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A Discursive Dominance Theory of Economic Reform Sustainability: The Case of India

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Introduction

This article attempts to reveal the precise mechanism that has controlled the transition of the economic system in India from a command economy to a free market economy. Researchers have tried to explain this phenomenon with little success thus far.

In the words of Jagdish Bhagwati:

> The *full story* of why the reforms finally began to happen in 1991 under the minority government of Prime Minister Rao awaits research.[1]

To quote M. P. Singh:

> Even more than its modest success in India, what has often puzzled analysts, is the political sustainability of economic reforms. Beyond the initial condition of a balance of payments crisis and conditionalities from multilateral monetary and financial agencies, the reforms have been maintained by a string of minority and/or coalition governments with parties with divergent policies since 1996.[2]

Scholars have attempted to explain the conditions under which liberalizing reforms are initiated and terminated. Many studies credit crisis and subsequent World Bank- International Monetary Fund (WB-IMF) aid for encouraging reforms, because the aid tends to be accompanied by pressure to undertake policy changes.[3] Correspondingly, factors

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such as, a lack of political will[4] and executive orientation[5] are identified as likely causes behind the termination of a reform.

Alternatively, David Denoon, focusing on an India case study, identifies the government's desire to accelerate the Indian rate of economic growth as the principal motivation behind the launching of the liberalization episodes of 1966–68, 1985–87, and 1991–94. Liberalization efforts were ultimately brought to a halt, according to the author, by "advocates of controls," who convincingly presented their actions as improving income distribution.[6]

I offer a more nuanced examination of this process, specifically considering the case of India. It is generally contended that the 1991 economic reforms in India were a product of a financial crisis and the resulting WB-IMF directives.[7] While this crisis-conditionality thesis explains the precise timing of the reforms' inception and adoption, it does not explain why they have continued to govern the economic landscape. With an eye toward that void, this article posits that a crisis and aid can only lead to a short-term emphasis on reforms. A closer look at options for reforms that aid stimulates will quickly end when the crisis is overcome and the funding has disappeared. However, if the dominant social discourse in the country itself shifts against the existing mode of economic governance, reforms will be sustainable.[8]

The existing academic literature regarding crises and reforms generally does not take a holistic view of the various dimensions of socio-economic and political interactions. For example, there currently exist two leading explanations regarding the "sustainability" of the economic reforms in India. The first viewpoint emphasizes the role of executive orientation and convictions. Rahul Mukherji compares the reforms of 1966 and 1991 and highlights the anti-liberal and pro-liberal executive players, respectively, as the key distinguishing feature of those different campaigns.[9] However, the "convictions" of an executive in a democratic context can explain, at most, the initiation of economic reforms, but not their sustainability.

The economic reforms in a democratic state, the executive convictions notwithstanding, cannot be sustained after initiation if the dominant discourse in the society regarding the preferred path to economic development continues to be anti-liberal. The unfavorable discursive conditions will manifest in the form of public opposition[10] to any policy incompatible with those conditions.

Mukherji's analysis also suffers, because of wrong assumptions regarding Prime Minister Indira Gandhi's personal predilections. In Mukherji's view, Indira Gandhi aborted liberalization efforts because she was not convinced[11] of its benefits, implying that she was more inclined toward socialism. However, it is difficult to make definitive assumptions about Indira Gandhi's supposed anti-liberal convictions, especially because she did not write any memoirs regarding those "convictions."[12] Furthermore, if Indira Gandhi was so opposed to liberalization, then why did she begin an economic liberalization program in 1975 when she was virtually a dictator?

This article substantiates the view that Indira Gandhi was pro-liberal and had no love of socialism. She aborted the liberalization efforts in 1969 in the face of strong public opposition to her policies and the political insecurity created due to her power struggle with the "Syndicate" within the Congress party.[13] Thus, Mrs. Gandhi turned toward the rhetoric of socialism as a strategy to construct an independent base of popular support and win the struggle for power between the Indicate (herself) and the Syndicate, who hoped to manage her.[14] She had to open the "survival kit" of socialism precisely, because public opposition to her devaluation package amply demonstrated that the discursive conditions in Indian society were highly anti-liberalization.

On the other hand, Prime Minister Rajiv Gandhi (1985–9), who was decidedly pro-liberal and was disinclined to pretend to be a socialist, also reversed economic liberalization efforts within two years of his rule and embraced socialist rhetoric in the face of public opposition. Thus, the pro-liberal orientation of an executive, in a democratic context, cannot succeed when the dominant development discourse in the society is essentially anti-liberal. However, the economic liberalization can be sustainable if, under exceptional circumstances, a pro-liberal discourse wins the competitive contestations on the desirable path to economic development.

The second view emphasizes the ability of reformers to use stealthy means, such as obfuscation and betrayal. Rob Jenkins (1999) argues that the success of the 1991 reforms owed much to concealment, rather than transparency.[15] I however argue that liberalization by stealth is an important tool, but only when the discursive conditions in society are against the wisdom of these policies. The tool was used most effectively by Indira Gandhi during the periods 1975–77 and 1980–84. In the 1990s, however, there was no need and no scope for "reforms by stealth." Jenkins' framework does not capture those internal factors or the external considerations that favored the introduction of reforms in 1991 and their continuation.

External factors, such as the collapse of the Eastern European socialist regimes and the Soviet Union, failed to get the author's attention, as did overwhelming evidence that China (India's rival) was reaping the rewards of opening up its economy to foreign capital. Neglect of the political impact of the emergence and expansion of "the new middle class" is another lacuna. Furthermore, the dimensions of the federal landscape that have effectively contributed to the continuance of reforms after Congress (I) was removed from power in 1996 do not form part of the analysis. For example, it has not been recognized that the central governments since 1996 have been conglomerations of many regional parties that have everything to gain from the retreat of the central state as has been thoroughly ensured by the LPG (Liberalization, Privatization, and Globalization) program.

Thus, the explanatory potential of the extant justifications for the sustainability of the 1991 reforms is quite limited. They can best be viewed as hypotheses subject to further inquiry. The economic reforms of 1991 were not carried out under the cloak of stealth in the way that the incremental reforms of 1975 and 1981 were. The 1991 reforms also stand in sharp contrast to the two earlier major attempts in 1966 and 1985, which, despite being initiated by majority governments, were stalled.

The assertion here is that an economic paradigm in a democratic nation in a particular period reflects the discursive dominance of that particular path of development over the alternative discourses. This assertion is based on the theoretical premise articulated by Douglass C. North and Hernando De Soto that the formal rules have to align with the informal rules, not the other way around.[16] Indeed, institutions and policies are designed to match the dominant ideas of society. Thus, an economic paradigm commands respect, because it concurs with a deeply held social belief.[17] Its existence rests precariously upon the discursive formation[18] in society regarding the preferred principles of economic organization and development.

This article seeks to support the aforementioned assertion by conducting a cross-temporal comparative review of the evolution of the economic policy in India since its independence. The article discusses the solutions to nine inter-related puzzles: Why India adopted a command economy paradigm after independence; why she turned inward after the first balance of payment (BOP) crisis of 1957; why she adopted liberalization after 1966 BOP crisis; and why it was reversed; why incremental and limited liberalization reforms were adopted in response to the crises of 1973 and 1980; why Rajiv Gandhi made a bold liberalization attempt in 1985; why was it stalled; why a paradigm shift happened in 1991; and what explains the sustainability and deepening of economic reforms since then.

Economic liberalization can be initiated in response to a crisis and consequent conditionalities; it can also be initiated by a convinced executive with or without the stimulus of a crisis. However, the question is what determines its sustainability or reversal after it has been implemented? This article argues that the answer lies in the discursive conditions prevailing in the society in a particular period.

Sustainability of liberalizing reforms can be achieved if eight factors collectively transform the discursive conditions of the society in favor of a free market economy. The eight factors are as follows:

1. The dominant international economic thought during the period under examination should support a free market economy.
2. The illustrative country cases and the success stories should create a demonstration effect.
3. The executive should be convinced of the merits of liberalization.
4. The executive should demonstrate a strong political will to take calculated risks to implement liberalization measures.
5. There should be an economic crisis; this crisis should be severe enough to compel the government to seek financial assistance from donor agencies (the WB and IMF).
6. The economic crisis should be perceived to be caused by the state intervention in the economy
7. The donor agencies should make loans conditional upon implementing structural adjustment measures.
8. The new economic policy should either result in decidedly positive and visible outcomes or make a credible sounding promise for such outcomes in the future to enable people to endure short-term difficulties without reaction.

In the presence of the aforementioned conditions, the constituencies favoring liberalization will be able to shape and dominate the social discourse regarding the preferred path of development. As a result, the policy change will be sustainable. The basic argument previously outlined is intended to motivate the reader to follow the rest of the article carefully as we make our way through the analysis. Having summarized these conclusions in Table 1, I will use the rest of the article to convince the reader that these conclusions are valid.

Why Did India Adopt a Command Economy Paradigm? Why Was It Reinforced After the 1957 Crisis?

A good deal of extant scholarship believes that "the command economy model was *aimed at* benefiting the industrial capitalists and the rich farmers"[19] and that "it was *adopted to* dominate or weaken potentially competitive institutions . . . [while] helping the party maintain itself."[20] These were indeed the consequences, especially in the long run; however, these were not the intentions at play during the period that the centrally planned economy was adopted.

Note that a complex asymmetrical relationship operates between intentions and consequences. For instance, state intervention and regulation was intended to help the "infant industry" become capable of facing foreign competition[21] in due time. However, the protectionist regime created perverse incentives for the nascent industry to degenerate into a protection lobby.[22] Similarly, the command economy paradigm was not intended to serve partisan purposes. Economic policy-making in the Nehru era was free from narrow political considerations. However, it came to be used for purely partisan purposes during Indira Gandhi's reign.[23]

Furthermore, it is tempting to believe that in adopting the planned economic policy paradigm, the Indian political elite had a choice,[24] especially when one considers the resistance that the idea met from Sardar Patel and the acrimonious debate during the January 25, 1950 session of the Working Committee on the creation of a Planning Commission, in which John Mathai, then the finance minister, opposed the creation of the commission.[25] Indeed, succumbing to such a temptation, Sudipta Kaviraj speculates that "if the struggle between Nehru and Patel had gone the other way, there is no doubt Indian capitalism would have followed a different structure and historical sequence."[26] Nevertheless, the struggle did not go the other way because it could not.[27] In fact, if India had operated in strict adherence to the *prevailing*

TABLE 1

FACTORS INFLUENCING THE DIRECTION OF ECONOMIC POLICY MAKING

Determining factors	1957	1966	1975	1981	1985	1991
1. International academic thinking	Unfavorable	Inconclusive	Favorable	Favorable	Favorable	Favorable
2. Country cases (*demonstration effect*)	Unfavorable	Unfavorable	Favorable	Favorable	Favorable	Favorable
3. Executive orientation	Unfavorable	Favorable	Favorable	Favorable	Favorable	Favorable
4. Political will	No	No	No	No	No	Yes
5. Economic crisis	Yes	Yes	Yes	Yes	No	Yes
6. Perceived causes of economic crisis	Pre 1957 liberal regime caused the crisis	*Exogenous and extraneous factors, beyond the control of planners, perceived as the causes behind all these crises episodes*			No Crisis	Pre 1991 restrictive regime caused the crisis
7. Attitude of donor agencies: WB, IMF	Unwilling to impose conditions	Willing to impose conditions	N. A.	Agreed to "home-grown conditions"	N.A.	Willing to impose conditions
8. Perceived economic outcomes of the policy changes	A shift towards import substitution led to a strong recovery	A shift towards liberalization pushed India deeper into crisis	The crisis was overcome*	The crisis was overcome	Rajiv's liberalization perceived as pro-rich and anti-poor	•TINOA factor •The crisis was overcome
Discursive conditions	Unfavorable (a)	Unfavorable (b)	Unfavorable (c)	Unfavorable (d)	Unfavorable (e)	Favorable (f)
Final outcome	Import substitution (ISI)	Radical reversal of the bold liberalization attempt	Limited liberalization with stealth		Mild reversal of the bold liberalization attempt	Sustainable economic reforms

Notes: N.A.: Not applicable, because the Indian government did not approach the WB or IMF for loans.
TINOA factor implies that there was no other alternative to trying reforms.
(a) Success of the Second FYP and ISI reinforced anti-liberal discourse.
(b) Failure of devaluation reinforced anti-liberal discourse.
(c) Limited and concealed liberalization did not attract media attention or public apprehensions, while forced vasectomy drive turned the political discourse against Congress.
(d) No public reaction as the government emphasized continuity *over* change, while communal unrest in several regions dominated the political discourse.
(e) Anti-liberal discourse was not as strongin 1985 compared to 1966. Thus, the policy reversal in 1987 was also not as radical as it had been in 1969.
(f) All factors determining the discursive conditions turned antagonistic to the socialism discourse.
*Given the significance of a strong economic recovery and declining inflation for political support, it can be safely assumed that the Congress Party would have won the 1977 elections, had the program of forced vasectomy not been carried out (see Limited Liberalization of 1975 and 1981 section, footnotes 127, 129–130).

academic orthodoxy, the outcome would have been more protectionist, not less so.[28] The choice of the command economic model, in the words of Baldev Raj Nayar, was truly "nationalist."[29]

This section substantiates the view that the Indian National Congress' (INC) adoption of the command economy model after independence was legitimized by the presence of favorable discursive conditions during that period. These conditions were created through five factors: (a) political socialization during the freedom struggle; (b) national problems demanding activism on the part of the central government; (c) dependence of the nascent industrial bourgeoisie on the central state for the inputs needed for industrialization; (d) the presence of the Soviet Union as a success story demonstrating the virtues of a centrally planned command economy; and (e) contemporaneous academic theories in favor of a command economy as a development paradigm for developing countries.

Leaders of the freedom struggle in India mobilized social forces in the realm of politics through semi-political organizations that acted as filters through which individuals desiring access to the core leadership would have to pass. Such organizations imposed political socialization as the price of political participation.[30] Thus, in this process of what may be called the "party's penetration of society,"[31] the masses were socialized into accepting the value system, for which the national freedom movement stood. The masses were also encouraged to endorse the national goals for which the "Congress as a movement" stood.

Nehru believed in creating a "national philosophy" to hold India together, providing coherence, a sense of direction and a purpose.[32] His economic outlook was shaped by the struggling economy of the pre-World War II era of the Great Depression. India's founders attributed the hard times of their youth to the open economic policies that exposed India to the effects of a global depression.[33] Their concept of political independence came to be closely intertwined with the concept of economic independence.[34]

The popularity of the drain theory and its analysis of the imperial seizure of the economic surplus in the pre-independence era led to a preoccupation with the problem of surplus allocation to the appropriate sectors, through planning and state intervention. Thus, the nationalist leaders, intellectuals, and businessmen agreed "that laissez-faire was the root of all evil and central planning the new panacea."[35]

In addition to pre-independence political socialization and pre-independence analysis of the root cause of India's underdevelopment, the third factor that reinforced the need for state intervention was the economic weakness of the nascent industrial bourgeoisie. They demanded protection from stronger foreign capital and expansion of the existing market by incorporating more remote areas. In the Bombay Plan (1944), put forward by G.D. Birla, J.R.D. Tata, Purushottamdas Thakurdas, Ardeshir Dalal, and John Mathai, a case was made for state controls and massive state involvement in the economy. More specifically, the Bombay Plan stated that "the jurisdiction of the central government in economic matters will extend over the whole of India ..." and suggested that, "the actual execution of the plans will be the function of a supreme economic council working alongside the national planning committee under the authority of the central government."[36]

The economic philosophy of the nation was also influenced by the information about the Soviet experiment that flooded India in the late 1920s and early 1930s. The Indian intellectuals "saw in the Soviet pattern of society a more congenial model of modernity."[37] There were media reports on the success of the Bolsheviks in rationalizing the Soviet economy (electrification, collectivization and industrialization) in the 1920s and 1930s, while the Western world was suffering through the Great Depression.

