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‘Episodes of Liberalisation’ or ‘The Logic of Capital’: The Genesis of Liberalisation in India

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‘Episodes of Liberalisation’ or ‘The Logic of Capital’: The Genesis of Liberalisation in India

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Abstract:
This paper examines the genesis of liberalisation in India, it argues that once we locate its origin we can understand its direction and underlying political economy with much greater clarity. In particular the paper seeks to answer three questions. Why was reform launched in 1991 when the real economy was essentially in good condition? Why did the state choose a neo-liberal policy package when other options were available? Why did the state sustain liberalisation even after the economy had recovered from the immediate crisis? Existing answers to these questions are found to be inadequate. Instead this paper focuses on an alternative explanation that emphasises continuity, the reforms in 1991 can be traced back to the early 1970s. The Momentum of reform was sustained and assumed a particular form due to an underlying ‘logic of capital’.

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1. Introduction

Neo-classical economics is based, as is any school of economics on certain assumptions. The underlying assumptions that a free-market removes politics from the economy; that a free market leads to an efficient allocation of resources and efficient growth over time. Such assumptions have served to narrow its analytical perspective. With such strong assumptions Neo-classical analysis is limited to accounts chronicling implementation, focusing on the depth, speed and sequencing of policy reform. Analysis is seldom concerned with the impact on productivity, on employment, and poverty. With such strong a-priori efficiency assumptions the only barometer of success is the degree to which liberalisation has been implemented. Typical for example are accounts of trade liberalisation, which focus only on the extent to which tariffs have been reduced, and foreign investment liberalised. There is little if ever attempt to measure the impact of such reforms on crucial issues of the economy and of economic welfare. This paper focuses on one such issue ignored by Neo-classical discourse, using the case study of India in the 1990s. This paper examines the genesis of liberalisation in India and argues that once we locate its origin we can understand its direction and its underlying political economy with much greater clarity.

This paper begins with the accession of Rajiv Gandhi to the Presidency of Congress in 1984. It was perceived to mark a new beginning, despite obvious dynastic continuities. Early reform efforts were met with initial acclaim though the impetus was perceived to quickly peter out, and finally reforms were abandoned by 1986/87. There was a remarkable sense of resignation by the end of the 1980s. The socio-political configuration of India, analysed in both state and society terms meant substantial reform in the near future would be impossible.

Reforms launched in 1991 were greeted with euphoria, considered unambiguous and perceived to herald a transformation of India’s development strategy. This was somewhat surprising given the then academic consensus that they were all but impossible.

Analysis has identified what can be described as episodes of liberalisation, these have occurred on a fairly regular basis, in 1945/47, 1965/66, 1980/82 and 1985/6. According to orthodox opinion these were isolated episodes with no long-term implications. Thus we are posed with three questions.

Why was reform launched in 1991 when the real economy was essentially in good condition?

Why did the state choose a neo-liberal policy package when other options were available?

Why did the state sustain liberalisation even after the economy had recovered from the immediate crisis?

This paper identifies four arguments that authors have used seek to answer these questions, ‘Elite verses Mass Politics’, ‘Reform by Stealth’, ‘Clever Political Management’ and ‘Elite Psychology’. In all cases they do not address the important issue of why reform failed in 1985 and succeeded in 1991, nor why liberalisation was initiated or took the particular form that it did.

Instead we turn to an alternative interpretation that emphasises continuity. That the reforms launched in 1991 were not new but instead part of a continuing coherent process encompassing the reforms of Rajiv that can be traced back to the early 1970s. The momentum of reform was sustained and assumed a particular form due to an underlying ‘logic of capital’.

Analysis since 1991 has all too often focused on the politics of reform, how interest groups may block reform, or how the reform process may be speeded up. This approach misses the essential nature of the reform process, that the logic of capital is driving a particular pattern of inegalitarian development. Reforms have been driven by the greater availability of international capital, a process that gathered momentum in the 1970s and 80s. The release of the financing constraint on India’s balance of payments in turn allowed much greater leniency in the domestic budget. Debt accumulation provided a palliative to the preceding twin evils of inflation or payments crises that characterised the stop-go process of economic development in an earlier period.

The need to attract capital, international rather than domestic resource mobilisation, promoted a particular logic of reform. Reform focused on attracting NRI deposits and FDI and liberalising capital markets. However the state in India is not a developmental state. Capital drove reform but the state was ultimately unable to utilise capital to underpin its own legitimacy. Capital was not absorbed productively. FDI was aimed at the domestic market or short-term portfolio assets. In China by contrast MNC's account for 40% of China's manufactured exports (Kumar, 2000). Driven by a particular 'logic of capital' the sustainability of an exclusionary and speculative reform process must be questioned.

2. 1985: Change in the Guise of Continuity

The accession of Rajiv Gandhi to the Presidency of Congress in 1984 marked the final subordination of the party to the dictates of the Nehru family. Paradoxically however, this dynastic continuity was acclaimed because it was perceived to mark a distinct break with the past.

"Rajiv was forty when he became Prime Minister. His sheer paucity of years was as audacious as the fact that he had almost none of the traditional exposure to politics……The fact that he was not a 'professional' politician was his biggest asset……His youthful years promised a dynamism…..He was perceived to be free of the baggage of old ideology, pragmatic, with an open mind" (Varma, 1998, p112).

Acceptance of Rajiv was underpinned by an implicit rejection of his political heritage. The post-Independence leadership had inspired a generation through,

"an aura of personal sacrifice, a long association with politics in the struggle for freedom, an unambiguous set of ideological beliefs, a professed disdain for material pursuits, and unquestioned personal integrity." (Varma, 1998, p112).

