

Cutting to the Chase: State-Level Divergence under India's 1991 Reforms

Ria Vasishtha

Barnard College

Abstract

While austerity in the Global North garners intense public backlash and political attention, this paper capitalizes on these ongoing debates to instead center the Global South, which has long been targeted by institutions like the IMF through conditional lending programs that restructure economies and reshape social relations. It investigates India's severe balance-of-payments crisis in 1991, when the country, after receiving a bailout, sought guidance from the IMF, evaluating the reforms through a subnational lens. Specifically, the study compares outcomes in four states: Bihar, Kerala, Maharashtra, and Punjab. Drawing on a mixed-methods framework, including visual analysis and econometric methods, the analysis dissects national aggregates to expose state-level disparities, exploring how and why states diverged. In doing so, it highlights the limits of one-size-fits-all policy solutions and demonstrates how the effects of austerity are mediated by local economic structures and social conditions.

1 Introduction

The 21st century has seen the rise of far-right parties that emphasize fiscal conservatism in their administrations. As a result, there is renewed global interest in the concept of austerity and its implications for individual countries.

The United States is often cited as an example, with the onset of the Trump administration calling for major cuts to social spending, targeting healthcare and food assistance programs. The language of efficiency dominates discussions around austerity, with the Trump administration introducing the Department of Government Efficiency (DOGE) to streamline government operations. DOGE's aggressive cuts to government agencies, including massive layoffs, have been met with backlash from within the Trump administration and from Congress. The agency has faced scandals for pushing poorly supported proposals and relying on flawed, fabricated data. Rather than careful, evidence-based reform, these sweeping measures focus on extremity, centering political performance and the appearance of toughness over meaningful or sustainable policy.

As Trump's austerity logic continues to capture headlines, what stands out is the double standard: austerity in the Global North sparks intense debate, yet the International Monetary Fund (IMF) has quietly imposed similar measures for decades through conditional lending programs in the Global South. When the IMF provides loans to member countries facing economic difficulties, it pairs financial assistance with policy advice, requiring significant economic reforms known as structural adjustment programs (SAPs). These programs have consistently emerged as a driving force behind persistent poverty in the developing world, contributing to disease outbreaks and civil wars.

This paper centers on India, focusing on the impact of IMF-driven reforms during India's balance-of-payments crisis. While the IMF has supported dozens of countries across economic backgrounds—87 during the pandemic alone—India presents itself as an interesting case study. It stands as a paradox: the fastest-growing major economy, yet it continues to grapple with a widening wealth gap that places it among the world's most unequal countries. This raises the question of whether policy decisions in India primarily serve the interests of the wealthy elite and corporations—and how this system has been reinforced across history.

India underwent a complete restructuring of its economy in response to the 1991 crisis, abandoning its socialist economic model in favor of a more open, market-oriented economy. This study explores how the reforms manifested at the state level, tracing how the broader economic overhaul translated in varying ways across India's different states.

1.1 Global Experiences with IMF Programs

Before turning to India, we can situate India's experience within the broader pattern of structural adjustment policies. Although a contentious topic, there is a wealth of literature describing how IMF interventions have restructured economies while reshaping political and social relations in the process. The IMF ensures debt repayment by requiring countries to cut education and eliminate food and transport subsidies, devalue currencies, and freeze wages. These policies increase poverty, and the IMF's mismanagement of the Asian

financial crisis led to the creation of 200 million “newly poor.”

Looking to Africa, where the IMF has made over 600 loan commitments since 1952, the institution has played a decisive role in shaping national economies through lending. SAPs were framed as necessary steps toward fiscal stability and integration with the global economy. In Africa, IMF interventions are arguably leading causes behind disease outbreaks, famine, and civil wars.

IMF conditionalities require cuts to systems that could respond to health crises before they spread. For example, when Ebola emerged, debt service was placed ahead of health services, with the IMF requiring the retrenchment of 28 percent of healthcare workers. Similar patterns appear with other diseases: IMF-driven reforms required the Ghanaian government to sell off state-owned enterprises, including water utilities. Profit-driven firms quickly raised user fees, shrinking access among the general public. This, compounded by deteriorating infrastructure, has been cited as a reason behind repeated cholera outbreaks that endangered public health.