An inspired Jawaharlal Nehru visited the Soviet Union in the late 1920s and came away very impressed with the 1920s Soviet planning system formulated by Feldman. This policy states that the larger the share of state investment in heavy industry, the greater the increase in the growth rate. During the 1940s and 1950s, the economic system of the Union of Soviet Socialist Republics (USSR) attracted the attention of academics worldwide for accomplishing the amazing task of industrializing a largely peasant country in less than a generation. Thus, there was a consensus among scholars that socialism was a powerful alternative to free market capitalism.

Thus, it is clear that the national "economic philosophy" did not emerge from a discursive vacuum; it was historically conditioned and took decades to grow, prior to independence. The Nehru Report (1928), the National Planning Committee (1938), the Bombay Plan (1944), the Advisory Planning Board (1949), and the Neogy

Committee (1951) recommended centralized planning for the economic reconstruction of India.

In the 1950s, there was an overwhelming consensus among economists that planning and government leadership would accelerate growth.[38] The theory of market failure, developed in the context of the Great Depression of the 1930s, was extremely popular in the 1950s. The arguments for *laissez-faire* politics were absolutely against the spirit of the times. Karl Polanyi's (1944) masterwork, *The Great Transformation*, presented a fierce critique of a market-based society.[39] The mainstream position was that government intervention in the economy along Keynesian lines was required to stabilize the capitalist economy and move developing economies onto a path of self-sustained growth.[40]

The majority of scholars in those days argued that industrialization in developing countries could be achieved more rapidly if governments took an active role in the process.[41] This was the essence of the Singer-Prebisch thesis,[42] popular during the 1950s, which recommended that a strong state could focus on heavy industry and infrastructure. The rationale for imposing exchange controls was to direct scarce hard currency resources toward the importation of inputs needed for priority industries.

It was in this context that foreign aid programs were designed after WWII. The Bretton Woods institutions (the IMF and WB), created in 1944, were meant to provide aid to countries facing BOP problems without any mandate for intervention in national economic policies. In those days, the IMF and WB supported domestically oriented Keynesian and welfare policies.[43] The predominance of the import substitution approach to economic development in the 1950s, reflected in Article XVIII of the GATT, allowed trade protection in developing countries through both tariff and quantitative measures.[44] Thus, the broad consensus on planning and a state-led industrialization strategy was supported by the leading intellectual traditions of the times.

The BOP Crisis of 1957 and the Reinforcement of the Anti-Liberal Discourse

In 1957–58, India faced its first BOP crisis, as foreign exchange reserves dropped from $1,881 million in 1955 to $769 million in 1957.[45] Economists argued that, at that time, India could have abandoned the direct control approach to planning, devalued the rupee, and altered its planning strategies.[46] However, this did not happen because the crisis was not perceived as an outcome of Nehruvian socialism. On the contrary, the perception was that the crisis was the outcome of Nehru's liberal policies that had given the private sector significant room to maneuver.

In January of 1958, Professor D. R. Gadgil presented an analysis of the economic crisis to the Planning Commission's panel of economists, stressing that the liberal licensing policy had stimulated "almost an over fulfillment in the large private sector," partly at the expense of public enterprise. The analysis illustrated that the failure of the finance ministry to impose adequate controls over import licenses, along with factors such as the rise in the prices of iron and steel, defense and food grain imports, contributed towards the BOP crisis in 1957–8.[47] Thus, the crisis was considered a result of the "unanticipated growth in private sector investment, which took the planners by surprise."[48]

Note that the liberal industrial policy resolution of 1948 was a product of a serious domestic economic crisis; a crisis that India faced at the eve of its independence. This crisis was rapidly intensifying due to divestment by foreign business from their holdings in India and halting of domestic investment.[49] Faced by this economic crisis, the government was forced to clarify its policy. The result was the first of a series of key strategic choices outlined in the Industrial Policy Resolution of 1948. The basic aim of this document was to temper the growing fears of indigenous and foreign investors.

However, the generosity towards the private sector did not pay off. India's economy faltered during the First Five Year Plan (1951–56). Nehru himself was not satisfied with the rate of economic growth during the First Five Year Plan that followed the 1948 Industrial Policy Resolution.[50] On the other hand, he was impressed with what he had seen in China in October 1954.[51] This visit strengthened his resolve to expand the public sector for economic development. What emboldened him further was the fact that the United States (US) declared India a major target for US foreign aid for its planned economic development, especially in contest with China.[52] The Ford Foundation also looked to India as a testing ground for new initiatives in economic planning and development.[53] In February 1955, the Soviet Union offered a large scale economic aid program to India. In the same year, the World Bank published a report prepared by John H. Adler, endorsing the view that comprehensive central planning was indispensable for the economic progress of developing countries. This report became a standard guide to economic policy prescription and one of the most important official documents influencing economic policy in developing countries in the 1950s.[54]

What is more, the impending general election in 1957 in the context of widespread unemployment and the scale of poverty worried Nehru. It worried him because, socialism, whose rhetoric carried a powerful electoral appeal among the voters was not put to the test by the First Five Year Plan. The First Plan did not register an advance towards socialism.

Furthermore, the promulgation of the Constitution on January 26, 1950, obliged the government to reflect on the objectives enshrined in the constitution in its subsequent policy proclamations. This formed the context and foundation for the design of the Industrial Policy Resolution of 1956.[55]

The bourgeois within the main body of the Congress industrial hierarchy was out of tune with the vision and economic philosophy that inspired the Indian freedom struggle. From the mid-1920s until the mid-1930s, Nehru accused Indian capitalists of creating fascism in India. But, as the industrial bourgeoisie supported Nehru's country-wide campaign during the 1937 elections,[56] he stopped talking about ending capitalism and began to play down his socialist viewpoints.[57]

After 1947, when Nehru was in power, he began to fear that the state controlled economy would lead to authoritarianism and might upset "the existing structure."[58] On February17, 1948, Nehru strongly opposed a resolution in the Constituent Assembly that endorsed "a socialist path for economic development."[59] His shift was perfectly consistent with the complete *volte face* conducted by the business class of India immediately after independence. The same industrialists that endorsed disciplinary planning in the final years of colonialism, as documented in the Bombay Plan of 1944, demonstrated their unyielding opposition to it immediately after independence.[60]

Thus, after independence in 1947 Nehru demonstrated his willingness to compromise socialism for the perceived benefit of the country, to bring India into the modern world, and to provide financial incentives for the expansion of private enterprise.[61] He cautioned the secretary to the Planning Commission to bring about the social transformation without "challenging the existing order."[62]

Nehru's statements and policy proclamations during different stages of his political career are so widely contradictory, that one can offer justification to prove him to be a liberal, as well as a socialist, merely by focusing on certain particular phases of his ideological shifting, while ignoring the others.[63] Nehru's inconsistency instigated Michael Edwards to state that Nehru did not have enough understanding of either the capitalist or the socialist society.[64]

In conceding to the capitalists, in the immediate years after independence, Nehru was going against the dominant discursive formation in the society that he himself created so passionately by making socialism a "national dogma."[65] As a run up to the second general election, it was time to reiterate his commitment to socialism. Hence, the Second Five Year Plan (1956–61) became a tool to demonstrate this commitment. It aimed at the creation of a "socialist pattern of society"[66] and was formulated with the aim of overcoming the dangers of economic stagnation.[67]

The Second Five Year Plan ran into trouble when a BOP crisis gripped India in 1957 and forced a severe cut back in the public expenditure program. However, keeping in view the discursive conditions of those times, India turned towards import substitution as part of its program of industrialization and introduced foreign exchange budgeting.

The World Bank and Western governments also recognized the need to assist India, without expecting too much immediately in return.[68] Thus, the AIC (Aid India Consortium: US, Germany, Britain, Japan, the World Bank, and the IMF) provided India with $600 million of aid.[69]

It may be noted that the balance of payments crisis of 1957 led to the departure from the Congress Party of those leaders who proclaimed their opposition to the Congress policy of giving a large role to the state in regulating and directing the national economy. They founded the Swatantra party in 1959 and hoped that the crisis would serve to de-legitimize the Congress Party's economic policies. However, crisis was soon averted with the help of foreign aid.[70] Paradoxically, however, the credit for the recovery went to the Second Five-Year Plan and the policy of heavy industrialization. Quite interestingly, the influx of the "aid" itself was interpreted as evidence of international support for

India's "development planning."[71] Rapid growth of Indian GDP in the 1950s, about 2.8 percent per year, faster than the average of other newly independent countries, created the perception of the overwhelming success of the policy of import substitution industrialization (ISI) in producing wealth.[72] This further justified the significant level of state involvement in the economy.

Because the social discourse against socialism, as anticipated by the leaders of the Swatantra party, did not emerge, the party quickly sank into political irrelevance. In all probability, the libertarian experiment "did not suit Indian culture or the country was not yet ripe for this liberal group to strike roots."[73]

Why Liberalization Was Attempted in 1966 and Why Was It Reversed?

The central proposition of this article is that economic liberalization can only be sustainable if the eight key interactive factors (Table 1) collude to turn the discursive conditions of the society pro-liberal. However, the economic liberalization of 1966, though carried out by a convinced executive, stimulated by an economic crisis[74] and conditionalities by the international donor agencies, could not challenge and overturn the anti-liberal discourse prevailing in society. There was also no clear ideational change at the international level and no international country experience to support such a dramatic shift in policy.

In 1965–66, India faced another BOP crisis. India's export earnings fell below Rs 51 trillion, against import requirements of Rs 53 trillion. In addition, debt-servicing obligations amounted to Rs 13.5 trillion.[75] The budgetary position of the center deteriorated from a surplus of Rs 1.77 billion in 1960–61 to a deficit of Rs 2.95 billion in 1966–67, revealing a severe resource crunch.[76]

The crisis of 1966 was not perceived as being produced by the central government's economic policies or its intervention in the market or inefficient macroeconomic management. The crisis was perceived as a product of exogenous shocks, such as the war with China in 1962, the war with Pakistan in 1965, the termination of foreign aid, and bad monsoons and crop failures in 1965 and 1966. Though the reality is that these events simply exposed the fragility of the development strategy that the government had followed since independence, and were coming to the full maturation of a "quiet crisis," that Lewis discussed in 1962 (due to the shortage of foreign exchange, raw materials and power) yet this was not the public perception at that time.[77] Thus, the crisis did not serve to de-legitimize the state-directed paradigm of industrialization through import substitution.

Indira Gandhi was quite convinced of the merits of liberalization. Ashok Mehta, the planning minister, and C. Subramaniam, the agriculture minister, who were Mrs. Gandhi's close advisors, confidants, and trusted friends, convinced her that the economic planning bureaucracy and controls established by Nehru needed to be fundamentally reformed.[78] The failure of planning in India in terms of stagnating industrial growth rates, declining agricultural output and rising inflation during the mid-1960s provided an empirical ground to these convictions.

Furthermore, there were, on record, the highly skeptical comments of Milton Friedman regarding India's central planning, expressed during his visits to India in 1955 and 1963. Friedman's view was that controls on economic activity impeded innovation and growth and that the success of planning (which means effective use of capital by the state) requires certain basic social conditions, typically non-existent in developing countries.[79]

Mrs. Gandhi was willing to carry forward the process of economic liberalization initiated during the Shastri interregnum.[80] In the initial approach paper on the Fourth Five-Year Plan, prepared during the Shastri period, it was stated, "within the broad framework of control in strategic areas, there is an advantage in allowing the market much fuller play."[81]

Mrs. Indira Gandhi worked out devaluation secretly.[82] Ashok Mehta was sent to Washington, where he negotiated an elaborate agreement with George Woods, president of the World Bank. The World Bank promised to provide assistance in exchange for a package of deregulation measures, including the devaluation of the rupee. The final decision was taken by Mrs. Gandhi.

Mrs. Gandhi realized that there was a significant downward pressure on the rupee that had made devaluation compulsory. Thus, she went on to adopt a devaluation program that was very much in excess of what was actually demanded by the IMF in 1966. The Fund wanted a rate of Rs 6 against the prevailing rate of Rs 4.76 for the US dollar, but Indira Gandhi decided to fix the rupee at Rs 7.50 to a US dollar,[83] despite being aware that the overvalued exchange rate would lead to an unprecedented hike in the price of imported goods and would be politically unpopular. Essentially, she was willing to take the risk.

On June 6, 1966, the rupee was devalued by 36.5 percent in terms of gold and 57 percent in terms of the US dollar. Simultaneously, import protection decreased, export taxes were increased and export subsidies were decreased. Furthermore, the Indian government committed itself to the substantial decontrol of imports, reductions in industrial licensing, increases in private foreign investment, the decontrol of fertilizer production and distribution, and reductions in state-owned industries.

However, the Indian executive's decision to make a transition from a tightly regulated economy to a liberalized economy was not supported by any international example or best practice. There were no clear lessons from international experience regarding the economic transition from a centrally planned economy to a free market economy. In the 1960s, the Soviet Union was still producing impressive growth rates of more than 5.5 percent per annum.[84] In 1961, China, after the economic collapse and famine of 1959–61, reintroduced the Soviet model and moved deeper into centralized planning in 1966.[85] Moreover, the US Government was actively promoting national planning by Latin American countries in the mid-1960s.[86] In the Presidential Election of 1964, Lyndon Johnson ran a campaign calling for big government programs such as the "War on Poverty." His Republican challenger, Barry Goldwater called for freer markets and less government. Lyndon Johnson defeated Barry Goldwater by an overwhelming margin of 61 percent of the popular vote to 38 percent, resulting in one of the greatest landslide victories in the US election history.

Furthermore, while Keynesian and Musgravian orthodoxies were challenged in the 1960s, there was no conclusive ideational change at the international level. The decade of 1960–70 was the decade of a "great debate" between alternative paradigms on the role of the state. For instance, Keynesian faith in centralized planning by technocratic experts was challenged by Milton Friedman in his book *Capitalism and Freedom* published in 1962.[87] The book made a strong case for free markets to a general audience.

The 1960s however, was the era of Keynesian hegemony and most economists dismissed Friedman's belief in the free market.[88] Similarly, Richard Musgrave's theory of public finance, that provided a very activist role to the public sector (market economy being subject to serious malfunctioning in various basic respects), was challenged by

Buchanan in his book *The Calculus of Consent* (co-authored with Gordon Tullock), which was published in 1962.[89] But at that time it was the Musgravian era of activist public sector and Buchanan's view of combating government intervention in the market found only a small audience to give him a sympathetic hearing.[90]

Thus, while there was no clear ideational change at the international level, Mrs. Gandhi's attempt to liberalize the economy ran into trouble because the aid was not delivered as promised. India had asked for $1.5 billion annually from 1967 to 1971, but the Aid India Consortium offered only $900 million annually. Even this reduced amount was delayed by several months at a time when India badly needed it. Furthermore, project and non-project aid fell from $1.6 billion in 1966–67 to $0.64 billion in 1967–68, and $0.76 billion in 1968–69, whereas $1.7 billion per year had been promised by the World Bank.[91]

While this delay and decline in foreign aid further slowed the growth rate of India's industrial production from 3.4 percent (pre-devaluation) to 2.3 percent in 1966–67 and barely 1.4 percent in 1967–68,[92] the devaluation of the rupee led to a rise in the price of imported goods, so much that imports (required to meet the requirements of the agricultural sector) declined by Rs 2,218 Crores in the first year of the post-devaluation period.[93]

Overall, devaluation and aid failed to accelerate India's economic growth. The results were quite discouraging. The expected boost to exports did not materialize; instead, they declined. The previous structure of import tariffs and export subsidies had amounted to a *de facto* devaluation by raising the prices of imports and lowering the prices of exports. Exports suffered, due to the abolition of subsidies, and gained little from devaluation.[94]

The overall impact of these policies was far from stabilizing. John Walton, considering the case of Latin America, demonstrates that the stability of a political system depends, to a large extent, on the ability of economic policies to bring about economic growth.[95] David Mason, however, illustrates that even economic growth and prosperity may be destabilizing if economic benefits are not equitably distributed. In his view, the stability of a political system depends on a reduction in economic inequality, regional disparities, inflation, unemployment and poverty.[96] Thus, both are required, or, at the least, a credible promise regarding both is required. However, the economic liberalization policies of the 1960s "appeared unlikely to achieve goals of economic growth; and they were certain to increase economic disparities."[97]

As the devaluation and trade liberalization failed to deliver, the anti-liberal social discourse gained further strength. There was sharp criticism by all parties, the public and the press, regarding what was interpreted as "an attack on Indian sovereignty by a bullying America."[98] The press described the devaluation as an "ill-advised plunge," a "leap in the dark," and an "escape from reality."[99] Industrialists expressed concern over the rise in import prices and its adverse implications on investments.