The mandate for a new beginning was striking, with 48% of the national vote Congress won 401 of the 535 seats in the 1984 Lok Sabha elections. Rajiv secured the largest ever majority in India, surpassing Congress ‘one party dominance’ in the 1950s and even Indira’s ‘Garibi Hatao’ populism of the early 1970’s. This mandate was reinforced by a perception that change was now genuinely possible.

“The state suddenly stood autonomous, seemingly free of societal constraints, ready to be used as a tool for imposing economic rationality on the sosciety.” (Kohli, 1990, p317).

2.2 Economic Reform

The Budget presented by VP Singh on 24th March 1985 marked a clear shift in official priorities[1]. Corporate, wealth and income taxes were reduced and estate duty abolished. Regulatory and tariff changes permitted more liberal imports of capital goods, technology and raw materials to enable industry to modernise and expand exports. Industrial policy was overhauled. Restrictions on monopolies were reduced[2], easier access granted for expansion and diversification[3] of production. Twenty-five broad categories of industry were delicensed[4]. In June 1985 a new textile policy, removed output restrictions on mills and power looms. This measure struck at the symbolic heart of Congress nationalist values. For the first time since the 1950s private sector investment outlays were expected to exceed those of the public sector.

2.3 1986: The Return of Continuity

The perception of change did not last long,

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[1] (Rubin, 1985 p942).

[2] The MRTP (Monopoly and Restrictive Trade Practises Act) dated from the ‘radical’ period of Indira Gandhi, 1969-73. In the 1985 budget the asset limit for referrals to its requirements was raised from Rs 20 to Rs 100 crore. Industries were also exempted if established in backward areas.

[3] Known as ‘Broad-Banding’.

[4] Including electrical machinery, drugs and electronic components.

"The illusion of autonomy and the euphoria of a new beginning lasted about six months." (Kohli, 1990, p318).

In February 1986 an announced price increase in petroleum products was reversed before planned national protests. In the same month proposals to allow collaboration with Japanese automobile manufactures were dropped in the face of pressure from competing import substituting industries. Rajiv's popularity declined sharply during 1986. Congress lost nearly all state elections after March 1985. Party elections planned for 1986[5], to revive the moribund party organisation were postponed. There was a risk that elections would entrench growing opposition to Rajiv within the Congress.

2.4 1987: Business as Usual

Rajivs electoral misfortunes culminated in the loss of the May 1987 Haryana state elections. This was a dire setback in a traditional Congress stronghold. In the same year the Bofors scandal erupted, Rajiv lost his untainted 'Mr Clean' image. The failure to implement the 1985 Punjab peace accord led to spiralling terrorism, from a low in 1985 3,000 were killed in 1988.

The 1987 Budget conformed to political considerations rather than continue pursuing neo-liberal reform. Customs duty on imported machinery imports were raised to 85%. Spending on anti-poverty programmes were boosted in 1987/8 from Rs 200 to Rs 2050 crore. Plan outlays on agriculture and irrigation were increased to head off growing discontent among the agrarian lobby. The sense of stagnation and an opportunity lost are striking,

"In a little less than five years, Rajiv and his bold men has dissipated the enormous political capital that they had inherited. The society had struck back, and the Congress government had once again lost much of its autonomy." (Kohli, 1990 p324)

[5] Internal Congress party elections were cancelled by Indira Gandhi in the early 1970s and replaced by a practise of appointing loyalists by central dictat.

"For a brief historical moment there was an opportunity for significant change. That moment appears to have passed." (Weiner 1989, p317).

3. The Orthodox View: Why Reforms Petered Out in 1986/7

There are two shades to this orthodoxy, 'society' and 'state' centred. Society centred explanations focus on the rise of new groups, especially the post Green Revolution peasantry, the deepening of political participation and consequent increasing demands on the limited resources of the state. State centred explanations focus on the undermining of political institutions by the leadership[6].

3.1 Society Centred: A Summary

Society centred approaches analyse the power of different groups to push through preferred policy choices. Policy changes in the 1980s were not simply an objective response to an objective situation. Alternatives did exist and were strenuously debated at the time. The early legitimacy of Ragiv was dynastic and not connected with any particular economic philosophy. The choice of policy involved political choices.

The literature[7] has identified rough interest groups to which it has ascribed either support or opposition. The balance of power between these contending parties variously couched in political, rhetorical or economic terms is held to determine the outcome of attempted reform.

In Favour…

Business is not a homogenous whole. Liberalisation was opposed by the import substituting sector and welcomed by those benefiting from greater access to raw

[6] Commonly telling a story of the rise and fall on political institutions under Nehru and Indira e.g. Rudolph and Rudolph (1987).

materials and inputs at world prices, foreign markets and the opportunity to engage in joint ventures. The middle classes, professionals and self-employed, those who identified with Rajiv, computers and consumer goods.

Opposition…..

Lower level political functionaries and the Congress rank and file, were faced with the loss of patronage resources. The moderate left opposition argued liberalisation undermined both self-reliance and socialism. For rural Groups Rajiv had acquired an urban and pro-rich image. Formal sector labour, especially in the unionised state sector feared the loss of both employment and privileges.

By 1985 the massive electoral victory secured by the 'Rajiv wave' did not generate an equivalent capacity to govern. Since the 1970s elections had been won based on vague mandates[8] subordinated to populist appeal. The government was beholden to political wave effects associated with this decline in ideology. There was in 1984 a,

"broad, heterogeneous and hugely formidable array of interests to oppose liberalisation" (Manor, 1987, p39).