More broadly, exiting IMF programs has historically been associated with more than a 30 percent decrease in tuberculosis, with studies reporting that healthcare spending in Africa has declined by 50 percent since the onset of structural adjustment programs.

Beyond disease, the IMF has forced nations to eliminate subsidies for food, oil, pesticides, and fertilizers. In Zambia, when the IMF required the government to eliminate subsidies, prices skyrocketed and farmers were forced to leave their fields. Nearly half of IMF loans include agricultural conditions that liberalize the industry by transferring resources away from food production to feed people and toward export-oriented goods, making many nations subject to volatile food prices. This played out in Malawi, where the privatization of the National Food Reserve Agency propped up famine.

When the government sold off state enterprises and slashed government budgets, it produced distinct “winners” and “losers,” with state employees seeing their salaries cut by 25 percent. This widened divides and increased the likelihood of conflict.

The previous examples represent only a handful of cases, often emerging in back-and-forth debates around IMF programs. They have been dismissed as exceptions, with outcomes attributed to factors like regional instability or weak state economies. While they remain contested, a clear overarching theme emerges: The IMF prioritizes a country’s account book above all else, relying on aggregate measures of economic performance to guide its policies. By evaluating IMF-driven reforms through a subnational framework, this paper carefully dissects aggregate indicators to understand how they manifest across state contexts. By exploring both efficiency and equity dimensions, it develops a holistic understanding of success.

India offers a number of unique features that enrich ongoing conversations around austerity and build on the prior discussion:

- **India as a State-Nation, not a Nation-State**

While much of the developing world implements reforms top-down from the central government, India’s vast geography, spanning 28 states and 8 union territories, complicates the narrative. India is regularly described as having a state-nation model because it holds together several distinct identities under a single state. Populations vary in linguistic, cultural, and religious diversity—the Indian government does not

attempt to regulate this into a singular, homogeneous national identity, but rather relies on frameworks to balance national priorities with regional autonomy. Studying state-level outcomes of IMF measures in India allows us to cross-compare identical reforms across varying institutions and demographics. We can avoid the bias that comes with comparing country-by-country outcomes because, by working within a single country, we control for certain variables (e.g., colonial history).

- **India's Substantial Population**

India is home to nearly one-fifth of the world's population, defined by rapid population growth following the country's independence. A single policy shift in India can affect hundreds of millions of lives, shaping not only India's individual development but also rippling outward. As India grapples with challenges like rapid urbanization and inequality, policies tested in India allow us to understand how to address these issues at scale.

- **India as a Product of Western Institutions**

Nearly 80 years since India gained independence, we still cannot separate the country's economic path from the colonial history that shapes it. India previously had the world's largest economy and controlled a large share of global wealth and industrial output. Under colonial rule, the British dismantled India's economy to serve British interests, draining wealth and exploiting trade to deepen poverty and assert control.

There is a troubling irony in discourse around India's 1991 reforms: commentators frequently cherry-pick aspects of India's trajectory, celebrating economic progress as proof of IMF-led reforms while simultaneously framing persistent social challenges as failures of the Indian state. In reality, however, India's deeply entrenched social hierarchies were formalized and rigidified by the British, who codified caste identities to ease colonial rule. In this sense, barriers to resources and opportunity were institutionalized by the West rather than emerging solely from within.

This makes India an interesting case study: to understand the equity–efficiency trade-off in SAPs, we need to recognize that austerity does not operate in a social vacuum and explore how reforms interact with existing inequalities.

1.2 The IMF and India's 1991 Crisis

Post-independence, India oriented itself toward self-sufficiency and rapid industrialization, following the system of the “License Raj.” The Indian government controlled what goods were produced, the quantity of production, market prices, and capital allocation. There was an elaborate system of government licenses and regulations that impeded entrepreneurship, innovation, and competition. For businesses to participate in the system, they required numerous government approvals, which inevitably led to extensive bureaucracy that caused slow growth, high costs, and widespread corruption. This economy was poised to fail as India's accounts worsened amid global upheavals.