There was widespread political discontent within the Congress party. Senior Congressmen K. Kamaraj, R. Venkataraman, T. T. Krishnamachari, Manubhai Shah, and Morarji Desai expressed unhappiness. The Communist Party of India (CPI), Marxist Communist Party of India (CPM), Praja Socialist Party (PSP), Samyukta Socialist Party (SSP), and Jan Sangh criticized the devaluation package.[100] The National Council of the CPI meeting on June 9–15, 1966 adopted a formal resolution to demand the "immediate resignation of the Central Government headed by Indira Gandhi because it had proved itself wholly unworthy of any national trust."[101] Thus, the anti-liberal discursive conditions manifested themselves in the form of political resistance, which ultimately doomed the liberalization experiment.[102]

In 1967, the INC failed to win legislative majorities in eight states (out of the 17 states into which the Indian Union was then divided). The poor performance of the Congress during mini general elections in February 1969 held in four important states (Bengal, Bihar, Uttar Pradesh, and Punjab) was again stunning.[103] The strategy for these elections, including the selection of the candidates, was planned by the senior Congress leaders called the Syndicate, well known for their contempt for socialism. This convinced Mrs. Gandhi that, in the words of M. Torri, "the country as a whole was shifting towards the left."[104]

Thus, her own convictions notwithstanding, Mrs. Gandhi was influenced by the immense pressure created by the anti-liberal discursive climate of her time in her decision to reverse the program of economic liberalization. Leaders in a democracy are most likely to avoid politically unpopular decisions, irrespective of their own conviction. Thus, a crisis can enable an executive to permanently shift to a market economy if the crisis serves to weaken the discourse on state interventionism. This can happen if *statism* comes to be widely perceived as a *cause* for the crisis and the alternative policies serve to reverse the crisis.

In 1966, however, the *perceived failure* of trade liberalization strengthened anti-free trade sentiments and the view that devaluation was detrimental. Thus, while the reality, as demonstrated by Bhagwati and Srinivasan, in their quantitative analysis, was that export performance in the absence of devaluation would have been worse than what was observed,[105] the popular public perception was that devaluation had failed. Hence, the entire country unanimously criticized Mrs. Gandhi's devaluation package.

Mrs. Gandhi thus opened the survival kit of socialism, not because of her love for socialism, but for the purpose of political survival. One of her most far-reaching economic policy decisions was the nationalization of India's fourteen largest private banks on July 19, 1969.[106] This had nothing to do with her convictions regarding economic policy. It was a calculated decision made for purely political purposes[107] and the public supported her decision enthusiastically.[108]

In 1969, Mrs. Gandhi's government enacted the Monopolies and Restrictive Trade Practices (MRTP) Act. This was another ostensibly progressive decision, made with political motives. Mrs. Gandhi used it as an instrument of distributing patronage.[109] Thus, Kaviraj finds in Mrs. Gandhi what he calls "a particularly dangerous combination of a bourgeois leader invoking socialist principles" for reasons "utterly inimical to the purposes of socialist discourse."[110]

However, Mrs. Gandhi's decisions received overwhelming Parliamentary support. The support not only came from the traditional parties of the left, the socialist and communist parties, but also from the three important regional parties: the DMK of Tamil Nadu, the BKD of Uttar Pradesh and the Akali Dal of the Punjab. In 1969, C.D. Deshmukh, the presidential candidate of the Swatantra party, the only party that had supported the 1966 devaluation policy, lost the presidential election to Indira's candidate, Zakir Hussain. The INC under the leadership of Mrs. Gandhi went on to sweep the fifth (mid-term) general elections held in January 1971 using the slogan of "poverty eradication."

The Limited Liberalization of 1975 and 1981: Liberalization by Stealth

By 1972, the trade surplus had reached $132 million. In 1974, the surplus vanished, leaving an emerging trade deficit of $1.5 billion and leading India into a third BOP crisis. A series of exogenous factors propelled this crisis. These factors included the Indo-Pak war of 1971, with its legacy of 10 million refugees, the draughts of 1972 and 1973, the suspension of aid from the US and other international donors, and the first international oil crisis of 1973. All this, accompanied by a world recession, led to a steep rise in world commodity prices.

More specifically, rising inflation, in which the prices of most basic commodities jumped sharply, created violent public agitation. These domestic disturbances led to the imposition of a state of national emergency on 26 June 1975. Free from the constraints of democracy, Mrs. Gandhi renewed her work toward economic liberalization.[111] Mrs. Gandhi's son, Sanjay Gandhi strongly opposed the public sector and the idea of a government controlled and regulated economy.[112] Sanjay's influence, and the bitter experience of Mrs. Gandhi's radical populism, both reinforced the need for liberalization. During this period, Mrs. Gandhi constituted a number of official committees reviewing different aspects of industrial and trade policies.[113]

By the 1970s, international academic thinking had become more pro-liberalization and pro-free market. The worldwide stagflation of the 1970s and the collapse of the fixed exchange rate regime in 1971 brought the debate between the Keynesians and quantity theorists close to a decisive victory for Milton Friedman's position.[114]

The evolution of neoliberalism, as a "policy revolution," began with the violent ouster of the social democratic government of Chile in 1973 and consequent imposition of free market policies and other elements of neoliberalism by a group of 25 "Chicago boys" (followers of Milton Friedman's school of thought). F.A. von Hayek, who presented a strong case against centrally planned economies in his 1944 book,*The Road to Serfdom*, received the Nobel Prize for Economics in 1974.[115] The award widely publicized his ideas, which significantly shaped the political ideologies of Margaret Thatcher and Ronald Reagan, who used their control over the Bretton Woods institutions to sponsor these policies in the rest of the world. Milton Friedman, the most prominent advocate of free markets in the twentieth century, was awarded the Nobel Prize in Economics in 1976. His book *Free to Choose* (coauthored with Rose Friedman), published four years later, became the best-selling non-fiction book of 1980.[116]

During the 1970s, scholars presented compelling evidence against the inward-looking ISI policies.[117] In addition, the East Asian economies, with their outward orientation, became the fastest growing economies in the developing world. This earned them the epithet of "miracle economies."[118] Thus, the outward- or export-oriented approach, associated with East Asian development, became increasingly popular as a superior alternative development model.[119]

The international success stories from other parts of Asia demonstrated to Indian policy makers and the technocracy that a market economy works better than a planned economy. The different rates of economic development between North and South Korea, and between countries in Eastern and Western Europe, also made the comparison more obvious. This lesson was further reinforced by the dismal results of India's planning policy, which were quite evident to the executive.

On July 21, 1975, Mrs. Gandhi announced the 20 point program of economic reforms, which included the liberalization of investment procedures, steps to lower inflation, implement land reforms, and step up enforcement of tax collection.[120] Mrs. Gandhi appointed Manmohan Singh, known for his pro-trade liberalization views,[121] as the head of the economic bureaucracy in the Finance Ministry. The new phase of liberalization began with the introduction of the Open General Licensing (OGL) list.[122] Mrs. Gandhi's government devalued the rupee by 17 percent by stealth and resorted to a vigorous export drive.

The key measures designed to push India into the world market to increase its exports included easing restrictions on production by the export-oriented private sector, automatic licensing for the import of raw materials for export-oriented industries, liberalization of the provision of finance for the export sector, and the selective abolition of export licensing.[123] This led to a 30 percent increase in export volume from 1975 to 1978,[124] an impressive performance by Indian standards.

Although mild by international standards, the nascent liberalization of 1975 was a major milestone in terms of Indian economic policy. Francine Frankel noted substantial achievements in economic reform during the emergency period. The budgetary surplus in the revenue accounts of both the center and the states increased.[125] In the years 1974–1976, the revenue surplus amounted to 25 percentof capital expenditures. In 1976–1977, the trade surplus totaled $76 million.

By the end of March 1976, inflation declined by 11.6 percent. Overall, the economy recorded its most impressive growth rate in several years in 1975–76, exceeding 8 percent. The economic recovery during the emergency years seemed like a confirmation of Gunnar Myrdal's "soft state" thesis, empirically based on the economic success of authoritarian regimes of East Asia. This thesis was quite popular in the 1970s.[126]

It is important to note that the commendable economic recovery of the Emergency era was so striking that it received overwhelming acclaim, not only from big industrialists, but also from middle class government officials and businessmen, who compared it favorably with the strife-torn decade that had preceded it.[127] As Indira Gandhi struck down heavily on black-marketers, hoarders, smugglers, and tax evading business houses, the public response was quite favorable.[128]

Had it not been for the barbarism of the youth Congress (Sanjay Gandhi's horrible reign of terror) during the emergency,[129] Mrs. Gandhi would have been rewarded by people with a victory in the 1977 elections. Facts and evidence support this assertion.[130] It was her economic performance in the emergency era that came in sharp contrast to the poor performance of the Janata party regime, which Mrs. Gandhi used to her benefit during the 1980 election campaign.[131] She led the Congress back to a landslide victory in the 1980 elections.

The process of transformation in international discursive conditions against import substitution and central planning that began with the waning of Keynes' influence in the early 1970s, accelerated aggressively in favor of export orientation and free markets in the late 1970s. China created a demonstration effect by making a fundamental change in its foundations in 1978, by formally shifting the party's focus from "class struggle" to "economic development." The policy changes put China on a high growth trajectory during the 1980's,[132] while the Soviet Union's economic growth fell to 2 to 3 percent annually in the 1970s and less than 2 percent in the 1980s.[133] In the U.S. Presidential Election of 1980, Ronald Reagan ran a campaign calling for freer markets and less government. He defeated the incumbent president, Jimmy Carter, with 51 percent of the popular vote to 41 percent. Recall that the 1964 presidential election was essentially fought along similar lines with Goldwater standing as the free-marketer against the incumbent Lyndon Johnson. Goldwater suffered a stunning defeat.

While Keynesianism was successfully defeated by Friedman's monetarism in the 1970s, Musgravian orthodoxy gave way to Buchanan's public choice theory in the 1980s. Buchanan, known for his views on the potentially deleterious effects of majoritarian politics on the economy and society, received a Nobel Prize in Economics in 1986. The dominant policy view of the IMF and WB and the US Treasury department was based on distrust in government's capacity to run large industrial and commercial enterprises. This view became known as the Washington Consensus.[134] Table 2 summarizes the reversal of the international discursive conditions in the 1980s.

At the time when international discursive conditions were transforming rapidly and decisively in favor of a market economy, Mrs. Gandhi returned to power in January 1980 and again resumed her work in the direction of economic liberalization. Interestingly, Jessica Wallack, in an econometric study, found the two most robust structural breaks in the Indian economy to occur in the years of 1974 and 1980.[136]

The Industrial Policy Statement of July 1980 extended the permission for the automatic expansion of capacity by 25 percent over five

TABLE 2
IDEATIONAL REVERSAL AT THE INTERNATIONAL LEVEL: 1960s VERSUS 1980s

Area	The dominant ideas in 1960s	The dominant ideas in 1980s
Government	Plays a central role; acts as the driving force behind the development	Plays a central role, but acts as the main obstacle to development
Accumulation	Is central to development process; coordination and scale problems require government involvement	Is central to development process; private sector investment is the key
Trade and integration	Has no particular advantage beyond the import of capital goods and the purchase of necessary inputs	Exports bring dynamic advantages; import competition is necessary for disciplining domestic producers
Foreign capital	FDI is to be avoided, but government borrowing is acceptable, preferably from foreign sources	Government borrowing is to be avoided, but FDI encouraged
Development assistance and role of IMF, WB, and IDB	Provide project based lending of investible foreign exchange and resources to governments	Quick disbursing; policy based lending to establish conditions for FDI and domestic environment

Source: David Lindauer and Lant Pritchett[135] years to a large number of industries.[137] However, as a consequence of a devastating coincidence of a severe drought and the second oil price shock of 1979, the situation worsened steadily. The trade deficit ballooned to a record $7.4 billion by the end of the financial year 1980 and a full-blown BOP crisis loomed.

Before that crisis hit, the officials[138] prepared the key features of economic reform for domestic policymakers to initiate immediately. An initiative called "homegrown conditionality," including a blueprint for import liberalization, was presented to international financial institutions to ascertain that a precautionary loan would be sanctioned on the basis of the proposed reforms under India's own terms. Once Indian officials were confident that they could obtain the loan, they approached the Prime Minister Indira Gandhi and received her consent to enter into secret negotiations with the IMF.[139] India received an IMF loan of $5.8 billion as a stabilization loan—the largest ever sought by a member nation.[140]

Indira Gandhi adopted trade liberalization in 1981. However, as imports became less expensive, the business groups and associations (Birla, Tata, and FICCI) rose in protest and demanded protection, while supporting internal deregulation. The Indian government obliged by re-imposing import restrictions as part of the 1983 budget and terminating its IMF agreement without taking advantage of the full loan.[141]

Indira Gandhi thus turned pro-business and pro-private enterprise.[142] She abandoned radical socialism and embraced Indian capital as the main ruling ally. The projection for planned investment in 1980–85 during the sixth plan, which aimed at achieving an annual growth rate of 5.2 percent, depended, for the first time, on major increases in private investment.[143] She was careful, however, not to advertise her move away from socialism, instead maintaining her use of the rhetoric of socialism and continuing to make ideological appeals to socialism.

Mrs. Gandhi's move towards pro-business liberalization was not accompanied with any cutting down of Poverty Targeting Programs through the Centrally Sponsored Schemes and Central Sector Schemes. The schematic assistance rose from Rs 15.46 billion in the Fifth Five Year Plan (1974–1978) to Rs 74.98 billion in the Sixth Five Year Plan (1980–85). These schemes, which were 45 in number in 1969, rose to 200 by the end of the Sixth Plan.[144] Left-oriented economists, such as K.N. Raj and Sukhamoy Chakrovarty, remained in their highly

TABLE 3
COMPARATIVE GROWTH PERFORMANCE IN THE 1950s, 1960s, 1970s, AND 1980s

	1950/51 to 1964/65	1965/66 to 1974/75	1975/76 to 1988/89	1980/81 to 1988/89
1. Growth of GNP at factor cost	4.2	2.7	5.0	5.6
2. Growth of per capita NNP	1.9	0.2	2.6	3.4
3. Rate of gross capital formation	10.0	16.8	18.9	22.5
4. Growth of industrial production	6.6	3.3	5.6	7.7

Source: Yogender K. Alagh[147]

visible positions on the Economic Advisory Council. However, policy changes were implemented behind the scenes by P.C. Alexander, L.K. Jha, and Arjun Sengupta.[145] Ministers openly committed to free market, capitalist, pro-liberalization, and denationalization-oriented policies received economic portfolios.[146]

Furthermore, the growth performance continued to improve during Mrs. Indira Gandhi's period and added to a general confidence in her economic policy strategy (Table 3). She also widely publicized India's return of the IMF loan and used it to instill a sense of pride among Indians. Indeed, the return of the loan also served to improve India's international credit rating.