The literature identifies a number of means by which opposition to the neo-liberal agenda could have been overcome. Patel (1987) argues Rajiv failed to build up pro reform consensus to change the balance of power into one favouring liberalisation. Rubin (1985) focused on both the ability and will necessary to reassert the autonomy of 'high politics' from the dominant coalition opposed to liberalisation in order to impose upon them the costs of change. It was argued would require a fundamental change in the functioning of democracy in India,

"a real attempt to liberalise the economy probably would require the establishment of a much more authoritarian regime, able to ride over the powerful interests represented in the dominant coalition." (Harriss, 1987, p38).

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[7] E.g. Kohli (1990), Manor (1987), Harriss (1987) etc

[8] The theme of liberalisation was not an issue in the 1984 national election, Congress campaigned on the issue of 'national unity'.

3.2 State Centred

The state centred approach sees political structures having an autonomous significance in socio-economic life. Weakened political institutions in India encouraged undisciplined political competition and politicised existing social divisions such as caste, ethnicity and language. There was a growing gap between institutional capacities and problems requiring political solutions.

"A highly interventionist state dealing with a poor economy has become the object of intense political competition. The spread of egalitarian political values and the opportunities provided by democracy have, in turn, helped to transform what was once a heterogeneous social structure into many groups of mobilised activists." (Kohli, 1990, pix).

The literature identifies two themes that could further the chances of neo-liberal reform. Kohli (1990) identifies the CPI(M) in West Bengal and the DMK in Tamil Nadu to demonstrate the potential of party reform to further a programmatic policy agenda. Party organisation in these states has filled the authority vacuum created by competitive political mobilisation, has minimised factional conflicts, clarified lines of authority, defined policy priorities and provided cohesive and effective govt.

Congress in 1985 did not have internal elections. Party and state leaders were appointed by the centre on the basis of loyalty not local level support. Local political structures had no independent capacity to deal with local problems. Rajiv attempted to pursue reform along the lines identified by Kohli (1990), making some early announcements about holding internal party elections. Within this approach analysis focuses to a large extent on the personal capacity of the leadership. Unfortunately Rajiv was,

"irresolute, maladroit, dismissive" (Manor, 1987, p39).

The second line of reform, somewhat tautologically is liberalisation - to remove the state from the political arena and hence reduce the incentives for interest groups to gain control over it[9]. The reasoning here is circular, liberalisation will reduce the problem of politics and enable the state to pursue an agenda of liberalisation!

Under the state centred perspective reform seeks to narrow the gap between commitments and capabilities, liberalisation reduces the former and political reform raises the latter. Rajiv made hesitant steps in both directions but was perceived to have ultimately failed. The sense of resignation in 1989 was very apparent.

4. A Sense of Resignation 1989

Some authors concluded reforms were possible but more in hope than expectation,

“A fundamental change toward market orientated policies requires a new ideological orientation of the governing elite, an economic and political strategy for handling the transition, a strong commitment by the leadership to pursue these policies in spite of short-term losses, and the capacity of the leadership to build a new coalition of political forces to provide support for these policies.” (Weiner, 1989, p149).

A more common attitude was that the Indian state was not capable of pursuing a neo-liberal agenda.

“The country seems agreed ideologically on secularism, socialism and democracy, on the merits of a mixed economy[10]”. (Rudolph and Rudolph, 1987, p1)

[9] Public sector employment reservation would have less relevance in a minimalist state which should reduce the clamour for caste based affirmative action.

[10] The most striking feature of Indian politics argue Rudolph and Rudolph (1987) is its “centrism” (p19) sustained among others by the presence of the state as a third actor marginalising class politics, the political consciousness of the ‘Bullock Capitalist’, electoral strength of minorities etc…It is this ‘centrism’ that ultimately prevents liberalisation and stable party politics….“India has little to fear from the emergence of class politics; rather, centrism and populism are the primary sources of the problem on Indian politics.” (Kohli, 1990, p396).

As late as 1992 Jalan published 'India's Crisis: The Way Ahead'. He considered that in mid 1991 the short term prospects for major reform appeared bleak. The February 1991 budget was abandoned amidst political crisis, in March the minority government resigned without taking any effective action on the growing balance of payments problem. The New Economic Policy of Rajiv,

"might destroy the broad national consensus that characterised the evolution of India's economic policy." (Jalan, 1992, p21).

As a consequence Jalan discusses moderate reforms – phased withdrawal of export subsidies, efforts at compensation (preserving subsidies on fertiliser and food), a more uniform tariff structure, greater use of replenishment licenses etc[11]. Reforms explicitly within the context of the existing 'national consensus'. The degree to which popular discourse on liberalisation overtook Jalan while his book made its way through the publishers can be seen in the hastily written postscript at the end of the preface. The postscript effectively confesses reforms underway had totally superseded his analysis.

5. 1991: Euphoria

Reforms in 1991 generated another burst of euphoria, similar to those sentiments prevailing in 1985[12]. Reforms were clear,

"the reforms are forceful and explicit……[there is]…..no ambiguity of intention." (Bhagwati, 1993, p84).

And dramatic, few people had imagined that the economy,

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[11] A mechanism to provide an additional import facility for exporters based on the value of their exports.

[12] 'The Economist' March 23rd 1985 wrote that the budget, "tackles the red tape and draconian taxes introduced by his mother and grandfather….take India a big step away from the days when bureaucrats rather than businessmen decided its investment plans."