Over the years, three key events destabilized the economy, deepening the crisis:

- **Volcker Shock:** In response to high, double-digit inflation in the 1970s, the U.S. Federal Reserve began aggressively raising interest rates. The cost of servicing dollar-denominated debts rose sharply, and high interest rates made dollar assets more attractive, triggering capital outflows.
- **Collapse of the USSR:** When the Soviet Union fell in 1991, India lost a major trading partner. The two nations were allied in an economic partnership, and their rupee–rouble arrangement had allowed India to settle dues in rupees, scarcely avoiding the depletion of already falling foreign reserves.
- **Gulf War:** As a major oil importer, the war directly increased India’s import costs for crude oil and contributed to a larger current account deficit. Beyond imports, the war led to a massive evacuation of thousands of Indian nationals in the region, and remittance flows began to slump.

This, compounded by lofty infrastructure projects, widened fiscal imbalances, and India saw heavy accumulation of foreign debt. Bond ratings slid, and India struggled to borrow from international markets, having lost investor confidence. By mid-1991, India reached a point where it could pay for only the next three weeks of imports. Seeing no other path forward, the government turned to international institutions like the World Bank and the IMF for economic relief, ultimately accepting a \$2.2 billion package. The conditions required India to undertake significant economic reforms and begin the economic liberalization process.

Under the Narasimha Rao administration, India underwent liberalization that transformed the country’s economic landscape. The country abolished the “License Raj” and opened up the economy to create a more business-friendly environment. A significant component of the reforms involved reducing the government’s role in the economy by divesting from public sector enterprises in favor of privatization. To address India’s fiscal crisis and reduce government spending, the administration cut various subsidies and attempted to streamline government expenditure across multiple sectors.

The reforms achieved the purpose of resolving India’s burgeoning debt crisis as external capital inflows increased significantly, foreign direct investment rose steadily, and foreign exchange reserves grew from around \$1 billion in 1991 to approximately \$25 billion by 1995. Most mainstream analyses view the 1991 reforms as successful structural adjustment that helped India transition from a closed, low-growth economy toward middle-income status.

This positive assessment, however, relies heavily on national-level indicators such as GDP growth, investment rates, and poverty statistics. These aggregate measures can obscure the uneven distribution of reform impacts across different regions and social groups.

2 Critical Review of Existing Literature

To begin to understand IMF-led austerity measures, we can explore key theoretical and empirical contributions that deconstruct decision-making to understand why the IMF advocates for aggressive SAPs and how they have historically played out. While the previous

section outlines reform outcomes in a series of African countries, the empirical evidence here focuses on how theories of the IMF translate in real-world settings. Existing scholarship highlights how these measures do not function in isolation; instead, their outcomes are shaped by broader social, political, and economic contexts.

The sources in this literature review can be split into three broad categories: (1) theoretical and historical foundations; (2) the IMF, structural adjustment, and global vulnerabilities; and (3) social consequences and alternative trajectories.