The Bold Liberalization Attempt of 1985 and Its Reversal

Rajiv Gandhi openly committed his government to a new policy of economic liberalization in 1985. He was prepared to go well beyond the limited liberalization of Indira Gandhi.[148] The policy changes were carried out across a broad spectrum of areas, without being justified in the name of fostering socialism.[149] Though there was no compulsive reason for the government to create the impression of a break from the past, for the first time, the budget for 1985–86 did not mention the word socialism. While Mrs. Indira Gandhi had begun a program of liberalization in response to a fiscal crisis without any external pressure, Rajiv Gandhi "adopted liberalization even without the stimulus of an economic crisis."[150] Rajiv Gandhi's policies were meant to accelerate the pace of India's transition into a private enterprise economy, where the private sector, rather than the public sector, would be the engine of economic growth.[151]

Many different explanations exist for the origins of the 1985 liberalization program. Atul Kohli emphasizes the sudden increase in the autonomy of the state derived from the overwhelming majority gained by the party in Lok Sabha, which encouraged politically inexperienced cronies and advisors to pursue their ideological whims.[152] Arvind Panagariya emphasizes the formation of a new elite consensus[153] among politicians and bureaucrats against the centrally controlled regime and the original paradigm of statist economic development, especially in the context of the evidence of waste, corruption and inefficiency and sluggish economic performance in comparison to that of the fast-growing East Asian economies.

Some have emphasized pressures from the monopoly bourgeoisie who were dissatisfied with the earlier economic regime.[154] Others have pointed toward the factors like the emergence of a new upstart group of Indian capitalists who aspired to break the existing monopolies in the domestic market with the help of metropolitan capital;[155] the hijacking of the Indian economy by a group of Indian capitalists and politicians;[156] pressures from domestic big business wishing to expand by encroaching on areas previously reserved for public enterprises and the small-scale sector;[157] and political buccaneering.[158]

In addition to the aforementioned factors, the 1985 economic liberalization effort was the outcome of Rajiv Gandhi's personal convictions. He had no faith in socialism and was willing to publicize his modern outlook. Though the reforms were required, a bold proclamation of a break from the past was uncalled for. It has been noted that, given the possibility of a political backlash, the liberalization policies should have been projected as corrective measures implemented in continuity with the past.[159]

Not surprisingly, after an initial acceleration, Rajiv's assertive liberalization program was soon moderated and attenuated.[160] He began to speak the language of socialism. By 1987, he had completely abandoned his program of economic liberalization.[161] Various reasons have been assigned to Rajiv's reversal of his initial reform agenda. James Manor focuses on Rajiv's political leadership, his "confusion and his chronic, indeed radical inconstancy."[162] David Denoon draws attention to a combination of factors including a deteriorating macroeconomic situation, rising fiscal and trade deficits, rising inflation, and his having lost a widely publicized mid-term parliamentary election in Haryana in 1987.[163] Francine Frankel blames it on corruption charges involving his own circle that considerably weakened his authority to continue with his reform agenda.[164]

My argument however is that the roots of the rollback can be better captured based on a mass-elite framework coupled with a discursive dominance hypothesis. Opposition from co-partisans, the leftist opposition and rural groups, as demonstrated by Atul Kohli, was a manifestation of the discursive conditions.[165]

Rajiv Gandhi's economic reforms and their reversal demonstrate that "executive conviction" alone, even at as high a level as the PM's, cannot ensure the success of reforms if the discursive conditions do not favor the reform agenda. The discursive conditions in the mid-1980s had not yet tipped against socialism. One condition for allowing a market "system" to develop in a society is a change in the perception of the society, where the people come to respect the idea of money making.[166] However, commerce and capitalism still had negative connotations in Indian society.

The overall public and the opposition in parliament denounced Rajiv Gandhi's policies as anti-poor[167] and as abandoning India's sovereignty to big corporations.[168] Writing in 1986, Jagdish Bhagwati pointed out that the nature of society in India was such that the elites were attached to a socialist pattern of development.[169] The Congress party expressed a deep concern that too much liberalization would lead to "social upheaval."[170]

Rajni Kothari criticized Rajiv's liberalization program for prioritizing profitability over social obligations.[171] Overall, Rajiv's liberalization was interpreted as a strategy designed to appeal to the top 10 percent of the population, which represented India's new urban-based, middle-class, "yuppie" community, as against Indira's economic strategy with its emphasis on "poverty alleviation" that appealed to the bottom 40 percent to 50 percent of India's urban and rural poor.[172] The rise in prices of essential commodities in February 1986 confirmed the suspicion. There was an adverse reaction from the media and consumers.[173] Inflation during the Rajiv Gandhi period was a direct result of "debt-led growth." [174]

Note that a democratic society will not allow a free market system to emerge unless either (a) the anti-market system distributional coalitions themselves break down, as occurred in Germany and Japan, when anti-market interest groups were destroyed during the second World War;[175] or (b) there is a crisis that puts solvency at risk,[176] leading to a shift in the discursive conditions against the socialist, planned economy framework.

Furthermore, I argue that if a ruling party attempts to go outside the parameters set by the discursive conditions in the society, that society may overreact, leading to a long-term policy reversal. Certainly, a democratically elected government keeps a finger on the pulse of the people and seeks to represent the dominant discursive formations in the society, which it cannot go against. If it does make such an attempt, there will be public opposition.

Such public opposition and a concomitant reversal were seen in the case of the 1966 and 1985 attempts at liberalization. In these two cases, initial attempts were made to bring about a drastic change in policy discourse.[177] Though there was no paradigmatic change, and hence, no "third-order change," the attempts entailed much more than the "second-order" changes.[178] Yet, due to a lack of public support, these attempts were brought to an abrupt halt, even before they could be fully operationalized.

In fact, liberalization policies bring about long-term benefits, but in the short term, there are significant costs.[179] These costs aggravate the economic hardships of the common people and de-legitimize government policies in the eyes of the public, which demands quick results.

Public opposition did not arise in 1975 and 1981 because the policy changes during those years were somewhere between first- and second-order and were covert and concealed. These attempts were typical examples of liberalization by stealth. Furthermore, the economic outcomes, if not outstanding, were at least not economically disruptive. The economic reforms of 1991 were sustainable, despite the fact that these reforms went beyond the liberalization attempts of 1966 and 1985, because the eight key factors collectively turned the discursive conditions against the earlier paradigm. Furthermore, the economic recovery immediately after the initiation of reforms was outstanding.

An important spin off effect of Rajiv Gandhi's economic liberalization was that it gave the pro-liberal constituencies some breathing space. Although the 1991 economic crisis and the breakdown of socialist regimes in East Europe and Soviet Union sounded a death knell for anti-liberal discursive formations, yet the executive in 1991 would have enjoyed limited success in inventing pro-liberalization constituencies from scratch. In 1991, economic reforms proved sustainable because a sudden dearth of options for the anti-liberal discourse increased the relative strength of the alternative discourse. This alternative discourse had already been gradually gaining strength since 1975, as old beliefs were being questioned and struck deeper roots, especially after 1985. The transformations that created "a new gestalt" and contributed towards the sustainability of the economic reforms after 1991 are discussed in more detail in the next section.[180]

The Economic Reforms of 1991 and Their Sustainability

As previously stated, the initiation of economic reforms does not require favorable discursive conditions, but then sustainability does. The two major attempts to reform in 1966 and 1985 were initiated by the convinced executive. While the 1966 attempt was accompanied with a stimulus of crisis, there was no such stimulus in 1985. However, both attempts were reversed because the eight key interactive factors (Table 1) failed to collude to overturn the discursive conditions of the society in favor of a pro-liberal discourse.

In 1991, the government embarked on a vast and comprehensive program of economic reforms. The changes that accompanied the economic reforms of 1991 have been very well documented in the literature.[181] The reforms laid greater emphasis on the private sector, as a leading engine of growth, and relied on market forces for increasing efficiency. The economy was opened to international trade, foreign investment, and foreign technology.

The argument that economic reforms in India were a product of crisis and IMF conditionalities can provide a partial explanation for immediate policy changes and their timing, but cannot explain the continuation and deepening of marketizing reforms, even in the absence of a crisis. This section demonstrates that various exogenous and endogenous factors colluded to shift the dominant discourse against the command economy paradigm after the 1991 crisis.

It is significant to note that while the debate has not yet ended, the pro-market constituencies have a winning edge because there is no other alternative and "reforms or no reforms" is no longer at the center of debate. The debate, if any, is all about scope, coverage and pace of reforms, and, more recently, about how to make the growth generated by economic reforms more inclusive. Amid this debate, the economic reform process is continuing to expand. Thus, liberalization is increasing amid continuing debate.

The analysis in this section discusses those factors that have led to the shift in the discursive conditions against the so called "socialist pattern of development" in the 1990s. These factors are:

1. Perception of state interventionism as the primary cause of the economic crisis;
2. Breakdown of the appeasement regime that sustained the socialist project;
3. Breakdown of the socialist countries and the rejection of socialism as an alternative and viable path to economic development;
4. Success of market oriented reforms in producing higher growth rates;
5. Support from ever expanding pro-liberal constituencies that owed their rise to the legacy of 1985 liberalization; and,
6. Crystallization of political support for liberalization, as there seemed no other alternative (The TINOA factor).

The crisis of 1991 differs from earlier episodes in that it was widely perceived as a product of unsustainable macroeconomic policies and the failure of state interventionism in India.[182] The shocking demise of the Soviet Union made it clear to the anti-liberal constituencies that there was no alternative to economic reforms. In this scenario, people became tolerant of the costs involved in any experiment that might ultimately produce an improvement.[183] This increased the relative strength of the pro-liberalization constituencies to diffuse criticism and opposition to reforms.

Thus, in the 1990s, the success of the reforms depended, not on stealth or concealment, but on the creation and concretization of a new consensus in the face of the breakdown of an earlier consensus in favor of a centrally controlled regime. The "new middle class" was all set to take the lead in creating a new consensus in favor of a market-oriented development paradigm. What was needed was to harness this potential to create greater support for reforms and cancel out the opposition from anti-reform interest groups.

The economic crisis of 1991, although precipitated by two years of political instability (1989–91) and the Gulf War (1990–91), as well as the oil shock[184] that accompanied it, was the result of persistent mistakes in economic policy that accumulated through the 1980s.[185] There was an overwhelming consensus that the crisis was the bitter fruit of the inefficient economic policies pursued since independence.[186]

Economists have shown that the logic of state interventionism through Import Substitution Industrialization is such that the economy stagnates in long run. However, the problem lies not in the "state interventionism" per se, but in the nature of the intervention.[187] The problem in India lay in the way the state control over public resources was operationalized.

The import substituting, license-permit-quota raj type state interventionism encouraged the growth of the protectionist lobby and unleashed rapacious rent seeking and corruption.[188] This ultimately led to the depletion of resources available with the government. Eventually, it became difficult for the center to run the appeasement regime based on the exercise of its financial superiority through increased budgetary transfers.

The appeasement regime is a mode of governance that depends on the strategy of offering socio-economic programs that mobilize political support. This strategy of binding the target groups to the party through economic patronage produces inefficiencies in the long run and eventually depletes whatever financial resources are at the disposal of the central government. This happened during 1980 to 1984, as the share of government spending in GDP rose from 18.3 to 20.3 percent, while revenues grew much more slowly from 11.7 to 12.7 percent.[189] Thus, the revenue surplus, which had persisted until the 1970s, became a deficit in the first half of the 1980s.[190]

The crisis of the ability of the state to extract resources to finance its rising expenditures was aggravated by an inability to tax the well-off classes via a proportional system.[191] The government's difficulties in mobilizing additional resources were aggravated by chronic shortfalls in profits generated by public sector enterprises along with a steep increase in capital-output ratios from about 3:1 to over 6:1 from 1970 to 1980.[192] By 1984, both internal and external financial shortages showed signs of worsening. The combined budget deficits of the states and the central government reached 7.5 percent of GDP.[193] The increasing use of borrowed money to meet current expenditures meant that the resource constraint continued to tighten throughout the 1980s. Growth accelerated, but the cost of this "debt-led growth" was increasing macroeconomic imbalances.[194]

The inefficiencies created by the unproductive expenditure financed by borrowings in the face of inadequate revenue mobilization finally caused the economic crisis of 1991. The 1991 crisis consisted of three components: a fiscal crisis (produced by an excess of central government spending over receipts, which was then financed by internal borrowing); the BOP crisis or external debt crisis (produced by an excess of imports over exports, which were then financed by borrowing from abroad); and the financial sector crisis (produced by a stock market crash and inefficiencies in the banking sector). The real problem was not high expenditure,[195] *per se,* but the low productivity of expenditure. Similarly, high borrowing was not itself problematic, but its utilization for current spending was.

The economic crisis of 1991, which brought India close to declaring bankruptcy, struck a final blow to the overall structure of economic patronage flowing from the center. Thus, the 1991 crisis disrupted the appeasement regime, the logic that sustained the socialist project and the command economy paradigm in India. With this, the groups that supported socialism and the centrally planned economy based on their own vested interests found themselves at their wits' end.

Furthermore, the fall of Berlin wall on November 9, 1989, the collapse of the political system in Eastern Europe in 1989 and in the USSR in 1991 crystallized the viewpoint that central economic planning and socialist economic policies were unsustainable. These developments served to de-legitimize the socialist model of economic development. Fukuyama remarked that after the end of the Cold War and the fall of the Berlin Wall in 1989, the progression of human history as a struggle between ideologies did not lead to an "end of ideology" or convergence between capitalism and socialism, as predicted, but to an unabashed victory of economic and political liberalism. He called this universalization of Western liberal democracy as "the end of history."[196]

According to Robert Inman and Daniel Rubinfeld, "The collapse of the command economies provides the clearest corroboration of its failings. India's experience with centralized planning lends further support to this skepticism."[197] The collapse of the Soviet Union meant that the assistance that it had provided to India to maintain its centrally directed economy would no longer be available.[198] The fall of socialism in the former communist countries eroded the ideological advantage that the Left parties had traditionally enjoyed among an influential segment of Indian intellectuals. This was reinforced by the dramatic economic success of Asian countries that embraced economic liberalization. These included China, Hong Kong, the Republic of Korea, Singapore, Taiwan, Indonesia, Malaysia, and Thailand.

Thus, while faith in socialism had gradually been weakening, the crisis of 1991, the disintegration of USSR and the success of outward-oriented policies in China and East Asian economies, eliminated all lingering doubts. In this context, the widely held belief that the "World Bank-IMF" conditionalities were the progenitor of the economic reforms of 1991 in India needs to be recast. Indeed, they had played a role (and a crucial one at that), but that role was somewhat akin to a catalytic agent expediting the process that was already underway.

Arvind Panagariya notes that V.P. Singh wanted to push for liberalization by stealth. He points out that the Industrial Policy Statement of 1990, which could not be implemented due to the fall of NF government, was a major step towards liberalization.[199] In fact, the blueprint for economic reforms had already been prepared prior to the crisis during the V. P. Singh government. Jairam Ramesh revealed that Prime Minister V. P. Singh asked his special secretary Montek Singh Ahluwalia to prepare a paper on economic policies that would help India grow like Malaysia. Ahluwalia's paper, prepared in June 1990 was a comprehensive plan for structural adjustment and reform.[200]

According to Jagdish Bhagwati and T. N. Srinivasan, "Conditionality played a role, for sure, in strengthening our will to embark on the reforms. But . . . the driving force behind the reforms was . . . our own conviction that we had lost precious time and that the reforms were finally our only option."[201] After 1991, the case for a centralized command economy could not be made without ridicule. Arvind Panagaryia points out that "the crisis and the conditionality did speed up the initial liberalization, but the measures essentially reflected the consensus that had emerged among the Indian policymakers."[202] Chelliah et al., intuitively predicted, "it would seem that the reform program is supported by a *broad consensus* among the parties and the people and would *therefore* continue" (emphasis added).[203]

The reforms received their greatest support from the "new middle class" that had emerged as a consequence of Rajiv's economic liberalization program and further expanded during the LPG reforms of the 1990s.[204] The urban middle class supported market oriented reforms because it satisfied their demand for greater access to international consumer goods and a market economy for small businesses.[205] The more well-to-do sections of the urban middle class, in particular, supported decreased state intervention, trade liberalization, and the privatization of state enterprises, because it promised them fuller satisfaction of their demand to copy new lifestyles and use sophisticated consumer goods.

