberalism is a theory of political and economic practices that proposes that human well-being can best be advanced by liberating individual's entrepreneurial freedoms and skills within an institutional framework characterized by strong property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices (Harvey, 2005).

Treanor (2005) identifies neoliberalism as a philosophy in which the existence and operation of a market are valued in themselves, separately from any previous relationship with the production of goods and services, and without any attempt to justify them in terms of their effect on the production of goods and services; and where the operation of a market or market-like structure is seen as an ethic in itself, capable of acting as a guide for all human action, and substituting for all previously existing ethical beliefs.

Neoliberalism supports deregulation, free trade, privatization, liberation from any bonds imposed by the government and greatly reduced government spending. Neoliberalism is often associated with laissez-faire economics, a policy that prescribes a minimal amount of government interference in the economic issues of individuals and society (Martinez and Garcia, 1997).

Smith (2014) suggests that although the terms are similar, neoliberalism is distinct from modern liberalism. Both have their ideological roots in the classical liberalism of the 19th century, which championed economic laissez-faire and the freedom of individuals against the excessive power of government. Modern liberalism developed from the social-liberal tradition, which focused on impediments to individual freedom including poverty and inequality, disease, discrimination, and ignorance that had been created or exacerbated by unfettered capitalism and could be ameliorated only through direct state intervention. Such measures began in the late 19th century with workers' compensation schemes, the public funding of schools and hospitals, and regulations on working hours and conditions and eventually, by the mid-20th century, encompassed the broad range of social services and benefits characteristic of the so-called welfare state. By the 1970s, however, economic stagnation and increasing public debt prompted some economists to advocate a return to classical liberalism, which in its revived form came to be known as neoliberalism.

Just like every other country in the world, India, too, was impacted by neoliberalism. The external debt crisis of 1991 brought India close to default in meeting its international payment obligation. The fiscal crisis was looming and the balance of payment crisis was getting out of control. Under such circumstances India adopted neo-liberal also known as 'market-friendly' economic policies with support from the IMF and World Bank. This new policy adopted by India constituted a departure from previous policy and increased reliance was put on market forces in resource mobilisation. In addition the state role's in sphere of economic development was considerably reduced.

Finally, the degree of openness of the economy was increased significantly. FDI and foreign technology were given the leading role in the economy (Kurien 1994; Siddiqui, 1990).

The supporters of market liberalisation, regarding the recent upsurge in growth, claim that the Indian economy has taken off into self-sustaining growth. While in the early 1980s, a small degree of deregulation in industrial policies was also introduced. These policies then did help to import capital goods and thus increase productivity in certain industries. All these contributed to the productivity increase in manufacturing sector and to economic growth. In 1991 with the adoption of neo-liberal reforms, economic growth and efficiency were seen as key objectives and there seems to have been a conscious decision to reduce the role of state in the economic development and increased reliance on market forces. The government was no longer guide the allocation of resources, whether directly through industrial licensing or indirectly through intervention in financial sector, these were left on the market forces. Finally, the openness towards foreign capital was expected to perform a strategic role in the process of bringing India closer to western economies. The change in policy did represent a shift from previous policies (Siddiqui, 2010).

Now there are forty-three billionaires in the country, a huge number compared to the two billionaires that existed in pre-neoliberal India. Their total net worth accounts a total of 12% of the GDP which is \$176 billion, while agriculture which serves as the principal source of income for more than half of the population accounts for 13. 7% of GDP (Negi, 2014).

According to Watkins, this would be enough to eliminate absolute poverty in

the country twice over. These thought-provoking figures and examples have led to an increase in the number of scholars arguing that neoliberalism must be understood in terms of a class project. In the case of India, as Ahmed (2009) emphasises, neoliberalism was thrust in by the IMF, WB and WTO but it was also promoted and supported by a new breed of Indian entrepreneurs. When the country started industrialising after independence in 1947, and the industrial and the service sector grew in the urban areas, there was a gradual shift in economic power between regions (urban and rural) and sectors of the economy. These new entrepreneurs, with economic interests in non-agricultural sectors who did not either benefit much from agricultural subsidies, developed a mind-set against state interventionism and consequently became supporters of neoliberal policies (Ahmed, Kundu and Peet, 2011). The urban elite, despite being the minority, were allowed to exercise greater power over India's economic policy formulation due to shift in India's economic base from rural to urban.