Table: Literature Review

Work (Author, Year)	Key Arguments & Theoretical Framework	Relevance to Project
Clara E. Mattei (2022), <i>The Capital Order</i>	Austerity is not a neutral fix for budgets; it serves as a political tool used to protect capital and discipline labor. Uses the example of interwar UK and Italy. Claims that austerity’s “success” is in preserving hierarchies and creditor interests.	Frames austerity as a way to lock in the “capital order,” rather than to stabilize growth. Highlights how austerity has effects beyond economic metrics (e.g., class structures).
Stephanie Ettmeier (2021), <i>Fatal Austerity</i>	Explores Germany’s 1930–1932 austerity measures that involved a combination of tax hikes and spending cuts, and positions these policies as catalysts in extremist politics. Highlights how Germany’s choices were attempts to show fiscal discipline and strengthen bargaining position.	Views austerity measures as political tools used for non-macroeconomic goals, resembling how the IMF’s policies are not about short-term welfare but about enforcing a global orthodoxy of “fiscal discipline.”
Alberto Alesina (2019), <i>Effects of Austerity: Expenditure- and Tax-based Approaches</i>	Divides austerity measures into two groups, viewing spending-based consolidations as less contractionary than tax-based ones. Views downturns as short-term reactions to spending cuts, with relatively quick recoveries.	Focuses on aggregate GDP effects in wealthy OECD countries, not on the social or distributional consequences within states.
Sanjaya Baru (1982), <i>Review: The IMF Loan: A Loyalist View</i>	Frames austerity as unavoidable, even virtuous. Views austerity not only as a way to fix macroeconomic indicators, but also as a way to perform fiscal virtue to international creditors.	Represents the logic of policymakers implementing SAPs, viewing them as necessary fiscal discipline.

York Bradshaw (1991), <i>Intensifying Global Dependency</i>	Draws on dependency theory to argue that IMF programs deepen the flow of resources from the Global South (the periphery) to the Global North (the core). The focus is placed on export-oriented economies, and debt servicing (for international creditors, in turn) becomes the priority.	Explains austerity as a structural trap. Once countries are locked into conditionality, austerity reproduces inequality, dependence, and underdevelopment.
Michel Chossudovsky (1993), <i>India under IMF Rule</i>	Critiques the neoliberal framing of austerity as “necessary adjustment.” Instead, situates it as a loss of control for developing states, where austerity’s long-term effects are social polarization and weakened welfare systems.	Highlights how policy sovereignty was compromised: India’s development path became increasingly dictated by IMF prescriptions. This places policy decisions as a product of the West.
Jayati Ghosh (2023), <i>Schizophrenia at the IMF</i>	Highlights a contradiction: IMF research acknowledges that fiscal consolidation doesn’t reduce debt (because it stifles growth), but IMF programs still enforce austerity. Looks to Sri Lanka, Ghana, and Zambia as examples.	The disconnect highlights how institutional norms of “credibility” and “discipline” override evidence-based policymaking.
Irfan Nooruddin (2004), <i>The Politics of Hard Choices</i>	Focuses on how outcomes vary depending on a country’s domestic institutions (e.g., democracies with strong political resistance water down austerity).	Suggests that vulnerability is not only fiscal or structural (e.g., social demographics), but also political.
Jayati Ghosh (2022), testimony: <i>The Role of the IMF in a Changing Global Landscape</i>	Explores how alternatives, like Special Drawing Rights that have no debt or conditions attached, boost liquidity. Views IMF surcharges as regressive and fiscally counterproductive, disproportionately burdening crisis-hit economies. The IMF skews in favor of the North.	Notes that SDR allocation is uneven, allowing the Global North to borrow freely while poorer countries must borrow under strict conditions; in this way, the South is locked into a system where key decisions are made for it rather than by it.

<p>Sherin Kularathne (2024), <i>Analyzing the Impact of Socioeconomic Indicators on Gender Inequality in Sri Lanka: A Machine Learning-Based Approach</i></p>	<p>Uses machine-learning frameworks to explore how GDP growth and government revenue reduce gender inequality while unemployment worsens it.</p>	<p>Shows a positive relationship between fiscal and social indicators, where they increase together. Highlights how real, structural revenue growth matters for equity, while austerity’s quick fixes may not.</p>
<p>Laura Bear (2017), <i>“Alternatives” to Austerity: A Critique of Financialized Infrastructure in India and Beyond</i></p>	<p>Argues that infrastructure investment is not a viable “alternative” to austerity. Power over public budgets has shifted from governments to financial markets. Looks to the Hooghly River, where infrastructure work led to underpaid labor rather than creating long-term benefits.</p>	<p>Highlights how the logic of austerity persists in future projects through weakened state capacity and deeper dependence. There is no inclusive development in austerity.</p>

Building on these foundational works, this paper contributes to the literature by adopting a subnational lens. Rather than relying on aggregate statistics to evaluate IMF-driven reforms, the analysis focuses on state-level numbers to understand how local structures mediate the effects of austerity and shape divergent outcomes within the same national context. Further, the paper explores the who, how, and why of austerity: which regions faced the greatest costs, how outcomes varied, and why the burden of adjustment was distributed so unevenly.