The growth of the information technology industry (IT), involving computers, telecommunications and microelectronics, was one of the most significant impacts of Rajiv Gandhi's economic liberalization. This led to an expansion in IT-enabled services in metropolitan and urban areas, unleashing new employment opportunities for the educated youth.

As the national political culture and socio-economic fabric of the country made a decisive shift in response to the demands of the new middle class, the rhetoric of socialism lost its appeal. As E. Sridharan notes, "the elite-mass class cleavage tended to support a broadly socialistic ideology, while the elite-middle-mass differentiation has created a broader base for capitalism—hence the increased support for economic liberalization."[206]

With this, Indian politics witnessed a distinctive and decisive shift. It marked a political process in which the state began to identify the middle class as a distinctive group with its own political and economic interests that needed to be consciously addressed through governmental policy and rhetoric.[207]

Pai Panandiker argues that the economic and political clout of the middle class has been rising since the 1980s and should not be underestimated. The author demonstrates that the rise of a "new middle class" in India is not just an urban phenomenon. The middle class has made its impact felt even in rural areas with the spread of the service sector. This class is now influencing key sectors, such as banking, communication, and electronic and print media.[208]

McKinsey data estimates that while the total population will increase almost 30 percent between 2005 and 2025, the middle class population will increase approximately 10 times, or almost 1000 percent, during this period.[209] Note that different studies arrive at different estimates of the middle class in India, depending on the criteria used to identify this class.[210] Nevertheless, regardless of the difficulty in defining and producing an empirical estimate of this class, its rising influence on India's political economy has earned a unanimous academic acceptance.[211]

The BJP (Bhartiya Janata Party), founded in 1980, captured the mood of the rising middle class after the mid-1980s and positioned itself as a fierce critic of state intervention in the economy and a supporter of liberalization and privatization.[212] This stance received support from many small businesses and consumers who had not benefited much from central planning.[213] The BJP was not satisfied with the economic liberalization efforts introduced by Rajiv Gandhi, because they did not directly address the problem of "state interventionism."[214] Emboldened by the events taking place in Eastern Europe, the BJP clearly declared its support for economic liberalization.[215]

The BJP successfully mobilized the middle class by tapping into their discontent and advocating a reduced role for the state in the economy. This was also partly responsible for the steep rise in the BJP's share of the vote and its seat share in the 1991 elections. The party improved its vote share from 11.4 percent in the 1989 elections to 19.9 percent in the 1991 elections, increasing from 86 seats in the 1989 elections to 120 seats in the 1991 elections.[216] In the 1991 parliamentary elections, BJP emerged as the second largest party in the Lok Sabha after the Congress.

One point that must be mentioned here is that the rise of the BJP in India's 1991 national elections has often been attributed to the rise of Hindu religious sentiments and the BJP's communal mobilization.[217] Pradeep Chhibber, however, argues that there is little substantive evidence that Hindus suddenly became more religious in 1991 or that they were willing to express their religiosity more politically in the 1990s in particular. There is, however, systematic evidence that the BJP, by questioning the excessive "power of the state" and via its willingness to "get the state out of the economy," drew the support of the middle classes, whose interests were no longer represented within the Congress party-state in 1991.[218] Corbridge and Harriss argue that the rise of the BJP cannot be attributed exclusively to either of these, but should be attributed to both factors at the same time. This is because, according to the authors, the middle classes sought to reassert themselves through their support for both Hindu nationalism and economic liberalization in the 1990s.[219]

The BJP's advocacy of the economic interests of the middle class, however, did play a larger and a more important role in the rise of the party. BJP activists complained in 1991, after Manmohan Singh initiated his policies of economic liberalization, that the new Congress (I) government had "hijacked" its economic agenda[220] and that the Congress, by liberalizing the economy, had "stolen their issue."[221]

The role of the middle class was crucial in tilting the overall discourse on economic policies in favor of reforms in the 1990s. The Indian press and media controlled by private conglomerates, with a large readership and audience among the middle and upper classes, supported economic liberalization. Furthermore, while the urban middle class welcomed multinationals and global financial companies (metropolitan capital), the domestic industrial bourgeoisie was also less keen to resist the policy of opening up to international markets in 1991 because they had already tasted the fruits of collaboration with multinationals during the Rajiv Gandhi era.

Hence, in changing the overall outlook and orientation of the industrial community, Rajiv Gandhi's economic liberalization played a crucial formative role. The 1985 liberalization led to the weakening and fractionalization of the "protectionist" business association called the Federation of Indian Chambers of Commerce and Industry (FICCI).[222] It was the dominant business association until the mid-1980s. The FICCI had a vested interest in the "protectionist regime," as it had strong connections to the ruling Congress Party and the bureaucratic apparatus.[223] But, Rajiv Gandhi stopped patronizing the FICCI.

Rajiv Gandhi needed an organization that could support his reform program. Thus, he developed links with a newly emerging business association called the Association of Indian Engineering Industry (AIEI). The AIEI represented electronics, software, and computer industries. Rajiv Gandhi guided the transformation of AIEI into the Confederation of Engineering Industry (CEI). He used the organization as a platform to launch his reform program and gain support from India's business community.

In 1992, CEI transformed itself into an all-industry association called (CII) and became a developmentally oriented business association.[224] It provided strong support for globalization, deregulation, decontrol and delicensing in all sectors.[225] It developed close ties with the policy makers and actively participated in public debates on economic reform.[226] In the mid-1990s, the FICCI responded by rising to the challenge posed by CII to its very existence and launched a new membership initiative with a view to shake off its "old economic image."[227]

Furthermore, the market oriented reforms grew in legitimacy as they led to a strong economic recovery. Total GDP growth, which fell to 1.3 percent in the crisis year of 1991– 92, shot up to 5.1 percent in 1992–93 and 5.9 percent in 1993–94. Overall economic growth accelerated substantially thereafter and reached 7.8 percent in 1996–97.[228]

According to Arvind Panagariya, "Whereas the vocal supporters of reforms within India were rare during the 1980s, virtually every political party today recognizes the need for continued reforms. Differences on which reforms to undertake first and at what pace still exist, but few disagree that reforms must continue."[229] *The Hindu*, in its editorial predicted on the eve of the elections in 1996, that "political changes would not stop India from going ahead with the new economic policy."[230] It was proved correct.

As the BJP-led coalition came to power after the 1996 elections, the Finance Minister, Jaswant Singh, reiterated the government's commitment to the globalization path.[231] After the BJP government fell a few days later and the United Front formed the government, Prime Minister H. D. Deve Gowda stated, "Reversing economic liberalization is ruled out."[232]

The standardization of the policy discourse that emerged across the political parties and across states supports the hypothesis that the economic policy reforms of 1991 were made sustainable, due a shift in the discursive conditions whereby the overall balance in terms of pro-reform and anti-reform constituencies shifted in favor of the former.

Aseema Sinha argues that policy discourse after 1991 began to converge in favor of economic liberalization. She demonstrates that many states—most notably those that were previously opposed to any private sector reforms—declared new pro-liberalization policies in the 1990s. These include West Bengal, Kerala, Andhra Pradesh, and Tamil Nadu. She argues that state parties like CPI (M), AIADMK, DMK, and TDP, and leaders like Jyoti Basu (a communist leader of repute), Mulayam Singh Yadav (an avowed socialist leader), Mayawati, and

Chandrababu Naidu, declared their commitment toward making their states "industry friendly" in the 1990s.[233]

Prime Minister P.V. Narasimha Rao pointed out after the state elections of December 1994 that the opposition parties might differ on pace and details of reforms, but there was a national consensus on the broad direction of economic policy.[234] After the 1991 reforms there was an increase in the competition among the states to attract outside investment.[235]

Jyoti Basu, the Chief Minister of West Bengal, went on an investment seeking tour in June 1995. At a press conference in Washington he said that the reform would hold regardless of which party is in power in New Delhi after the next election.[236] In 1999, the West Bengal Finance Minister, Ashim Dasgupta, announced a new package of investment incentives.[237] Jyoti Basu approved the proposal to hand over the management of the state-run Great Eastern Hotel to a French hotel chain, the Accor Asia Pacific in 2000.[238]

Such an atmosphere made the economic reform process initiated in 1991 far more easy to sustain, than was the case in previous decades. Though all parties or coalitions of parties that formed the government at the center since the 1991 reforms embraced economic liberalization and none attempted to reverse the course of the reforms, there have been ongoing contentions over certain aspects of reforms.

In order to understand the nature of these contentions, it is important to note that there are three broad components of economic reforms. These are as follows:

1. *Currency devaluation, capital market reforms, trade liberalization, and the rationalization of investment rules*. These are supported by India's urban, industrial and ruling political elites. These are not opposed by interest groups, such as organized labor, trade associations, and farmers, although left-leaning intellectuals tend to oppose these reforms. However, the Marxist Chief Minister of West Bengal emphasized the "national consensus" on economic reforms with regard to deregulation, delicensing, and foreign investment to upgrade technology.[239]
2. *Social spending, social infrastructure, and safety nets*. The concern for this set of reforms emerged in the mid-1990s.[240] These are supported by masses, political elites, and leftist groups. These are not opposed by the urban middle class and industrial elites.

3. *Agricultural reforms, divestment and the privatization of public sector enterprises, and labor reforms*. These are crucial for the success of reform, but are opposed by interest groups such as organized labor and farmers.

The discursive conditions in India have allowed the government to move ahead with the first two kinds of reforms with greater ease, while political-economy problems exist regarding the third component. Yet, some reforms have been worked out even in this sensitive area. These include: an abolition of central government restrictions on the movement of agricultural commodities between government-defined zones; the freezing of prices on some types of fertilizer; the substantial abandonment of canalization of agricultural trade through state trading corporations (with some exceptions), and dismantling of quantitative restrictions on agricultural trade.[241]

The parties supported by the left-leaning intellectuals oppose reforms on ideological grounds. CPI (M) represents one parliamentary expression of opposition to economic reforms. However, Leela Fernandes cautions against a presumption that the left-oriented unions and parties will necessarily be able to transform social discontent sparked by liberalization into a broad cross-class movement.[242] This is evident from the fact that even Indian states governed by communist parties, such as the states of West Bengal and Kerala, began to pursue their own open economy policies by the second half of the 1990s.[243]

Political scientists have challenged earlier assumptions that political democratization necessarily produces opposition to reform. According to Adam Przeworski and Susan Stokes, even if economic reforms do expose certain segments of society to the costs of transition, these costs do not necessarily lead to political opposition to the reform in democratizing societies.[244] This is because, argues Przeworski, the government can use "intertemporal interpretation" to shape public opinion and political responses to the policies of economic reform. For instance, economic decline can be explained away as a short term cost or a legacy of past policies.[245]

Furthermore, as Leela Fernandes points out, the power of the new middle class lies in its ability to manage the disjunctures of liberalization in ways that move us away from an easy assumption that the economic costs, or uncertainties, will necessarily lead to political opposition to reforms. In her view, "An anticipation of future benefits mediates the immediacy of political opposition to the economic disruptions or deterioration produced by reforms."[246]

However, it may be noted that, despite there being a broad consensus in policy circles that reforms must be carried forward, the economic reform process has fallen prey to a peculiar kind of politics that creates an "illusion of disagreement." The illusion of disagreement is created by the fact that the political parties oppose reforms when in opposition and push them forward when in office. In this process, "form" acquires primacy over "substance" and results in a slowing down of reforms.

For instance, when BJP was out of power, it argued for "reforming the reforms" and "Indianisation of reforms." It even supported the issues raised by the (anti-foreign) Swadeshi Jagran Manch (SJM) and allowed it to create public opinion against Congress policies.[247] However, when the BJP led coalition came to power, it pursued the policies which were not substantially different from Congress government's policies.[248] Now the "pro-reform wing" dominated and no heed was paid to what SJM was saying.

While in opposition, BJP and Shiv Sena (BJP's ally in Maharashtra) vowed to scrap the controversial Enron power project in Maharashtra, negotiated by the ruling Congress party.[249] But, when the BJP coalition formed a government on May 16, 1996, the very first decision taken, during the 13 days of its rule, by the Union Finance Minister Jaswant Singh, was to formally approve the counter-guarantee to the loans taken to set up the project.[250] When BJP was ousted from power at the end of May 1996, the United Front, supported by Cong (I) and CPI (M), formed the government and a passionate liberalizer, P. Chidambaram, was appointed as the Finance Minister. He proposed a bill to allow for the privatization of the insurance sector in 1997. This bill was vehemently opposed by the BJP (more particularly RSS and specifically those associated with SJM and BMS: Bhartiya Mazdoor Sangh, the BJP's labor wing). Talking about the Indianization of reforms, they argued for the initial opening up of the sector only to Indian private firms. However, when the BJP-led coalition captured power in 1998, it enthusiastically pushed through the bill, as originally proposed, sidelining the reservations of their affiliates.[251] Yashwant Sinha, the Finance Minister, even changed the meaning of the term Swadeshi.[252] He stated, "I think competition is the essence . . . .And therefore, swadeshi, globalizer, and liberalizer are not contradictions in terms. I personally think that globalization is the best way of being Swadeshi."[253]

When the second Vajpayee government fell after 13 months (from March 28, 1998 to April 17, 1999), L. K. Advani, the Home Minister, assured that the BJP would pursue globalization with greater intensity if returned to power.[254] Keeping its commitment, the Vajpayee government took the reform process to new heights after its return to power in October 1999. While the first budget of the NDA government presented by Finance Minister Yashwant Sinha in June 1998 was termed a Swadeshi budget,[255] Sinha, in his 1999 budget, spoke of a second generation of economic reforms.[256]

This, however, was not the Finance minister's innovation, but a product of ideational change at the international level. The economic reforms in the early 1990s concentrated on policies, not institutions.[257] The initial objective was growth without worsening income distribution, not growth with equity. Hence, these reforms failed to deal with the structural causes of poverty; as a result,by the mid-1990s, there was a greater recognition of institutional issues.

Development economics recognized the crucial significance of institutions in ensuring that the economy functions effectively. Moises Naim termed the institutional reforms "second-generation reforms."[258] These included a role for the state in creating and maintaining effective institutions, in providing public goods, internalizing externalities, correcting income distribution, providing decent infrastructure, creating a stable and predictable macroeconomic, legal and political environment, and a strong human resource base.

Thus, during 1999–2004, the BJP-led coalition tried to systematically accelerate the second-generation reforms.[259]Arun Shourie took over as the Union Minister of Disinvestment in 2000 and took a serious turn toward the privatization of various government-owned enterprises. This involved a move from the divestment of shares/equity in the public enterprises to outright privatization.

Now, it was the turn of the Congress government to oppose the economic policies of BJP led coalition. The same party that had championed the cause of aggressive privatization now severely criticized the privatization policies of the NDA government on the grounds that they were privatizing profit-making firms. Some of the coalition members also joined the criticism, especially DMK.[260] Although the agenda could be not be pushed as forcefully as it was originally envisaged, yet, as Arvind Panagariya points out, "in terms of the reach of reforms, this period matched the first three years of the Rao government. The shift in the growth rate from 6 percent to more than 8 percent during 2003–07 must be attributed largely to these reforms."[261]

On May 22, 2004, the NDA was defeated and the UPA formed the government. The press widely attributed it as a victory of UPA's "Aam Admi" (common man) slogan, over NDA's focus on "India Shining" policies that neglected the poor. However, while part of the reason was that DMK, with its 16 members, decided to desert the NDA and join the UPA,[262] the major reason, as pointed out by Bhagwati and Panagariya was the "revolution of rising expectations," which NDA could not fulfill.[263] Their thesis is that the anti-incumbency vote was triggered by the possibilities opened by reforms. Since the liberal reforms demonstrated that fast growth and poverty alleviation were possible, voters expected politicians to bring about rapid improvements in their economic condition. When they failed, they were voted out of power. Thus, the major consideration for the re-election of incumbents in Indian electoral politics in the post-reform era is their record of "economic performance."