"would be transformed in its basic orientation in a matter of a few years." (Sachs et al, 1999, p13).

It marked,

"a fundamental transformation of India's economic strategy." (Varshney, 1999, p230).

Optimism knew few bounds, India needed,

"merely an appropriate policy framework to produce the economic magic that Jawaharlal Nehru wished for his compatriots." (Bhagwati, 1993, p98).

Orthodox opinion shifted neatly from resignation to euphoria within a matter of months. This dramatic u-turn has been little noticed, little discussed and its implications ignored amid a deluge of discussion about the future of liberalisation policies. The genesis of reform has been all but forgotten.

6. 1991 Reforms: A Summary

In July 1991 there was two step devaluation of the rupee combined with a removal of many export subsidies. Quantitative restrictions were largely removed except for consumer goods and agricultural commodities. Tariffs fell from an average of 87% in 1990, to 20.3% in 1997/8. Some aspects of capital markets underwent a radical transformation, others such as insurance remained initially untouched. Obligations for the banking sector to hold large reserves of government securities were diluted. Interest rates on lending and deposits were largely deregulated. In 1994/5 private banks were licensed to operate. Automatic licensing was permitted for foreign equity participation up to 51% in high priority industries. As with the banking sector there was little direct privatisation. The scope of the public sector became more narrowly subscribed. Reservation for the public ownership was confined to eight not as previously, eighteen areas. Industrial licensing was removed except for locational reasons connected with city planning and pollution, barriers to entry under the MRTP Act were removed, and replaced by an emphasis on unfair business practises and consumer protection. During this early period there was little attempt made to pursue reforms in the areas of direct privatisation[13], agriculture or labour laws.

7. In the Context of 'Episodes of Liberalisation'

Ghosh (1998) called the debate over liberalisation in 1991 'An old drama in modern garb'. The first 'episode of liberalisation' relates to the liberalisation of food controls from the early 1940s that had been extended into the early years of Independence. The second, to the period 1965/6 of agricultural failure and external shocks[14], which prompted rupee devaluation and trade liberalisation. The third to the 1980s, the oil price shock, balance of payments trouble and eventual, IMF medium-term loan. The fourth in 1991 was in response to the balance of payments and fiscal crisis.

"In each period of major shift, the change in strategy has come about as a response to a particular constraint, whether if food, the balance of payments or the fiscal position." (Ghosh, 1998, p300).

8. 1991 Reforms and Some Puzzles

According to this perspective, previous crises in 1965-7, 1973-5 and 1979-81 were met with short-term stabilisation without longer term structural adjustment. The 1985 period wasn't preceded by crisis but likewise amounted to a brief and temporary 'episode of liberalisation'. These are contrasted with the successful, unambiguous and sustained liberalisation after 1991. An episode that went on and on…. This subdivision of Indian economic history raises three important questions.

[13] The domestic capital market was only 1% of the total value of the public sector assets at historic cost, Jalan (1992).
[14] War with China in 1962, with Pakistan in 1965 and consecutive monsoon failures in 1965 and 1966.

8.1 No 'Real' Shock

Unlike previous crises that in 1991 wasn't preceded by a real shock. The real economy was in a very healthy condition. Industrial production was growing at an annual rate of 8%, agricultural production was at a peak. The dollar value of exports had increased by 14% p.a. between 1985/6 and 1989/90. The immediate cause was the very vulnerable financial position of the state. The fiscal failure of the state during the 1980's was profound. The state fiscal deficit reached 10.5% of GDP by 1989/90, savings remained stagnant at 21% of GDP throughout the 1980s. Especially after 1984/5 large current account deficits were financed by commercial borrowings, such as (subsidised) NRI deposits. Total external debt rose from $18.7bn in 1980 to $56.3bn in 1989 or from 11 to 21.5% of GNP. The debt service ratio (as a proportion of exports of goods and services) increased from 9.1% in 1980 to 26.3% in 1989. Almost the entire incremental deficit had been financed from commercial borrowing. Between September and November 1990, foreign exchange reserves fell by fifty percent, NRI[15] deposits were being withdrawn during the first half of 1991. When left with two months import cover and facing imminent default India turned to the IMF. The collapse of the USSR and commensurate growth in demand for aid had increased the stringency of IMF conditionality. Why then had financial capital assumed such an important position in 1991, in a manner bearing little relation to the real economy?

10.2 Why Liberalisation?

The experience of failed reforms and dramatic electoral repudiation of Rajiv by 1989 provided a salient lesson that popular opinion was against liberalisation. No democratic politician should have wished to be associated with a neo-liberal agenda. The state was not becoming more authoritarian by the early 1990s[16] but dissolving into a series of messy and chaotic minority governments ever more dependent on populist small state level and regional parties. Liberalisation has never been the only

[15] Non-Resident Indian's (NRI) deposits were well subsidised but this fiscal favour did not instil any degree of fiscal patriotism.
[16] A precondition for reform noted by Harriss (1987).

option available in the context of a balance of payments crisis[17]. Why then liberalisation in 1991?