3 Research Design and Data Construction

To understand India’s development trajectory post-liberalization, I constructed an exhaustive dataset organized around three key categories:

- **Covariates:** Variables capturing the pre-1991 characteristics of states (e.g., relative wealth, reliance on transfers, sectoral composition, and historical levels of social spending). The purpose was to identify the underlying traits that shaped how states entered the liberalization era.
- **Treatment:** Measures tracking the specific policy shifts and reforms associated with the 1991 liberalization package, enabling observation of how different states experienced these reforms. This includes measures of state finances (shifts in central transfers, grants, and tax shares) to capture interactions between state and federal governments. It creates a binary variable to mark the liberalization period.

- **Outcomes:** Indicators viewed through a lens of efficiency and equity. On the efficiency side, indicators relevant to state productivity include GDP growth and fiscal performance. On the equity side, the analysis considers poverty rates, inequality indices, and access to social services. Taken together, these variables allow quantification of the equity–efficiency trade-off—given that one exists—and help explain where they diverge.

There was substantial overlap between these variables because they are naturally intertwined. Literacy rate, for example, is an impact of the intervention while also potentially shaping how the intervention was received. States with higher literacy levels were better positioned to shift labor into industry and services, thereby absorbing the opportunities created by liberalization more effectively.

Given that these datasets originated from different sources and were collected at varying intervals—some in ten-year periods, others monthly—the primary challenge was merging them by date and standardizing their units of measurement. The analysis was restricted to the period from 1980 to 2000 to capture the economic conditions before, during, and after India’s 1991 IMF bailout and subsequent liberalization reforms. To ensure cross-temporal comparability, all monetary values were converted to a consistent base year using 1993 price indices.

The analysis centers on four states in India, drawing one from each region:

Kerala (South India): Kerala has a long-established welfare legacy in health and education, high social spending shares, and strong local service delivery. It reports the lowest rates of multidimensional poverty in India and has consistently outperformed other Indian states in human development indicators. However, the state continues to struggle with a deepening fiscal crisis that first emerged in the 1980s, a result of falling fiscal transfers and limited capital investment. I was curious whether budget rigidity could impact outcomes, or whether accumulated human capital could cushion equity outcomes.

Maharashtra (West India): What Kerala has on the equity side, Maharashtra embraces on the efficiency end of the spectrum. It has a large formal-sector economy, serving as a major financial center in the country. This, coupled with high tax buoyancy and access to ports, enables it to be less transfer-dependent. Today, wealth is significantly concentrated in Mumbai, which holds the title of Asia’s billionaire capital and India’s richest city.

Bihar (East India): Bihar is historically known for having low per-capita income, compounded by weak own-revenue generation that creates high dependence on central transfers. The state depends on government schemes like the Bihar Rural Livelihoods Project to engage with its large rural population. When central transfers contracted, Bihar’s experience reflects how transfer-dependent states responded.

Punjab (North India): Punjab shares a similar story to Bihar in having a large rural population, but it capitalized on the Green Revolution, which led to unprecedented increases in crop yields. Punjab effectively increased food production to feed India’s

growing population, causing significant increases in rural wages. However, the heavy emphasis on agriculture made it difficult to adapt to the industrial environment post-liberalization.

In choosing these four states, my goal was to create a comparative research design to isolate how specific factors—like agrarian structure and transfer reliance—shaped policy impacts.

3.1 Visual Analysis & Cross-State Comparisons

Given the limited sample size, we can identify patterns in the data through visualization and by grouping states according to the various selection criteria used.