Though the new UPA government depended on the outside support of the Left Front parties and was bound by the National Common Minimum Program, which ruled out labor market reforms, in many crucial areas, the reform process kept moving forward. Growth during UPA rule (2004–09) zoomed to 8.5 percent per year, in contrast to the 5.7 percent average during 1999–04. In a confirmation of the Bhagwati-Panagariya thesis, the UPA was re-elected in the 2009 elections.

It is important to point out that the consensus against a statist, centrally directed command economy in India has been accompanied by a "homegrown version" of economic reforms. Though there is a consensus on removing physical controls and replacing them with non-discriminatory controls, and though there is also universal disappointment with public enterprises, there is no public movement in favor of imposing cuts on welfare provisions by the government, as was the case in the UK and the US in the late 1970s and early 1980s. There is a strong case being made in India for removing demand constraints.[264]

Thus, the emphasis has been on increasing public investment, rather than rolling it back. In addition, there is a general agreement to enact "reforms with a human face" and provide greater funding for public welfare.[265]

The *Economic Survey* (2002–03) of the Government of India stated that "the ongoing economic reforms have a human face and, in pursuance of the commitment towards development of human resources and enhancement of human well-being, additional resources for the social services sector are being allocated by the Government. Suitable targets for the reduction of poverty, hunger, mortality and illiteracy have also been incorporated in the Tenth Five Year Plan (2002–07)."[266]

Here, ideational change at the international level played a role. Until the mid-90s, Amartya Sen, who had been stressing the importance of social sector development since early 1980s,[267] was overlooked because of his outspoken criticism of the Western model of economic growth. But, as it became clear that the Latin American countries that adopted this model produced unintended consequences in the mid-1990s, and the supporters of the Washington consensus policies began to look for the causes behind what they called "the surprises of the 1990s,"[268] his work seemed to make sense. He received the Nobel Prize for Economics in 1998 for his contribution to welfare economics. Consequently, his emphasis on major investments in social sector development as a part of market reforms, received international recognition. This view now forms the basis of the "Washington Consensus-II."[269] Thus, ideational change at the international level in recent years favors economic reforms with crisis proofing and measures to empower the poor. This has added to the legitimacy of economic reforms.

In summary, the discourse in favor of economic reforms in India has survived the widest range of criticisms and objections. The discursive dominance of market reforms, albeit with a human face, has now crossed a threshold, resulting in near unanimity regarding their irreversibility. No political party is willing to disrupt the momentum of economic reforms and the resulting economic growth and poverty reduction. The depth of the discursive dominance, a sweeping gestalt shift, was revealed by the mature response of the Indian political leadership to the global financial crisis of 2008. There were no calls to reverse the reform process or bring socialism back.

NOTES

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1. Jagdhish Bhagwati, "India's Economic Reforms and Development," in Isher Judge Ahluwalia and I. M. D. Little, eds., *India's Economic Reforms and Development* (New Delhi: Oxford University Press, 1998), p. 35.
2. Mahendra Prasad Singh, "India's National Front and United Front Coalition Governments: A Phase in Federalized Governance," *Asian Survey* Vol. 41, No. 2 (2001), p. 350.
3. Barbara Stallings, "International Influence on Economic Policy: Debt, Stabilization, and Structural Reform," in Stephan Haggard and Robert R. Kaufman, eds., *The Politics of Economic Adjustment* (New Jersey: Princeton University Press, 1992), pp. 41–88; Stephan Haggard and Sylvia Maxfield, "The Political Economy of Financial Internationalization in the Developing World," in Robert O. Keohane and Helen V. Milner, eds., *Internationalization and Domestic Politics* (New York: Cambridge University Press, 1996); and Joan M. Nelson, *Economic Crisis and Policy Change* (Princeton University Press: Princeton, 1990).
4. See Roy W. Bahl, "Implementation Rules for Fiscal Decentralization," in M. Govinda Rao, ed., *Development, Poverty and Fiscal Policy: Decentralisation of Institutions* (New Delhi: Oxford University Press, 2002), p. 276. In fact, the "linear model" of the policy process, commonly followed by the major development agencies, believes that once a policy decision was made, execution should follow, and that lack of success should be blamed on "lack of political will." For a criticism of this model, see J.W. Thomas and M.S. Grindle, "After the Decision: Implementing Policy Reforms in Developing Countries," *World Development* Vol. 18, No. 8 (1990), p. 1163–81.
5. Rahul Mukherji, "India's Aborted Liberalization-1966," *Pacific Affairs* Vol. 73, No. 3 (2000), pp. 375–92.
6. David B. H. Denoon, "Cycles in Indian Economic Liberalization 1966–1996," *Comparative Politics* Vol. 31, No. 1 (1998), pp. 46, 48–54.
7. Rob Jenkins, *Democratic Politics and Economic reforms in India* (Cambridge: Cambridge University Press, 1999), pp. 172–207; Dalip S. Swami, *The Political Economy of Industrialization: From Self-reliance to Globalization* (New Delhi: Sage, 1994); Amit Bhaduri and Deepak Nayyar, *The Intelligent Person's Guide to Liberalization* (New Delhi: Penguin Books, 1996); and Public Interest Research Group (PIRG), *Structural Adjustment: Who Really Pays?* (Delhi: PIRG, 1992), p. 44.
8. A dominant social discourse is one that survives the widest range of criticisms by the proponents of the alternative discourse in various forums and media. A complete consensus is not necessary, not even desirable because, a discursive democracy in a pluralistic society embraces difference and dissent. Thus, a winning discursive formation or discourse is all that is required. See John S. Dryzek, *Deliberative Democracy and Beyond: Liberals, Critics, Contestations* (Oxford: Oxford University Press, 2000), p. 175; and Frank Fischer, *Reframing Public Policy: Discursive Politics and Deliberative Practices* (Oxford: Oxford University Press, 2003), pp. 182–86.
9. Rahul Mukherji asserts, "In 1991, the pro-liberal executive opened India up to trade and investment aided by a BOP crisis; in 1966, a foreign exchange crisis did not lead to sustained liberalization when executive orientation was just the opposite." Rahul Mukherji, "India's Aborted Liberalization-1966," p. 376.
10. Classical pluralists, like Arthur Bentley, regarded the state as just a "weathervane." Policy change was fully explained by the pressures on it (*The Process of Government*, Chicago: University of Chicago Press, 1908). Thus, governmental action is influenced

by public pressures. See Jean Dreze and Amartya Sen, *India: Economic Development and Social Opportunity* (New Delhi: Oxford University Press, 1995).

11. According to Rahul Mukherji, Indira Gandhi drove into devaluation because of "financial need rather than a pro-trade orientation" and drove out of it because she was not a "convinced liberalizer" (Mukherji, "India's Aborted Liberalization-1966," p. 379, 381). David Denoon, in sharp contrast, argues that the liberalization was an outcome of the implicit acknowledgement on the part of the executive, in that its micromanagement was inhibiting economic performance. See David B. H. Denoon, "Cycles in Indian Economic Liberalization 1966–1996," p. 46.
12. It may be noted that the empirical material presented in Mukherji's article has nothing to do with proving Indira Gandhi's convictions. The empirical content is all about public pressure (Mukherji, "India's Aborted Liberalization-1966,"pp. 382–84). Thus, Mukherji's article itself does not support the author's assertion of the primacy of the executive's conviction/orientation as a key variable that determines public policy making. This variable is subordinated to "public pressure." The author uses two definitions of executive orientation: executive orientation as executive conviction (p. 376, 381, 391) and executive orientation as "executive's preference . . . with an incentive to increase its tenure in office" (p. 381). While the first definition is contradicted by the "public pressure" based analysis of the executive's actions in 1966, the second definition cannot explain the executive's action in 1991.
13. Between 1964 and 1967, power within the ruling Congress Party was held by a collection of state leaders, commonly called the Syndicate. See Michael Brecher, *Nehru's Mantle: The Politics of Succession in India* (New York: Frederick A. Praeger, 1966); Stanley A. Kochanek, *The Congress Party of India: The Dynamics of One-Party Democracy* (Princeton: Princeton University Press, 1968); Lloyd I. Rudolph and Susanne Hoeber Rudolph, *In Pursuit of Lakshmi: The Political Economy of the Indian State* (Chicago: The Chicago University Press, 1987); and Francine R. Frankel, *India's Political Economy: 1947–2004* (New Delhi: Oxford University Press, 2005). PM Gandhi won her struggle for power against the Syndicate by successfully painting herself as progressive and the Syndicate as reactionaries (on this, see Frankel, *India's Political Economy*).
14. Rudolph and Rudolph, *In Pursuit of Lakshmi* (see note 13 above).
15. Rob Jenkins, *Democratic Politics and Economic reforms in India* (Cambridge: Cambridge University Press, 1999), pp. 172–207.
16. Douglass C. North, *Institutions, Institutional Challenge and Economic Performance* (Cambridge: Cambridge University Press, 1990); and Hernando De Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York: Bantam Press, 2000).
17. See Ian A. Clark, *Legitimacy in International Society* (New York: Oxford University Press, 2005), p. 193.
18. Edward Said summarizes Foucault's notion of "discursive formation" with the example that "what enables a doctor to practice medicine or a historian to write history is not mainly a set of individual gifts but an ability to follow rules that are taken for granted as an unconscious a priori by all professionals" *Reflections on Exile and Other Essays*(Cambridge, Mass: Harvard University Press, 2000), p. 196.
19. Pramit Chaudhuri, "Economic Planning in India," in T. V. Sathyamurthy, ed., *Industry and Agriculture in India since Independence* (New Delhi: Oxford University Press, 1995) pp. 94–115.
20. Sunita A. Parikh and Barry R. Weingast, "Partisan Politics and the Structure and Stability of Federalism, Indian Style," *Working Paper* (SCID, Stanford University, 2003).
21. Even Great Britain, the United States, Germany, and France, all developed their industrial sector through a phase of heavy government intervention, of which the United States was the motherland of infant industry protection. See Mehdi Shafaeddin, *How Did Developed Countries Industrialize? The History of Trade and Industrial Policy: the case of Great Britain and the USA* (UNCTAD: Geneva, 1998).

22. See interview with Manmohan Singh in V. N. Balasubramanyam, *Conversations with Indian Economists* (Basingstoke and London: Palgrave, 2001), p. 91; also see Pranab Bardhan, *The Political Economy of Development in India* (New Delhi: Oxford University Press, 1998), p. 279.
23. See Pulapre Balakrishnan, "Recovery of India: Economic Growth in the Nehru Era," *Economic and Political Weekly* Vol. 42, No. 45 (2007), pp. 52–66. Studies indicate that targeted patronage distribution was negligible during the Nehru era, when compared to extensive and targeted patronage distribution during Indira Gandhi's era. See Vadilal Dagli, *A Profile of Indian Industry* (Bombay: Vora, 1970); and S. N. T. Sudhanshu, *Industrial Licensing Policy* and *Growth of Industries in India* (New Delhi: Deep and Deep, 1986). It has been estimated that the cost of rent seeking in 1960–61 was 7.3 percent of GNP, see Anne O. Krueger, "The Political Economy of the Rent-seeking Society," *American Economic Review* Vol. 64, No. 3 (1974), pp. 291–303; whereas the cost of rent seeking in 1980–81 was 45 percent of GNP. See Sharif Mohammad and John Whalley, "Rent Seeking in India: Its Cost and Policy Significance," *Kyklos* Vol. 37 No. 2 (1984), pp. 387–413.
24. The economic philosophy of India evolved under elite supervision. However, it is misleading to think that elites can rally public opinion behind "any" doctrine or idea. A political party's or a leader's worldview prevails only when "it is identified with an epoch and when its doctrine, ideas, methods, its style so to speak, coincide with those of the epoch. . . . domination is a question of influence rather than strength." See Maurice Duverger, *Political Parties: Their Organization and Activity in the Modern State* (New York: John Wiley, 1963), p. 308. Thus, the elites meet with unprecedented success only when their ideas match the dominant discursive formations in the society.
25. For contentions on planning, see Frankel, *India's Political Economy,* pp. 70–77; Medha M. Kudaisya, *The Life and Times of G. D. Birla* (New Delhi: Oxford University Press, 2003), pp. 305–16; and Medha M. Kudaisya, "A Mighty Adventure: Institutionalizing the Idea of Planning in Post –colonial India," *Modern Asian Studies* Vol. 43, No. 4 (2009), pp. 939–78.
26. Sudipta Kaviraj, "Indira Gandhi and Indian Politics," *Economic and Political Weekly* Vol. 21 No. 38-39 (1986), p. 1698.
27. Jawaharlal Nehru mooted the idea of planning in his presidential address to the Indian National Congress in 1936. The Great Bengal Famine of 1940 substantiated the need for developmental planning; the war experience further intensified faith in governmental intervention in economic life. Last, but not least, Labour's 1945 victory in Britain, the passing of the Employment Acts in the UK and the United States, and the 1945 Beveridge Report on *Full Employment in a Free Society,* reinforced the idea that state intervention was imperative for economic reconstruction. See Kudaisya, "A Mighty Adventure," pp. 940–41). Earlier on, the capitalist class of India, as a whole, had demonstrated their strong and serious commitment to planning in the final years of colonialism. See Rajat Ray, *Industrialization in India: Growth and Conflict in the Private Corporate Sector, 1900–1947* (New Delhi: Oxford University Press, 1982), p. 334.
28. Arvind Panagariya, *India: The Emerging Giant* (New Delhi: Oxford University Press, 2008).
29. Baldev Raj Nayar, cited in Paul. R. Brass, *The Politics of India since Independence* (New York: Cambridge University Press, 1994).
30. Samuel P. Huntington, *Political Order in Changing Societies* (Yale: Yale University Press, 1968), p. 22 and 83.
31. The term "party penetration of society" implies that there are party ties to other organizations that enable parties to influence mass opinion and behavior in a variety of ways. See Alan Ware, *Citizens, Parties and the State: A Reappraisal* (Cambridge: Polity Press, 1987), p. 196.
32. Bhiku Parekh, "Nehru and the National Philosophy of India," *Economic and Political Weekly* Vol. 26 No. 1-2 (1991), pp. 35–48.