10.3 Why was Reform Sustained?

Why did the leadership sustain liberalisation? A minority government sustained reform after 1991 while a government with a three-quarters parliamentary majority was unable to do so long after 1985. The crisis was after all short-lived, the Gulf War oil shock lasted only six months and there was subsequently a rapid rise in foreign exchange reserves. Changes of government to left in 1996 and right in 1998 did not change the general direction of reform. There was no discredited authoritarian regime failure to place blame upon. The same party was in power in 1991 as for most of Independence period. There had been slow economic growth after the mid-60s but no catastrophic excesses like the Chinese Great Leap Forward[18] or Latin American lost decade. There was no attempt to galvanise the nation in support of reforms, to project a vision in order to change the structure of interest groups. The government was,

"unable, or unwilling, to make a clear ideological statement in favour of market orientated reforms in electoral or mass politics." (Sachs et al, 1999, p14).

Why do we see the neo-liberal agenda being pursued in India long after the need for stabilisation had subsided?

10.4 An Aura of Inevitability

Thus by the logic of analysis existing in 1990 and aura of inevitability hung over the possibility for reform. There was no crisis of the real economy. No politician would undermine his own career by supporting liberalisation. At the most a short crisis in

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[17] Witness the recent imposition of capital controls and avoidance of an IMF package by Malaysia after the 1997 Asian crisis.
[18] Yang (1993) argues the catastrophe of the Great Leap created an important legacy for the psychological mindset of the Chinese leadership that had a profound effect on post-Mao economic reforms.

1990/91 would be met by another 'episode of liberalisation' and quick return to business as usual. The state in 1990/91 was incapable of re-orientating the policy regime. This depressing inevitability did allow a certain eloquence amidst the gloom.

"When diverse elements of the loose and uneasy coalition of the dominant proprietary classes pull in different directions and when none of them is individually strong enough to dominate the process of resource allocation, one *predictable* outcome is the proliferation of subsidies and grants to placate all of them" (Bardhan, 1998, p61, my italics).

However, between 1990/91 and 1995/96 total subsidies as a percentage of GDP fell from 3.5 to 2.8%, fertiliser subsidy from 0.8 to 0.68% (Jenkins, 1999, p23).

There are four strands to explain liberalisation in 1991…

<u>10.5 Elite Verses Mass Politics (Varshney, 1999).</u>

It is a little difficult to pin down Varshney, whether reforms were elite concerns and of no relevance to the mass of the population; whether maintaining a united front against the BJP took precedence over divisions concerning the neo-liberal agenda; or instead events of greater significance distracted popular attention. Varshney distinguishes 'elite debates', conducted within institutions such as the bureaucracy, parliament and the pink (English language business) press and 'mass politics', conducted instead on the streets through agitations/ demonstrations. Whether an issue enters mass politics and hence becomes of electoral significance depends variously on the number effected, how groups are organised and whether the effect impacts in the short-run. Within this context Varshney argues reforms after 1991 were essentially elite concerns focusing on liberalising capital markets and the trade regime[19].

[19] The trade ratio in India is low, so such reforms do not have a short-run impact on mass welfare. That reforms could have a significant impact through political and ideological concerns, even among

This distinction can explain the persistent failure to tackle fiscal deficits, restructure labour laws, privatise state owned enterprises or reform agriculture. Such changes have the potential to bring 'reform' into mass politics. Economic reforms were thus non-issues in both the 1996 and 1998 elections giving policymakers space to pursue the neo-liberal agenda.

The distinction between elite and mass concerns does grasp at an essential kernel of the truth. The reforms of the 1990's did follow a particular logic, but as an explanation of why reforms were successful in 1991 and failed in 1986/7 it is inadequate. The reform programme was a continuation of that pursued under Rajiv in its essentials. Focusing on industrial and capital market liberalisation and easier access to imported inputs and capital goods. The tags given to Rajiv, as an urban, middle class consumer orientated administration reveal his reform shared the same essentially elite concerns as those after 1991. The distinction thus does not highlight any essential difference between the two periods.

Varshney has another angle, that the difference in the political context of the two reform periods was critical. By 1990, Indian politics had become triangular with the BJP, Congress and Janata Dal (in alliance with various left factions) competing for the highest office. Between 1950 and 1990 it had been essentially bipolar, Congress and others. Between 1990-7 found Communists, the lower castes and Janata Dal formed alliances with Congress against the BJP. Hindu nationalism was perceived to be more of a threat than economic reform. This was especially true after the Babri Mosque demolition in December 1992. Only the CPM consistently voted against reforms between 1991-3. Turning this logic on its head we may ask why wasn't Congress forced to compromise on economic reform in order to preserve an anti-BJP alliance Varshney (1999). The defining feature of the Indian polity was an eclectic opposition to liberalisation.

Varshney again changes track, now arguing the electorate were distracted by other events; massive Hindu-Muslim upheaval, caste based affirmative action, insurgencies in Kashmir and Punjab, and the assassination of Rajiv. Passions were aroused by

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the 'mass' o f voters is conveniently ignored. The political furore surrounding the 1966 devaluation being a case in point.

identity politics and this gave both room for and facilitated economic reforms in India. This was opposed to the ‘quiet years’ of 1985 and 1986,

“In a political context of this kind, when economic reforms were introduced, politicians could easily use the price of food, fertiliser and petroleum for mass mobilisation.” (Varshney, 1999, p249).

The violent assassination of Indira, escalation of the conflicts in Assam and Punjab after a brief lull and peasant agitation throughout northern India hardly merited the placid label of ‘quiet years’. Thus are the various strands of explanation from Varshney unsuitable to explain his central hypothesis that reforms succeeded in 1991 where they failed in 1986/7. However his focus on reforms having a certain unifying consistency does have merit as we shall see.