One of the most positive impacts of neoliberalism was on the automobile industry in India. The automobile industry was put on the fast track of development. The central government reduced the intervention of government and promoted deregulation in the automobile industry. Following this, a number of foreign firms also initiated a joint venture with existing Indian companies. In 2002, the Indian government formulated an auto policy that aimed at promoting an integrated, phased and self-sustained growth of Indian automotive industry with higher fiscal incentives for Research and Development (Singh, 2017). This helped the customers in getting wide range of cars with the latest technology. The coming in of new

and contemporary models stimulated the demand for vehicles in the market, which led to the healthy growth of the industry. According to (Rao and Kadam, 2016), in 1991-92, just over 2 lakh cars were sold in India. The figure rose to 3, 12, 000 by March 1995. The sales crossed the one million mark in 2003-04. The latest figures show that about 20. 3 lakh cars were sold by the end of 2015.

Every coin has two sides. While neoliberalism helped Indian economy in boosting the growth and GDP, it also had some detrimental effects on the country. According to Vombatkere, the ill-effects of neoliberal policies were debt crises, severe environmental degradation and crashing economies, currency collapse, rising unemployment, rising food and fuel prices, and falling wages. The social ill-effects were exacerbated by imposition of “austerity measures” of cutting subsidies for the poor and reducing public spending on health, welfare and education. Worldwide, spontaneous people’s grassroots movements opposed displacement of populations due to mega projects and environmental degradation. There are hundreds of on-going people’s movements all over India, protesting the proposed, on-going or completed infrastructure projects, or state and central governments’ policies and laws which violate, deny or dilute people’s constitutional rights and freedoms, in favour of corporate interests. Over the years, intellectuals who consistently critiqued neoliberal policies were ignored, defamed, branded as communists, suppressed or eliminated.

One example of such project which was allowed to develop without protecting the environment or paying any compensation to people who are negatively affected by these projects is indicated below:

<https://assignbuster.com/evaluation-of-neoliberalism-in-india/>

A few days after the Chhattisgarh government signed a MoU (Memorandum of Understanding) with Tata Steel, a vigilante militia was established (known as the Salwa Judum). Organised by the state government and funded by Tata Steel the Salwa Judum initiated a ground clearance operation to eradicate the local forest people so Tata could set up its steel plant. The Salwa Judum burned, raped and murdered its way through 600 local villages forcing 50,000 people into police camps and displacing a further 350,000. To keep these displaced persons in check, the government then deployed 200,000 paramilitary troops to the region to make sure that it remained a stable climate for investment and economic growth (Thompson and Roy, 2016). According to Roy, the government has labelled these people 'Maoist Rebels', but in reality they are just displaced people.

72% of the population in India is rural, directly or indirectly depending on agrarian economies (Mirza and Ahmad, 2005). Aertthayil (2008) highlights ways in which neoliberal policies have been the main cause of the current agrarian crisis, and undoubtedly the agrarian population is the loser of neoliberalism in the country. After 1991, and in accordance with the WTO regulations, all restrictions to imports of agriculture products were removed, causing the crash of prices. At the same time, following the neoliberal idea of minimum government intervention, the Indian government drastically reduced both the different types of subsidies to agriculture, thus making it less profitable, and its investment and expenditure, which decreased from 14.55% in 1986-1990 to 6% in 1995-2000 (Posani, 2009). In addition, in order to favour industrialisation and promote exports as part of the neoliberal globalisation trends, the government created Special Economic

Zones (since 2005), which have meant utilising fertile land for industrial purposes. Moreover, financial liberalisation caused a change in the lending arrangement of commercial banks, resulting in a lack of easy and low-cost loans to agriculture. As a result of financial liberalisation the exploitation of the poor in the informal credit market has intensified (Ramachandran and Swaminathan, 2004) and it has led to “vulnerability to capital flight, currency instability, speculation rather than production, stagnation, inequality and the obstruction of progressive politics.” (Girdner and Siddiqui, 2008). Therefore, farming has become unprofitable for three decades now and consequently the standard of living of small and medium farmers has worsened to unimaginable extents.