33. Hilton L. Root, *Small Countries, Big Lessons: Governance and the Rise of East Asia* (London: Oxford University Press, 1996) p. 117.
34. Lloyd I. Rudolph and Susanne Hoeber Rudolph, *In Pursuit of Lakshmi*; Paul. R. Brass, *The Politics of India since Independence*; and Frankel, *India's Political Economy*.
35. Deepak Lal, *The Hindu Equilibrium: India c. 1500 B.C.–2000 A.D* (New Delhi: Oxford University Press, 2005), p. 259.
36. C. H. Philips, *The Evolution of India & Pakistan 1858–1947 - Select Documents on the History of India & Pakistan 1858–1947* (London: Oxford University Press, 1964), p. 697.
37. Frankel, *India's Political Economy,* p. 13.
38. Everett E. Hagen, *The Economic of Development*, (Homewood, IL:Richard D. Irwin Inc., 1975), p. 194–215.
39. Karl Polanyi, *The Great Transformation: Political and Economic Origins of Our Time* (Boston: Beacon, 1944).
40. Karl Mannheim, *Man and Society in an Age of Reconstruction* (London: Routledge & Kegan Paul, 1940); J. A. Schumpeter, *Capitalism, Socialism and Democracy* (London: Allen and Unwin, 1943).
41. Gunnar Myrdal, *Asian Drama: An Inquiry into the Poverty of Nations* (New York: Pantheon, 1968); Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass: Harvard University Press, 1962); Huntington, *Political Order in Changing Societies.*
42. Raúl Prebisch, *The Economic Development of Latin America and Its Principal Problems* (New York: United Nations, 1950).
43. John Ruggie, "International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* Vol. 36 No. 2 (1982), pp. 379–415; and Jonathan Kirshner, "Keynes, Capital Mobility and the Crisis of Embedded Liberalism," *Review of International Political Economy* Vol. 6, No. 3 (1999), pp. 313–37.
44. Kenneth W. Dam, *The GATT: Law and International Economic Organization* (Chicago: University of Chicago Press, 1970), p. 227.
45. Anne 0. Krueger, *Foreign Trade Regimes and Economic Development: Liberalization Attempts and Consequences* (Cambridge, MA: Ballinger, 1978), p.15.
46. Krueger, *Foreign Trade Regimes and Economic Development*, p.16.
47. Frankel, *India's Political Economy,* p.148.
48. John P Lewis, *QuietCrisis in India: Economic Development and American Policy*, (Brooking Institution: Washington DC, 1962), pp. 208–09.
49. Robert L. Hardgrave and Stanley A. Kochanek, *India: Government and Politics in a Developing Nation.* pp. 418–20.
50. Bhiku Parekh, "Nehru and the National Philosophy of India," pp. 35–48.
51. Nehru's visit to China in October 1954 and Soviet Union in February 1955, as well as an upsurge in international academic support to planning for economic development, served as a turning point. From then on, he began to stress socialism once again. On his return from China, he turned down G. D. Birla's pig iron and steel projects, which he had promised to consider just before the visit. Nehru's reasons for stressing planning and the public sector are detailed in the several volumes of his speeches (New Delhi: Publications Division, 1958 onwards). In March 1955, the Imperial Bank of India was nationalized, followed by the nationalization of life insurance companies. The Industrial Policy Resolution (IPR) of 1956 widened the scope for the public sector expansion, which formed the basis of the Second Five Year Plan (1956–61). The Draft Plan Frame was prepared by Professor P.C. Mahalanobis, Nehru's personal economic adviser.
52. Arthur M. Jr. A Schlesinger, *A Thousand Days: John F Kennedy in the White House* (Boston: Houghton Mifflin, 1965), pp. 437–40.
53. George Rosen, *Western Economists and Eastern Societies: Agents of Change in South Asia, 1950–1970* (Baltimore MD: John Hopkins Press, 1985).

54. Peter Bauer, "*B.R. Shenoy*: *Stature and Impact*," *Cato Journal* Vol. 18, No. 1 (1998), p. 6.
55. Some scholars have argued that the death of Patel in 1950 was the turning point that allowed Nehru to change his approach in 1955. See for example, Rahul Mukherji, "The State, Economic Growth, and Development in India," *India Review* Vol. 8 No.1 (2009), p. 84. This contention however, trivializes the dynamics of transitions in public policy making. In fact, the evidence gathered in the present article suggests that Nehru's support for the liberal view prior to 1955 and his emphasis on socialism after that was determined by distinct historical occurrences and their socio-economic and political dynamics.
56. The Indian business class supported the struggle for independence during its last phase, probably anticipating the long term gains of supporting the Indian National Congress, even if it meant giving up profits in the short run. See Mukherji, "The State, Economic Growth, and Development in India," p. 84.
57. Parekh, "Nehru and the National Philosophy of India."
58. Sarvepalli Gopal, *Jawaharlal Nehru 1947–1956 Volume-II* (New Delhi: Oxford University Press, 1979).
59. See *Constituent Assembly (Legislative) Debates*, February 17, 1948.
60. Vivek Chibber, *Locked in Place: State Building and Late Industrialization in India* (Princeton: Princeton University Press, 2003), Ch. 6.
61. Sarvepalli Gopal, *Jawaharlal Nehru 1947–1956 Volume-II*; and William Brian Reddaway, *The Development of the Indian Economy* (London: George Allen and Unwin, 1962).
62. Sarvepalli Gopal, *Jawaharlal Nehru 1947–1956 Volume-II*, pp. 373–4.
63. Note that Nehru's ambivalence eventually irked socialists and liberals, causing both groups to leave Congress. The socialists formed the "Praja Socialist Party" in March 1948, when Nehru stopped emphasizing socialism. The liberals formed the "Swatrantra Party" in August 1959, after Nehru re-embraced socialism and adopted the import substitution industrialization strategy during the 1957 crisis. Nehru comes across as a thinker who consistently contradicted himself. For instance, he famously said "profit is a dirty word," see Gurcharan Das, *India Unbound* (New York: Knopf, 2001), p. 171, but also stated, "I therefore suggest that we should give them (private enterprise) a fair chance and ask them to make a fair profit." Mohammad Shabbir Khan, *Jawaharlal Nehru, The Founder of Modern India: The Architect of Indian Planning for Political, Economic, and Social Structure* (New Delhi: Ashish Pub. House, 1989), p. 76.
64. Michael Edwardes, *Nehru, A Political Biography* (London: Penguin Books, 1971), p. 260.
65. Shashi Tharoor, *Nehru: The invention of India* (New Delhi: Penguin, 2003), p. 179.
66. Nehru's choice of the strange term "socialistic," rather than "socialist," was intriguing and perhaps intended not to frighten his right-wing critics. See Parekh, "Nehru and the National Philosophy of India," p. 48.
67. Brecher, *Nehru's Mantle: The Politics of Succession in India*, p. 300.
68. G. Balachandran, *The Reserve Bank of India: 1951–1967* (New Delhi: Oxford University Press, 1998), Chapter 7, p. 658.
69. Public Interest Research Group (PIRG), *The World Bank and India* (New Delhi: PIRG, 1995).
70. The huge trade deficit of Rs 632 crores in 1957 was converted into a surplus of Rs 16.07 crores in 1958. See, S. K. Taneja, *India and International Monetary Management*, (Sterling: New Delhi, 1976). The budgetary deficit of Rs 458 crores was turned into a surplus of Rs 177 crores in 1960-61. See M.L. Shastry and G. R. Reddy, *Centre State Financial Relations* (New Delhi: Concept, 1988), p. 376.
71. see Morarji Deasi's 1961 budget speech at : http://www.saraltaxoffice.com/resources/budget-speeches.php
72. David B. H. Denoon, "Cycles in Indian Economic Liberalization 1966–1996," p. 45.
73. K. C. Suri, *Parties under Pressure: Political Parties in India since Independence* (CSDS: New Delhi, 2005), p. 31.

74. Before Mrs. Indira Gandhi, Shastri began the process of economic liberalization and was keen on devaluation without the stimulus of a crisis. See I. G. Patel, *Glimpses of Indian Economic Policy* (New Delhi: Oxford University Press, 2003); and Medha M. Kudaisya, "Reforms by Stealth," *South Asia* Vol. 25, No. 2 (2002), pp. 205–29. However, as Rahul Mukherji demonstrates, "the promotion of trade may not have been easy for Shastri because of the views of the majority of Indian businesses, intellectuals, and political elite at that time." See Mukherji, "The State, Economic Growth, and Development in India," p. 86.
75. Frankel, *India's Political Economy,* Chap. 8.
76. M.L. Shastry and G. R. Reddy, *Centre State Financial Relations,* pp. 376–77.
77. Lewis, *Quiet Crisis in India*, pp. 48–53, 151.
78. Girilal Jain, "Freezing the Status Quo: Consequences of the Nehru Model," *Times of India*, March 7, 1974, p. 8.
79. D. Rondinelli, *Development Projects as Policy Experiments* (New York: Routledge, 1993).
80. Frankel, *India's Political Economy,* p. 256.
81. Robert L. Hardgrave and Stanley A. Kochanek, *India: Government and Politics in a Developing Nation*, p. 373.
82. David B. H. Denoon, "Cycles in Indian Economic Liberalization 1966–1996," pp. 45–53.
83. Robert W. Oliver, *George Woods and the World Bank* (Boulder, Co: Lynne Rienner, 1995), p. 141.
84. Ofer Gur, "Soviet Economic Growth: 1928–1985," *Journal of Economic Literature* Vol. 25, No. 4 (1987), p. 1778.
85. Yingi Qian, "The Process of China's Market Transition (1978–98):The Evolutionary, Historical, and Comparative Perspectives," *Journal of Institutional and Theoretical Economics* Vol. 156, No. 1 (2000), pp. 151–71.
86. Bertram M. Groos, "National Planning: Findings and Fallacies," *Public Administration Review* Vol. 25, No. 4 (1965), p. 263.
87. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).
88. R. F. Kahn, "Memorandum 19," in *Committee on the Working of the Monetary System, Vol. 3* (London: Her majesty's stationery Office, 1960); and N. Kaldor, "Memorandum 20," in *Committee on the Working of the Monetary System Vol. 3* (London: Her Majesty's Stationery Office, 1960).
89. James M. Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Ann Arbor, MI: University of Michigan Press, 1962).
90. Wallace Oates, "An Essay on Fiscal Federalism," *Journal of Economic Literature* Vol. 37, No. 3 (1999), pp. 1120–49.
91. Public Interest Research Group (PIRG), *The World Bank and India* (Delhi: PIRG, 1995) Chap. 5.
92. Balachandran, *The Reserve Bank of India*, p. 689.
93. Frankel, *India's Political Economy*, p. 323.
94. Public Interest Research Group (PIRG), *The World Bank and India*, Chap 5; and Frankel, *India's Political Economy*, p. 322–3.
95. John Walton, "Debt, Protest, and the State in Latin America," in *Power and Popular Protest: Latin American Social Movements* (Berkeley: University of California, 1989) p. 308.
96. David Mason, "Modernization and Its Discontents Revisited," *Journal of Politics* Vol. 56, May (1994), pp. 400–24.
97. Frankel, *India's Political Economy,* p. 334.
98. Stephen P. Cohen, "India and America: An Emerging Partnership," paper presented to the Conference on the Nation-State System and transnational forces in South Asia, 8-10 December, 2000, Kyoto, Japan, p. 3.

99. See G. Balachandran, *The Reserve Bank of India*, 1951–1967 (Delhi: Oxford University Press, 1998), p. 685.
100. Mukherji, "India's Aborted Liberalization-1966," 383–84.
101. Frankel, *India's Political Economy: 1947—-2004,* p. 392.
102. Denoon, "Cycles in Indian Economic Liberalization 1966–1996," p. 50.
103. B. L. Maheshwari, "Mid-Term Elections: Some Indications," *Economic and Political Weekly* Vol. 4, No. 9 (1969), pp. 441, 443–444.
104. Michelguglielmo Torri, "Factional Politics and Economic Policy: The Case of India's Bank Nationalization," *Asian Survey* Vol. 15, No. 12 (1975), p. 1087.
105. Jagdish Bhagwati and T.N. Srinivasan, *Foreign Trade Regimes and Economic Development: India*, (New York: Columbia University Press, 1975), Chap. 9.
106. For further details see Michelguglielmo Torri, "Factional Politics and Economic Policy: The Case of India's Bank Nationalization."
107. I. G. Patel, then secretary of the finance ministry, describes the event as follows: "Without any fanfare, she asked me whether banking was under my charge. On telling her it was, she simply said: 'For political reasons, it has been decided to nationalize the banks. You have to prepare within 24 hours the bill, a note for the Cabinet and a speech for me to the nation on the radio tomorrow evening. Can you do it and make sure there is no leak?' There was no pretence that this was not a political decision, and the message was clear that no argument from me was required" (Patel, *Glimpses of Indian Economic Policy,* p.135).
108. Frank Moraes described Delhi in the period after bank nationalization as resounding "with stories of small shopkeepers and taxi-drivers informing their more affluent patrons that with easy credit available for banks their indigence would be a thing of yesterday." Frank Moraes, *Witness to an Era: India 1920 to the Present Day* (London: Weidenfeld & Nicolson, 1973), p. 259.
109. Though G. D. Birla likened the MRTP Act to "Damocles sword" (see Kudaisya, *The Life and Times of G. D. Birla*, p. 20), a government commission found that, despite the ostensible objective to curb the growth of large houses through MRTP Act, the assets of the large houses increased quite substantially after 1969. See Ministry of Law and Company Affairs, *Report of the High-Powered Expert Committee on Companies and MRTP Acts* (New Delhi: Government of India Press, 1979), p. 249. The top five houses, or groups, in order of size were Tata, Birla, Mafatlal, Singhania, and Thapar. See Stanley A. Kochanek, "Briefcase Politics in India: The Congress Party and the Business Elite," *Asian Survey*, Vol. 27, No. 12 (1987), pp. 1278–301.
110. Kaviraj, "Indira Gandhi and Indian Politics," pp. 1699–700.
111. See H.K. Paranjape, "New Lamps for Old!: A Critique of the 'New Economic Policy'," *Economic and Political Weekly*, Vol. 20, No. 36 (1985), pp. 1513–22; Vijay Joshi and I. M. D. Little, *India: Macroeconomics and Political Economy: 1964–1991* (Washington, DC: The World Bank, 1994); P. N. Dhar, *The Evolution of Economic Policy in India: Selected Essays* (New Delhi: Oxford University Press, 2003); Robert L. Hardgrave and Stanley A Kochanek, *India: Government and Politics in a Developing Nation*, p. 373; Baldev Raj Nayar, *Globalization and Nationalism: The Changing Balance in India's Economic Policy, 19502000* (New Delhi: Sage, 2001); Baldev Raj Nayar, "When Did the "Hindu" Rate of Growth End?," *Economic and Political Weekly* Vol. 41, No. 19 (2006), pp. 1885–90; and Baldev Raj Nayar, *India's Globalization: Evaluating the Economic Consequences* (Washington: East-West Centre, 2006).
112. U. Vasudev, *Two faces of Indira Gandhi* (Vikas: New Delhi, 1977).
113. I. J. Ahluwalia, *Productivity and Growth in Indian Manufacturing* (Delhi: Oxford University Press, 1991).
114. Robert J. Gordon, ed., *Milton Friedman's Monetary Framework* (Chicago: University of Chicago Press, 1974).
115. F.A. Hayek, *The Road to Serfdom* (London: George Routledge& Sons, 1944).
116. Milton Friedman and Rose D. Friedman, *Free to Choose: A Personal Statement* (New York: Harcourt Brace Jovanovich, 1980).