Figure 1 tracks annual growth rates across all four states, with the 1991 austerity period highlighted in red. All states experienced a dramatic crash in growth around 1990–1991, but their responses varied. The post-crisis recovery patterns were divergent, with Kerala and Maharashtra rebounding strongly to their previous growth levels, while Punjab experienced prolonged stagnation and Bihar lagged behind the other states in recovery.

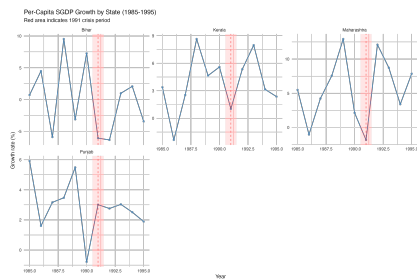


Figure 1: Annual growth rates across all four states.

Figure 2 builds on the previous visual. When the states are divided into rich and poor categories, we can identify several patterns. Before 1990, poor states showed greater volatility, with larger swings between positive 10 percent and negative 10 percent growth rates, while rich states had higher growth peaks, sometimes reaching 15 percent. During the crisis, both groups crashed, but poor states experienced more severe declines than their wealthier counterparts. The post-reform recovery beginning in the early 1990s showed stark differences between the two groups. Rich states rebounded strongly, achieving growth levels above 15 percent, while poor states experienced weaker and slower recovery with continued high volatility. A closer analysis highlights Bihar’s growth story, which moved from positive to negative growth. In this way, the reforms widened existing disparities, with the poorest state experiencing a decline in performance despite the promoted benefits.

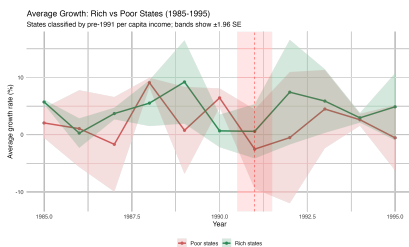


Figure 2: Growth trajectories of rich vs. poor states.

Figure 3 shows the analysis of transfer flows, revealing how austerity policies affected different states' fiscal positions. Interestingly, transfer flows increased across most states during the crisis period. However, the impact on state revenues varied dramatically, with Punjab's revenues collapsing while Bihar's revenues stagnated, demonstrating the uneven resilience of different states' fiscal systems. This highlights how reforms were embraced by certain states. Policies of liberalization, deregulation, and privatization opened up new opportunities for those with existing capital. Other states, however, were not able to capitalize on this.

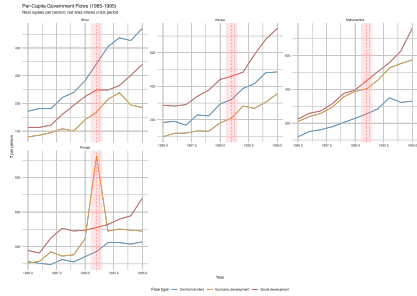


Figure 3: Analysis of transfer flows by state.

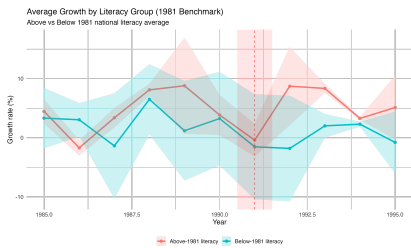


Figure 4: Growth trajectories by literacy group.

Figure 4 looks at variables like literacy rate to understand how demographics played a role. It follows a similar pattern to the rich-poor mapping, supporting the hypothesis that human capital acted as a buffer during the adjustment period. States with more educated populations could reallocate labor more efficiently and adapt to new market opportunities created by the reforms.

4 Identifying Key Relationships

To assess the impact of reforms more rigorously, I ran heterogeneity regressions to understand whether austerity intensity interacted with baseline state characteristics, including pre-transfer dependence, state wealth, literacy levels, and demographic composition. The goal was to examine whether reform effects varied systematically across different state contexts. While the regressions produced strong negative coefficients that aligned with theoretical expectations, none of them were statistically significant because of the small sample size.