Martin, 2017 suggests that neoliberalism, in the form of the New Economic Policy (1991), is a project thought and promoted by the elite which is the only one that benefits from it. Although neoliberalism is trying to be sold by Western states, institutions and elites as the solution to inequality, poverty and development, it is important to analyse this and demonstrate that the reality differs to a great extent. The New Economic Policy in India and its connection with the agrarian crisis served as the perfect example to prove that empirical evidence does not tally with the neoliberal theoretical claims. Neoliberalism in India, far from alleviating poverty and encouraging sustainable development, has only widened the inequality gap, created a staggering number of losers, roughly the entire agrarian population and majority of the country. In return, the winning minority, the business elites who promoted the country’s economic liberalisation in the first place, knew that it would increase their wealth and social and political influence.



If well managed, neoliberalism may be a good policy choice. Its practices can increase economic efficiency, improve and decrease prices of services and products for society, create qualified employers and enhance wealth. When not well managed, it can jeopardize national economy. If opening the economy for international trade is an option then it should be gradual, well managed, respecting national industry until it can compete internationally. Furthermore, the free trade must be mutual, and other economies must be open to foreign products and services. So, it is imperative to strike a balance between the neoliberal policies in any country or sector as it can make or break the economic, social or political backbone of any country (izabellini2911, 2014).

#### REFERENCES:

- Aerthayil, M. (2008). Agrarian Crisis in India is a Creation of the Policy of Globalisation. *Mainstream*, [online] XLVI (13). Available at: [https://www. mainstreamweekly. net/article588. html](https://www.mainstreamweekly.net/article588.html) [Accessed 26 Nov. 2018].
- Ahmed, W. (2009). From mixed economy to neoliberalism: class and caste in India's economic transition. *Human geography*, [online] 2(3). Available at: [https://www. academia. edu/2710584/From\\_Mixed\\_Economy\\_to\\_Neoliberalism\\_Class\\_and\\_Caste\\_in\\_India\\_s\\_Economic\\_Transition](https://www.academia.edu/2710584/From_Mixed_Economy_to_Neoliberalism_Class_and_Caste_in_India_s_Economic_Transition) [Accessed 28 Nov. 2018].
- Ahmed, W., Kundu, A. and Peet, R. (2011). *India's new economic policy: a critical analysis*. 1st ed. New York: Routledge.

- Girdner, E. J. and Siddiqui, Kalim (2008) Neoliberal Globalization, Poverty Creation and Environmental Degradation in Developing Countries. International Journal of Environment and Development, 5 (1). pp. 1-27.
- Harvey, D. (2005). A Brief History of Neoliberalism. Cary: Oxford University Press.
- izabellini2911. (2014). “ What are the strengths and weaknesses of the neo – liberal approach to development?”. [online] Available at: <https://izabellini2911.wordpress.com/2014/07/03/what-are-the-strengths-and-weaknesses-of-the-neo-liberal-approach-to-development/> [Accessed 26 Nov. 2018].
- Kurien, C. T. (1994). Global Capitalism and Indian Economy, Orient Longman
- Martin, A. (2017). Please Mind The Gap: Winners and Losers of Neoliberalism in India. [online] E-International Relations. Available at: <https://www.e-ir.info/2017/03/11/please-mind-the-gap-winners-and-losers-of-neoliberalism-in-india/> [Accessed 26 Nov. 2018].
- Martinez, E. and Garcia, A. (1997). What is Neoliberalism? | corpwatch. [online] Corpwatch.org. Available at: <https://corpwatch.org/article/what-neoliberalism> [Accessed 3 Dec. 2018].
- Mirza, M. and Ahmad, Q. (2005). Climate change and water resources in South Asia. 1st ed. Leiden: A. A. Balkema.
- Negi, V. (2014). Where have all the farmers gone! The story of agriculture and the small Indian farmer. [online] Focus on the global South, India. Available at: <http://focusweb.org/sites/www.focusweb.org/>