10.6 Reform by Stealth (Jenkins, 1999)

Bardhan (1998) argued there was an acute difficulty of collective action for the dominant proprietary classes that characterised the large and heterogeneous ruling coalition in India. However, mutual antagonisms within and between dominant propertied classes mean they are in fact less able to organise concerted resistance to reform. Jenkins (1999) argues that a government taking the initiative may be able to exploit these divisions. This turns the collective action dilemma on its head. Opposition is difficult when reform threaten groups individually and in different ways. The prospect of re-alignment mean the state is able to carve out new constituencies in support of reform and continually divide opponents. Jenkins additionally identifies two features of the Indian polity that aided reform, democracy and the federal structure.

Indian democracy allows elites to gauge the strength of potential allies and opponents of reform. Political leaders are better able to invest scarce political capital in narrowly defined political constituencies where political payoffs are greater, Jenkins (1999). Jenkins does argue effectively that democracies are better at reform that was suggested by the fundamentally gloomy prognosis at the end of the 1980s. But his argument remains a-historical. He is not addressing the question of why reforms were successful in 1991 and failed in 1986/7. His argument has a general relevance to democracies but doesn't capture the historical specifics in India.

Jenkins considers that political institutions can neutralise opposition to reforms by promoting longer time horizons and institutionalising bargains between competing groups. Though this has relevance in a general sense it doesn't explain how reform stalled in the 1985 parliament 75% of whom were Congress and revived in the fragmented unstable parliaments of the 1990s. Narasimha Rao did not even have a parliamentary majority for the first half of his term.

The division of power between the state and centre has,

"tended to quarantine political resistance to reform within the confines of state-level political systems." (Jenkins, 1999, p5).

And concurrently forced state governments to adapt to liberalisation by competing with each other for private investment no longer able to rely on the twin pillars of state led development and a central commitment to balanced regional development.

Jenkins argues change was effectively cloaked in the guise of continuity that Indian politicians have not achieved autonomy from society through a vision of change, rather,

"on the ritual intonation of developmental shiboleths to conceal reform's radical implications and thereby re-assure those groups who may be threatened by them." (Jenkins, 1999, p177).

And on other occasions continuity has masqueraded as change. The problem with such examples is that it is easy to find equally valid examples from earlier periods. An emphasis on continuity such as the expansion of rural poverty alleviation programmes under the JNRY or revival of the Panchayati Raj. And also an emphasis on the dramatic theatricalities to divert political attention is hardly new. On example could be the detonation of a nuclear device at Pokharan on May 18th 1974, which conveniently diverted attention from the escalating JP movement. However as a thesis that embraces the basic fact that reforms in India failed in 1986/7 while succeeding in 1991 the argument is a-historical. Indian politicians were not less skilled in their various manipulative arts in 1985 than they were in 1991. The scope for clever politics was in fact greater in 1985 when Congress did have a secure majority. It would be a disservice to reduce the argument to a bland claim that Narasimha Rao was a better politician than Rajiv Gandhi, but in accepting the basic thesis of 1991 as a turning point it is to this the argument of Jenkins is inevitably shrinking.

10.7 Clever Political Management (Manor, 1995)

Manor (1995) is more explicit than Jenkins, his argument is not something to be teased from the text but one that is stated clearly from the outset. Reforms were successful in 1991 because they were implemented in a clever manner.

“Changes in policy have been announced in modest steps, but steadily, with something new every week or two. In most cases, each innovation has affected only a limited sector of the economy and a small number of interests. After one announcement which is liable to displease a particular set of interests, the government carefully postpones further steps which they may dislike for awhile, to let resentment dissipate. Potential opponents of the reforms are thus picked off one at a time, in turns, to prevent them from uniting.”(Manor, 1995, p348).

Rajiv was simply not as good a politician as his successor,

“the problem lay not in external forces intruding on his autonomy, but in the former Prime Minister’s confusion and his chronic, indeed radical inconstancy.” (Manor, 1995, p354).

Whilst his successor Rao had an unwavering determination to sustain cautious economic reforms and has, "succeeded in maintaining the 'autonomy' of high politics since mid-1991." (Manor, 1995, p354).

Despite such clever politics we find Congress stumbled to the same political defeat in 1996 as it did in 1989 winning only 136 seats in the national parliament compared to 197 in the earlier election. And of Rao, the clever politician who overcame the problems encountered by Rajiv, he has in fact a

"famous penchant for indecision" (Jenkins, 1999, p51).

10.8 Elite Psychology (Bhagwati, 1993)

Reform, argues Bhagwati was not solely due to crisis-induced compulsions. Rather there had been a steady increase in understanding of the need for reforms throughout the 1980s. It was a change in attitude at the top that explains the success of reforms in 1991 the,

"psychology of the leadership that took power in June 1991 must provide the ultimate compulsion for the reforms unleashed by it." (Bhagwati, 1993, p83).

The increase in tax yields despite lower rates under V.P. Singh was an,

"early and visible success of great significance" (Bhagwati, 1993, p79).

An internationalised Indian elite were increasingly able to appreciate the degree to which India had been marginalised in world economic affairs, had suffered twenty five years of slow economic growth and been unable to make significant reductions in poverty. The awkward combination of a 'superiority complex' and 'inferior status' altered the mindset of those at the political apex. India's share of world trade had fallen precipitously from 2.4% in 1948 to 0.41% 1981. Such a stark scenario led to a, "widely shared and justified perception that her policies have been wittingly foolish." (Bhagwati, 1993, p18).

The trouble with this explanation, elements of truth in it no doubt as there are, is the whole question of timing. Bhagwati undoutably believes there was a big bang in reforms in 1991 and that they contrast significantly with those under Rajiv which,

"in retrospect, they amounted to an acquiescence in the regime and a mild attempt at moderating its worst excesses." (Bhagwati, 1993, p80).