Alongside the regression, I employed an event-study design to trace the effects of reforms around the treatment year, testing for pre-existing trends and examining the persistence of the shocks. The coefficients on the lead variables, measured two and one years before the treatment, were small and statistically insignificant. This indicates the absence of pre-trends and supports the validity of the research design.

In the treatment year itself, the analysis showed a sharp and statistically significant decline of approximately 8 units. The post-treatment lag coefficients remained negative, suggesting that short-term impacts persisted for several years following the initial shock. However, with p-values of 0.28 and 0.48 respectively, these longer-term effects cannot be considered statistically significant, limiting conclusions about the persistence of austerity's impact beyond the immediate treatment period.

5 Discussion & Policy Implications

The analysis underscores how austerity policies in India’s post-liberalization period had uneven impacts across states. Extending the empirical framework with scenario modeling and vulnerability scores makes these findings more applicable in a policy context, providing tools to anticipate risks and guide resource allocation.

5.1 Scenario Modeling

The first extension stress-tested the reforms by scaling each state’s *observed* austerity intensity by 20% during the critical adjustment period of 1991–1994. This approach magnifies each state’s actual experience: by making the simulation proportional to existing austerity levels, we parallel how governments implement fiscal adjustments in practice—scaling cuts relative to current spending patterns rather than applying identical absolute reductions everywhere.

As shown in Figure 5, this yields the somewhat surprising result that Kerala, not Bihar, absorbs the harshest marginal impact. The outcome is mechanical rather than paradoxical: Kerala entered the crisis with deep transfer contractions, so any proportional tightening worsens its trajectory more severely. By contrast, Bihar’s baseline austerity was closer to zero, so scaling its shock has little marginal effect.

This reveals an important pattern: as austerity intensifies, it ropes in states that were previously resilient. It is not simply that everyone suffers proportionally more; rather, harsher cuts start pulling different types of states into crisis. States with robust social infrastructure, like Kerala, become increasingly vulnerable as their funding-dependent systems face deeper cuts, while states operating at minimal baselines show smaller additional losses because they may already have absorbed the worst of it.

5.2 Vulnerability Scores

The second extension involved composite vulnerability scores (Figure 6) to identify which states were most at risk from austerity. These scores combined measures of exposure (post-1991 transfer cuts), sensitivity (growth declines), and pre-crisis traits (income, transfer dependence, and social spending), along with human-capital benchmarks from 1981 (literacy

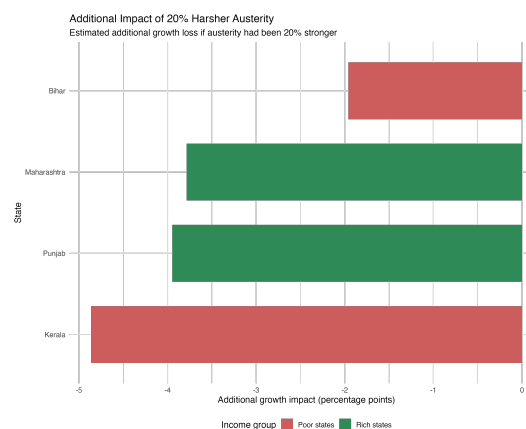
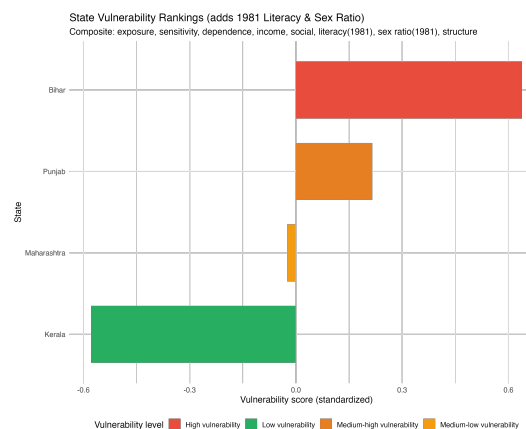


Figure 5: Additional impact of 20% harsher austerity.



and sex ratios). States with high transfer dependence, low literacy, weak fiscal bases, and agricultural dominance consistently scored as the most vulnerable. In contrast, wealthier and more diversified states with stronger human-capital capacity ranked as less exposed.