org/files/Where%20have%20all%20the%20small%20farmers%20gone.pdf [Accessed 26 Nov. 2018].

- Posani, B. (2009). Crisis in the Countryside: Farmer Suicides and The Political Economy of Agrarian Distress in India. [online] Available at: <http://www.lse.ac.uk/internationalDevelopment/pdf/WP/WP95.pdf> [Accessed 28 Nov. 2018].
- Ramachandran, V. and Swaminathan, M. (2004). Financial liberalisation and rural banking in India. [online] Available at: [http://www.networkideas.org/feathm/dec2004/Conference\\_Papers/Financial\\_Liberalisation\\_Rural\\_Banking\\_India\\_VKR.pdf](http://www.networkideas.org/feathm/dec2004/Conference_Papers/Financial_Liberalisation_Rural_Banking_India_VKR.pdf) [Accessed 29 Nov. 2018].
- Rao, A. and Kadam, K. (2016). 25 years of liberalisation: A glimpse of India's growth in 14 charts – Firstpost. [online] Firstpost. Available at: <https://www.firstpost.com/business/25-years-of-liberalisation-a-glimpse-of-indias-growth-in-14-charts-2877654.html> [Accessed 3 Dec. 2018].
- Saad-Filho, A. and Johnston, D. (2005). Neoliberalism: A Critical Reader. Chicago: University of Chicago Press.
- Siddiqui, Kalim (2010). Globalisation and Neoliberal Economic Reforms in India: A Critical Review. In: Globalization in India: new frontiers and emerging challenges. Prentice Hall India, New Delhi, pp. 219-243.
- Siddiqui, Kalim 1990, 'Economic Reforms in India', (in Danish) Information, 19<sup>th</sup> September: Copenhagen
- Singh, V. (2017). Growth of automobile industry and its economic impact : An Indian perspective. International Journal of Commerce and Management Research, 3(8), pp. 06-10.

- Smith, N. (2014). neoliberalism | Definition, Ideology, & Examples. [online] Encyclopedia Britannica. Available at: <https://www.britannica.com/topic/neoliberalism> [Accessed 26 Nov. 2018].
- Thompson, K. and Roy, A. (2016). Neoliberalism in India – The Consequences ~ ReviseSociology. [online] ReviseSociology. Available at: <https://revisesociology.com/2016/08/24/neoliberalism-india/> [Accessed 26 Nov. 2018].
- Treanor, P. (2005). Neoliberalism: origins, theory, definition.. [online] Web. inter. nl. net. Available at: <http://web.inter.nl.net/users/Paul.Treanor/neoliberalism.html> [Accessed 26 Nov. 2018].
- Vombatkere, S. (2016). Impact of neoliberalism. [online] Deccan Herald. Available at: <https://www.deccanherald.com/content/557523/impact-neoliberalism.html> [Accessed 26 Nov. 2018].
- Watkins, K. (2013). Mumbai monolith epitomises need for post-2015 agenda to tackle inequality. [online] Available at: <https://www.theguardian.com/global-development/poverty-matters/2013/jan/28/mumbai-monolith-post-2015-inequality> [Accessed 26 Nov. 2018].
- World Bank. (2006). World Development Indicators. [online] Available at: <http://eprints.hud.ac.uk/id/eprint/3599/2/%233599.pdf> [Accessed 26 Nov. 2018].