Thus we find this change in the mindset of the elite being telescoped into a very short period of time. Not only very brief it also seems a peculiar period in which the elites would finally despair and embrace liberalisation. The share of world trade fell precipitously until the 1980s then steadied, stagnation since the 1960s had by the 1980s given way to reasonably rapid rates of growth, India successfully avoided the 1980s debt crisis and could now compare herself favourably to previous rivals. Using the mindset of the elite to explain the difference in reform outcome between 1986/7 and 1991 is essentially problematical.

10.9 Continuity

A crisis provides no guarantee a government will respond with neo-liberalism, in convincing interest groups that reforms are needed, or sustaining reforms once the moment of crisis has passed. We need to turn away from the thesis that reforms failed in 1986/7 and succeeded in 1991 and instead emphasise continuity.

Too often analysis of reform has focused on policy announcements from the apex, from New Delhi. Interpreting a concentrated burst of announcements as an 'episode of liberalisation'. The changed rhetoric in the latter years of Rajiv has been interpreted as a hiatus in reform. Analysis has not sufficiently recognised that policy change impacts on the real economy and society long after implementation. Change in policy will interact with its socio-economic environment in a cumulative manner changing constituencies for further reform. Reform is not about a series of isolated moments or episodes of policy announcements but an ongoing dialectic between the economy and society.

11. Momentum of Reform and the Logic of Capital

The withdrawal of the state from the attempted nationalisation of the wholesale trade in wheat in 1974 marked a turning point in state economic policy[20] and the high tide of state intervention, ownership and regulation of the economy. The intellectual rationale for such a shift can be dated to the 1969 Industrial Licensing Policy Inquiry Committee (Dutt Committee) 1969. It concluded,

"in respect of licensing, the Committee has firmly concluded that the system has failed on practically all counts, whether it was regional dispersal, import substitution, or the prevailing concentration of economic power. Licensing could not even ensure the development of industries mainly according to plan priorities."

The failures it catalogued were legion, pre-emption of licenses by larger houses to prevent entry of rivals, failure of licensing to prevent growth in non essential sectors, minimal attainment of regional dispersal and so on[21]. Between the mid-1970s and the death of Indira in 1984 the state was no longer perceived to be the engine of growth and policy was designed instead to facilitate private sector growth. In 1980 forty core industries were allowed automatic expansion of capacity of up to 25% of capacity over a five-year period. In 1982 an enlarged number of core industries such as oil exploration and power generation were opened to large industrial houses and foreign corporations. Administered prices for pig iron were abolished those of cement partially decontrolled and a more liberal policy on the import of raw materials, spare parts and technology established.

Thus the New Economic Policy of Rajiv should be put into its context and seen as a

[20] Paranjape (1985) dates this shift from 1973 with the announcement of a new industrial policy.
[21] Catalogued by Bhagwati and Desai (1970) and Bhagwati and Srinivasan (1975).

“more open and logical continuation of what was started in 1973” (Paranjape, 1985, p1516).

Rajiv was able to give the appearance of initial impetus partly because he could accept many of the reformist conlusions of the Narasimham Committee (licensing controls) and the Hussain Committee (trade liberalisation) which had presented their reports by the time of his accession. Significantly both were formed whilst Indira had still been in office. The process was one more of continuity than change. Even the supposed hiatus in liberalisation between 1986/7 cannot be exaggerated.

“What is evident is that the earlier sidetracking of liberalisation in response to the regimes legitimation needs was only tactical, not strategic.” (Nayar, 1990, p106).

The 1987 and 1988 budgets were undoubtedly concerned with legitimation. By 1988 liberalisation was once again being emphasised. In March 1988 a second three year trade policy was announced to continue and deepen that begun in March 1985. Import licensing was further liberalised by weakening the indigenous availability clause for capital goods to boost the competitiveness of exports. There were further dilutions for legal compatibility with the MRTP and FERA Acts. The 1989/90 Budget decontrolled prices in cement and aluminium industries completely.

The NEP was not a break with previous policy, rather it was an evolutionary development. There was continuity throughout the 1970s and 80s with respect to licensing, reservation limits and the gradual rise of the private sector as the ‘engine of development’. The state gradually withdrew from its role as the linchpin of planned economic development, if not perhaps to one complementing the private sector with provision of education and infrastucture to one that obstructed it less through enforcement of regulation.

12. Not ‘Easy’ Reforms but a Particular Logic

Sridharan (1993) drew up a ‘Political Cost-Benefit Structure’ of the reform process, highlighting the ‘typology’ - whether ‘benefits’ were gained in the short or long-term and ‘costs’, whether they were widely dispersed or concentrated. Sridharan concludes general liberalisation would have short-term political costs while the gains in terms of efficiency and growth would only be realised in the medium to long-term. Losses would be disproportionately concentrated on the well organised and the gains dispersed widely across the whole economy/ society. This he argues accounts for the fact that liberalisation has advanced at different rates in different spheres. This perspective is closely related to the consideration by Varshney (1999) of elite and mass politics.

Once we consider the evolutionary continuity of reform we can characterise the bias of reform as not being characterised as ‘easy’ but by a particular ‘logic of capital’. The 1991 reforms combined an orthodox package of stabilisation measures in response to the twin problems of the budget and balance of payments deficits. The reading by policymakers was conventional - that domestic fiscal deficits had spilled over into the balance of payments, that the root cause was domestic fiscal profligacy. The contrary argument that instead causality ran from the current account deficit to the public deficit is dismissed by Joshi and Little (1994) on account of there having been no external shocks impacting on the balance of payments between 1985/6 and 1989/90[22]. The events of Gulf War eventually comprised a moderate external shock of about 1% of GDP, this turned out to be temporary.