This provides an actionable framework for policymakers. Rather than treating all states as equally capable of absorbing the impacts, vulnerability scores allow governments to target support where it is most needed. Austerity packages could be paired with compensatory transfers or protections in high-vulnerability states to cushion the costs of adjustment.

5.3 Limitations

A major challenge in this analysis arose during the data-collection phase, specifically in gathering state-wise data. While the World Bank’s open data archive or the World Health Organization’s glossary provide comprehensive estimates of fiscal and social indicators, there is limited state-wise data available outside of research foundations—often charging exorbitant amounts—and public government sites that are inconsistent across states and time periods, typically including statistics on a decade-to-decade basis. While I attempted to recalculate financial terms using a constant base year for consistency, several of the datasets had been standardized across time using different price indices. A more robust approach would require comprehensive recalculation of all fiscal and development indicators across a broader sample.

Within this, there was a lack of equity indicators measured on an annual basis (see Figure 7). Instead, the analysis relied on averages spaced far apart temporally, preventing a precise evaluation of social outcomes over time. This made it difficult to trace the immediate impacts of policy changes on vulnerable populations.

The analysis itself relies on a sample size of four states, which substantially reduces statistical power and limits the generalizability of findings. In retrospect, a more focused approach tracking a single variable (e.g., transfer dependence), rather than investigating many possible relationships (e.g., rich or poor, literacy rate, region), could have yielded clearer insights. A larger dataset would allow for the use of more complex approaches like causal forests to better identify heterogeneous treatment effects across different state characteristics. In addition, to interpret and apply the policy tools effectively, the analysis should be replicated on a full panel dataset incorporating updated metrics to reflect current vulnerability compared to the levels observed in 1990.

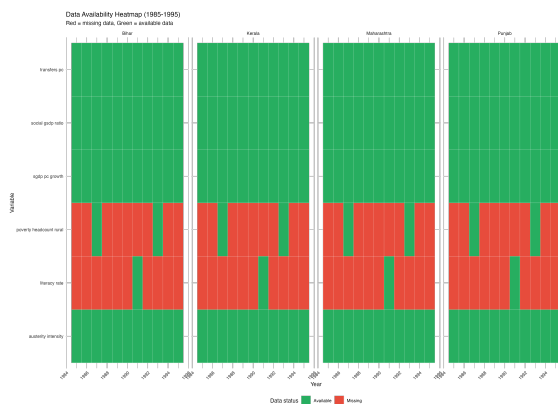


Figure 7: Data availability.

6 Conclusion

The 1991 reforms in India are often celebrated as a turning point that opened the path toward rapid growth and global integration. Yet, when examined through a state-level lens, their uneven impacts come into focus. Austerity amplified structural divides: wealthier and more literate states with stronger fiscal bases rebounded quickly, while poorer, transfer-dependent, and socially disadvantaged states saw stagnation. Uniformly applied fiscal contraction overlooked India's heterogeneity, reinforcing inequality.

This analysis underscores two key insights.

- First, austerity cannot be divorced from the social and institutional contexts in which it is applied. IMF prescriptions assume universality, but their real-world effects are mediated by local structures.
- Second, the Indian case illustrates that measuring austerity's "success" solely by aggregate growth or fiscal stabilization is misleading: beneath the headline numbers, austerity entrenched long-term vulnerabilities in the very regions most in need of support.

Policy design in contexts like India must recognize these disparities. Rather than uniform fiscal consolidation, equitable adjustment would require protecting social spending, tailoring measures to states' fiscal capacities, and addressing historically entrenched inequalities. More broadly, the Indian experience illustrates the dangers of one-size-fits-all austerity in the Global South. Unless international financial institutions account for heterogeneity, austerity will continue to reproduce inequality and undermine the very stability it claims to promote.

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