“Conventionally a simplistic reading of what are national income *identities*, is used to suggest that the fiscal deficit is a *determinant* of the current account deficit. But historically read, the Indian experience suggests that the ‘causality’, if it is unidirectional, runs the other way.” (Chandrasekhar and Ghosh, 1993, p667).

Till the 1970s deficits on the current account was set by limited access to international capital. This determined the stop-go policies of the Indian government. Expansion in

[22] Examples would be a shift in the terms of trade caused by a dramatic change in the price of oil.

the form of increased plan outlays would soon spill over as excess domestic demand and prove inflationary. This defined the inflation barrier of the Indian polity. There was a distinct change in the circumstances of international capital after the oil price shocks in 1974 and 1979. Transnational banks were flushed with recycled petro-dollars and eager to lend.

"it appeared to render import-substituting as a strategy meaningless, since that strategy was prompted in the first instance by external vulnerability and limited access to international finance." (Chandrasekhar and Ghosh, 1993, p668).

The original Mahalanobis-Nehru model had been underpinned by the assumption of limited access to international capital and consequent need for self-reliance. Easy access to international capital by contrast prompted accelerated liberalisation in the 1980s. The constraint on non-inflationary growth was lifted,

"the ability to finance a rising current account deficit on the balance of payments encouraged liberalisation on the one hand and fiscal profligacy on the other." (Chandrasekhar and Ghosh, 1993, p668).

Attention of policymakers and discourse shifted from domestic resource mobilisation to the state as facilitating the process indirectly. A globalisation of resource mobilisation was made possible by changes in the structure of international capital and necessary to sustain domestic accumulation. Capital market liberalisation, subsidies on NRI deposits and increasingly attractive and liberal terms for FDI were the policy response. The broader forces of globalisation mediated by the balance of payments and budget deficit drove a particular form of liberalisation in India corresponding to essentially elite concerns. Reforms,

"in India have been prosecuted by or on behalf of social elites which have been in revolt against an earlier model of state directed economic development." (Corbridge and Harriss, 2000, p145).

There has been a long-term process of 'reinventing India' with its roots in the early 1970s or even earlier, driven by a mutually reinforcing dialectic between the economy and society and 'logic of capital'. We find there is an increasing tendency to consider the poor as responsible for their own plight (Varma, 1998) and at the same time a boom in middle class consumption. The number of televisions increased from two to thirty million during the 1980s.

Opening the market to capital before broadening the base of growth [23]has increased the likelihood of an exclusionary growth strategy getting locked in. The Brazilian experience writ large.

"Reform is not just about re-negotiation of India's relationships with global market place, or relations of private capital with the Indian state in the formal economy….the reforms are also about the reworking of the idea of the state itself and of the state's capacity to work on behalf of those who stand outside India's (expanding) social and economic elites." (Corbridge and Harriss, 2000, p169).

Discourse has remained beholden to state and society perspectives, according to Sridharan (1993) they offer complementary rather than contradictory frameworks. From this base, debate has focused on how best to first launch and then hasten the implementation of the neo-liberal project. In India this has coalesced around discussion of what are termed 'second generation reforms' (Nagaraj, 2000), and more generally trailed off into the anaemic prescriptions of the 'good governance' agenda (Leftwitch, 2000). Attention has systematically been diverted from the genesis of liberalisation in India. The nature and specific unfolding of the process and its relation to power configurations within the economy and society of India.
Patnaik (1994b) finds the retreat of the state in the context of large-scale capital inflows removes the one agency capable of converting them into productive investment. Rising labour productivity is necessary to ensure the transformation of short-term portfolio investment into long-term bricks and mortar and higher productivity. Instead the likely outcome is increasing growth of speculative capital flows at the expense of productive investment and continuing economic atrophy. Patnaik (1994a) demonstrates how the growth of financial capital has undermined the

[23] Dreze and Sen (1996) argue participatory growth needs literacy beyond fifty percent. Without social provision the vast majority will have no capacity to engage in the economic space opened up by liberalisation.

scope for Keynesian demand management, instead a general deflationary bias is necessary to placate wealth holders.

The fragmented nature of the state has prevented the emergence of any developmental pact in India. There is no-one for capital to negotiate with as an agent to enforce bargains. Capital likewise has been unable to achieve any degree of class cohesion, capital has worked the system as individuals. Selective capitals are welcome based on particularism - family, school or marriage. What Herring (1999) calls ‘embedded particularism’ has prevented the sort of state-capital relationship that empowers the state to act against some in the interests of all. Liberalisation offers no cure for ‘embedded particularism’, in India there are yet no universalistic market criteria. The neo-liberal project has followed the grooves of least resistance, a certain ‘logic of capital’, focusing narrowly on elite concerns, capital markets, NRIs and consumer durables. Their overall rationality and sustainability is questioned by (Patnaik, 1994a, b). The political dangers of exclusionary growth that generates neither employment (despite the costs of more ‘flexible’ labour markets) or ameliorates nutritional deficiencies (Nagaraj, 2000) are evident.

“If such an iniquitous growth process is not corrected – and corrected quickly – Indian society may have to pay a huge political price for it.” (Nagaraj, 2000, p2838)

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