117. Jagdish Bhagwati and Padma Desai, *India: Planning for Industrialization: Industrialization and Trade Policies since 1951* (London: Oxford University Press, 1970); Jagdish Bhagwati and Anne Kruege, eds., *Foreign Trade Regimes and Economic Development: A Special Conference Series on Foreign Trade Regimes and Economic Development* (New York: Cambridge University Press, 1974); Jagdish Bhagwati and T.N. Srinivasan, *Foreign Trade Regimes and Economic Development: India*.
118. During the early 1960s, the East Asian economies that were relatively poor began to grow miraculously from 1965 onward. Ironically, the pioneers of the development economies writing in the 1960s failed to take note of East Asian ascendancy. Hence, they did not include them as part of their list of economies most likely to succeed. It was only in the mid-1970s that it became clear to the development economics profession that these economies were on an ascendant path. See G. Hicks, "The Four Little Dragons: An Enthusiast's Reading Guide," *Asian Pacific Economic Literature* Vol. 3, No. 2 (1989), pp. 35–49.
119. Sebastian Edwards, "Openness, Trade Liberalization and Growth in Developing Countries," *Journal of Economic Literature* Vol. 31, No. 3 (1993), pp. 1358–93.
120. "Mrs. Gandhi's 20-point program of economic and social reforms, announced on July 1, was a popular and widely appreciated move . . . prospects that India would at last get off the no-growth rate of the past two or three years seemed to be bright. In fact, the Reserve Bank of India, in its annual report released in September, stated that a growth rate of between 5% and 6% in 1975–76 should be possible" (Norman D. Palmer, "India in 1975: Democracy in Eclipse," *Asian Survey* Vol. 16, No. 2, 1976, p. 101).
121. Manmohan Singh's 1962 Doctor of Philosophy thesis at Oxford, under the supervision of I.M.D. Little, had been among the first studies to criticize India's inward-oriented export policy (see Manmohan Singh, *India's Export Trends and Prospects for Self-Sustained Growth*, Oxford: Clarendon Press, 1964).
122. Arvind Panagariya, "India's Trade Reform," in *India Policy Forum Vol. 1* (Washington, DC: Brookings Institution Press, 2004), p. 5.
123. Reserve Bank of India [RBI], *Report on Currency and Finance 1975-76. Vol. 1* (Bombay: RBI, 1976), pp.198-201; P. N. Dhar, "A Decade of Reforms," *Economic and Political Weekly Vol.* 36, No. 5 (2001), pp. 23–24; Nayar, *India's Globalization: Evaluating the Economic Consequences*, p.12.
124. Joshi and Little, *India: Macroeconomics and Political Economy,* p. 56.
125. Frankel, *India's Political Economy*, pp. 552–3.
126. Gunnar Myrdal, *Asian Drama: An Inquiry into the Poverty of Nations* (New York: Pantheon, 1968).
127. The late Pulitzer Prize winning journalist, J. Anthony Lukas, conducted extensive interviews with people from all walks of life during 1975-76 and reported an overwhelming public support for emergency. See J. Anthony Lukas, "India Is as Indira Does," *New York Times* April 4, 1976. Acharya Vinoba Bhave praised the Emergency as *anushasanparva* (an era of discipline) that would be good for the health of the nation. See Geoffrey Ostergaard, *Nonviolent Revolution in India* (New Delhi: Gandhi Peace Foundation, 1985), p. 221. Mother Teresa, the Nobel Laureate for Peace, issued a public statement in support of the emergency. See Eileen Egan, *Such a Vision of the Street: Mother Teresa, the Spirit and the Work* (Garden City: Doubleday, 1985), p. 405. For justifications behind the overwhelming support for emergency see Bipan Chandra, *In the name of Democracy: J.P. Movement and the Emergency* (New Delhi: Penguin Books, 2003); and Khushwant Singh, *Why I Supported the Emergency: Essays and Profiles* (New Delhi: Penguin Books, 2009).
128. See Frankel, *India's Political Economy*, pp. 552–3.
129. It was the forced and ruthless vasectomy drive (male sterilization), rather than the Emergency *per se,* that turned the tide against Mrs. Gandhi. It became the major cause of public anger and the defeat of Congress (I) in the 1977 elections after the revocation of emergency. According to Myron Weiner, the primary target of the opposition leaders was the forced sterilization program. The *excesses of emergency,* as they were called, primarily referred to the ghastly episodes of forced sterilization (see Myron

Weiner, "Parliamentary Elections in India," *Asian Survey*, 17, 1977, pp. 621–22; see also Robert L. Hardgrave and Stanley A. Kochanek, *India: Government and Politics in a Developing Nation* (Boston: Thomson Wadsworth, 2008, p. 5).

130. India, by virtue of being a large country, allows for a comparative examination of the impact of the 1975–77 economic recovery during the Emergency on the states where forced sterilization was carried out and where no such attempt was made. Congress' performance in the latter group was spectacular. Congress (I) swept the post-emergency elections in those states where the vasectomy drive was either not implemented or implemented properly, i.e., on a voluntary basis. For instance, Congress (I) won the majority of seats in Andhra Pradesh (98 percent seats), Assam (77 percent), Karnataka (92 percent), and Kerala (55 percent). In Tamil Nadu, it improved its seat share from 23 percent to 36 percent. On the other hand, Congress (I) was routed in Haryana, Punjab, Bihar, Himachal Pradesh, Rajasthan, and Uttar Pradesh.
131. P. G. Thakurta and S. Raghuraman, *Divided We Stand: India in a Time of Coalitions* (New Delhi: Sage, 2007) assert that "in 1980, Indira Gandhi used the rise in onion prices during the Janata Party's tenure to devastating effect" (p. 135) and that "She strode back to power helped by the mileage the Congress extracted from the rising prices of onions" (p. 201).
132. Yingi Qian, "The Process of China's Market Transition (1978–98): The Evolutionary, Historical, and Comparative Perspectives," *Journal of Institutional and Theoretical Economics* Vol. 156, No.1 (2000), pp. 151–71.
133. Ofer Gur, "Soviet Economic Growth: 1928–1985," Journal *of Economic Literature* Vol. 25, No. 4 (1987), pp. 1767–833.
134. John Williamson, "What Washington Means by Policy Reform," in *Latin American Adjustment: How Much Has Happened?*, ed. John Williamson (Washington: Institute for International Economics, 1990), pp. 7–20.
135. David L. Lindauer and Lant Pritchett, "What's the Big Idea? The Third Generation of Policies for Economic Growth," *Economica* Vol. 3, No. 1 (2002), pp. 1–28.
136. Jessica Seddon Wallack, "Structural Breaks in Indian Macroeconomic Data," *Economic and Political weekly* Vol. 38, No. 41 (2003), pp. 312–15.
137. *Lok Sabha Debates*, July 23, 1980, 367–82.
138. The members of the economic policy team included I.G. Patel, R. Venkataraman, L.K. Jha, and Dr. Manmohan Singh.
139. Arvind Panagariya, *India: The Emerging Giant*; and Kenneth W. Stiles, *Negotiating Debt: The IMF Lending Process* (Boulder: Westview Press, 1991).
140. The IMF did not insist on a "structural adjustment" package, which would typically involve cutbacks in public expenditures. Arjun Sengupta speculates that perhaps Indian policy-makers convinced the IMF of the need to maintain public investments to accelerate economic growth. See Arjun Sengupta, *Reforms, Equity and the IMF* (Delhi: Har Anand Publications, 2001), Chap. 2.
141. Kaushik Basu, "The Budget: A Critique of its Rationale," *Economic and Political Weekly* Vol. 18, No. 12 (1983), pp. 446–447.
142. The Economic Reforms of the 1980s, unlike the reforms of the 1990s, have been characterized as pro-business, rather than pro-market, in character, favoring the interests of existing businesses, rather than new entrants. See Dani Rodrik and Arvind Subramania, "From 'Hindu Growth' to Productivity Surge: The Mystery of the Indian Growth Transition," *IMF Staff Papers* Vol. 52, No. 2 (2005), pp. 193–228. Thus, Indira Gandhi's liberalization initiatives during the 1980s primarily focused on "internal deregulation" and freeing the private sector from the regime of tight government control. See Atul Kohli, "Politics of Economic Growth in India, 1980–2005, Part II: The 1990s and Beyond," *Economic and Political Weekly* Vol. 41, No. 2 (2006), pp. 1361–70.
143. Frankel, *India's Political Economy*, p. 586.
144. See B. P. R. Vithal and M. L. Sastry, *The Gadgil Formula* (New Delhi: Manohar), p. 159–61. It is this fiscal profligacy that would later cause the economic crisis in 1991. See Montek. S. Ahluwalia, "Economic Reforms in India Since 1991: Has Gradualism Worked?" *Journal of Economic Perspectives* Vol. 16, No. 3 (2002), pp. 67–88. The

growth produced in the 1980s was unsustainable. Indira Gandhi used the vast public sector not for engineering development but for dispensing patronage to bind voters and interest groups to the Congress party's political cartel—a case of largess that cut into public investment and hurt industrial growth. See Atul Kohli, *State-Directed Development: Political Power and Industrialization in the Global Periphery* (Cambridge: Cambridge University Press, 2004); and Bardhan, *The Political Economy of Development.*

145. Atul Kohli, *Democracy and Discontent: India's Growing Crisis of Governability*, p. 314.
146. T. V. Sathyamurthy, "Introduction," in *Industry and Agriculture in India since Independence,* ed. V. Sathyamurthy, (New Delhi: Oxford University Press, 1995) pp. 29–30, 32.
147. Yoginder K. Alagh, "Growth Performance of the Indian Economy, 1950–89: Problems of Employment and Poverty," *Developing Economies* Vol. 30, No. 2 (1992), pp. 97–116.
148. Kohli, *Democracy and Discontent*.
149. Baldev Raj Nayar and T. V. Paul, *India in the World Order: Searching for Major Power Status* (Cambridge: Cambridge University Press, 2003), p. 196.
150. Nayar, *India's Globalization*, p. 13.
151. For achievements of Rajiv's liberalization see Mukherji, "The State, Economic Growth," pp. 88–89. For a detailed account of policy changes, see Frankel, *India's Political Economy;* and Panagariya, *India: The Emerging Giant*.
152. Kohli, *Democracy and Discontent*, pp. 316–17.
153. I.G. Patel stated that there was a consensus in "policy circles" (cited Panagariya, *India: The Emerging Giant*, p. 98), but this does not imply a discursive dominance of pro-liberal social discourse regarding the preferred path for economic development. In fact, Rajiv's move towards aggressive liberalization, including the omission of the word socialism from the budget speech, was made "in the absence of any political consensus for bypassing the public sector." See Frankel, *India's Political Economy,* p. 586.
154. Prabhat Patnaik, "On the Political Economy of Economic Liberalisation," *Social Scientist* Vol. 13, No. 7-8 (1985), pp. 3–17.
155. A.K. Bagchi, "Hijacking the Indian Economy," *The Herald Review* May 5-11, 1985; and Prabhat Patnaik, "On the Political Economy of Economic Liberalisation."
156. A.K. Bagchi, "Hijacking the Indian Economy"; and J. D. Pedersen, "Explaining Economic Liberalization in India: State and Society Perspectives," *World Development* Vol. 28, No. 2 (2000), pp. 265–82.
157. J. D. Pedersen, "Explaining Economic Liberalization."
158. A. K. Bagchi, "Does Political Buccaneering Pay?," *Mainstream* (May 15, 1985), pp. 26–31.
159. Mrinal Datta Chaudhuri, "The New Policy," *Seminar* (December, 1985), pp. 18–22.
160. Nayar and Paul, *India in the World Order*, p. 196.
161. It may be noted that reversal of 1985 liberalization was mild in comparison to the radical reversal of 1966 attempt as Rajiv Gandhi remained internally committed to economic liberalization. See Kohli, *Democracy and Discontent,* p. 335.
162. James Manor, "The Political Sustainability of Economic Liberalization in India," in *India: The Future of Economic Reform,*eds. Robert Cassen and Vijay Joshi, (New Delhi: Oxford University Press, 1995), p. 354.
163. Denoon, "Cycles in Indian Economic Liberalization 1966–1996," p. 51–52.
164. Frankel, *India's Political Economy: 1947–2004*, p. 587.
165. See Kohli, *Democracy and Discontent,* pp. 330–37.
166. Adam Smith cited in Robert L. Heilbroner, *The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers*, (Simon and Schuster: New York, 1953), pp. 19–27.
167. Rajiv Gandhi's view on the poverty issue was different. He argued that poverty can be "removed only through adoption of better technology and a giant leap to catch up with the rest of the world" (*Times of India*, Nov. 10, 1985).

168. Ashutosh Varshney, "Mass Politics or Elite Politics? India's Economic Reforms in Comparative Perspective," in *India in the Era of Economic Reforms,*eds. J. D. Sachs, A. Varshney, and N. Bajpai (New Delhi: Oxford University Press, 1999), pp. 222–60.
169. Jagdish N. Bhagwati, "Rethinking Trade Strategy," in *Development Strategies Reconsidered, eds.*John P. Lewis and Kallab. Valeriana, (New Brunswick, N.J: Transaction Books, 1986), p. 92.
170. See *Economic Times*, September 29, 1985.
171. Kothari, "Masses, Classes and the State," *Economic and Political Weekly* Vol. 33, No. 21 (1986), pp. 3–26.
172. Stanley A. Kochanek, "Regulation and Liberalization Theology in India," *Asian Survey* Vol. 26, No. 12 (1986), p. 1287.
173. See Editorial *EPW*, March 1, 1986.
174. Nirvikar Singh and T.N. Srinivasan, "Fiscal Policy in India: Lesson and Priorities," in Peter S. Heller and M. Govinda Rao, eds., *A Sustainable Fiscal Policy for India* (New Delhi: Oxford University Press, 2006) p. 387.
175. Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982).
176. Allan Drazen and Vittorio Grilli, "The Benefit of Crises for Economic Reforms," *The American Economic Review* Vol. 83, No. 3 (1993), pp. 598–607; M. Tommasi and A. Velasco, "Where Are We in the Political Economy of Reform," *Journal of Policy Reform* Vol. 1, No. 2 (1996), pp. 187–238.
177. Though the liberalization attempts of 1966 and 1985 seemed overwhelming in the context of the politically correct rhetoric of those times, which was unfriendly to liberalization, they were very limited and did not challenge the framework for licensing (import and investment) and controls (price and distribution). This framework was challenged by 1991 reforms.
178. According to Peter Hall, "First-order change is likely to display the features of incrementalism, satisficing, and routinized decision-making that we normally associate with the policy process. Second order change and the development of new policy instruments may move one step beyond in the direction of strategic action. Third-order change, in contrast, is likely to reflect a very different process, marked by radical changes in the overarching terms of policy discourse. First- and second-order change can be seen as cases of 'normal policymaking', namely of a process that adjusts policy without challenging the overall terms of a given policy paradigm. Third-order change is often a more disjunctive process associated with periodic discontinuities in policy" ("Policy Paradigms, Social Learning, and the State," *Comparative Politics* Vol. 25, No. 3, 1993, p. 280).
179. E. Sridharan, "Leadership Time Horizons in India: The Impact on Economic Restructuring," *Asian Survey* Vol. 31, No. 12 (1991), pp. 1200–13.
180. Thomas S. Kuhn, *The Structure of Scientific Revolutions* (Chicago: Chicago University Press, 1970), p. 112.
181. I. G. Patel, "New Economic Policies: A Historical Perspective," *Economic and Political Weekly* Vol. 27, No.1-2 (1992), pp. 41–52; Sanjay Baru, "New Economic Policy: Efficiency, Equity and Fiscal Stabilisation," *Economic and Political Weekly* Vol. 28, No. 15 (1993), pp. 713–15,717,719; Jagdish Bhagwati and T. N. Srinivasan, *India's Economic Reforms* (New Delhi: Ministry of Finance, Government of India, 1993); Joshi and Little, *India: Macroeconomics, 1964–1991;* Vijay Joshi and I. M. D. Little, *Indian Economic Reforms, 1991-2001* (New York: Oxford University Press, 1996); Arvind Virmani, "India: Crisis, Reform and Growth," *Economic and Political Weekly*, Vol. 32, No. 32 (1997), pp. 2064–7;Montek S. Ahluwalia, "India's Economic Reforms: An Appraisal," in *India in the Era of Economic Reforms,* eds. *Jeffrey Sachs, Ashutosh Varshney, and Nirupam Bajpai* (New Delhi: Oxford University Press, 2000), pp. 26–80; S. Chaudhuri, "Economic Reforms and Industrial Structure in India," *Economic and Political Weekly* Vol. 37, No. 2 (2002), pp. 155–62; and Arvind Panagariya, *India: The Emerging Giant*.

182. For a detailed analysis of the causes of the crisis and an overview of Indian macroeconomic policies, see Joshi and Little, *India: Macroeconomics and Political Economy, 1964–1991;* Vijay Joshi and I. M. D. Little, *Indian Economic Reforms, 1991–2001*;Montek. S. Ahluwalia, "Economic Reforms in India Since 1991: Has Gradualism Worked?," pp. 67–88; Montek S. Ahluwalia, "India's Economic Reforms: An Appraisal," pp. 26–80; and Jagdish Bhagwati and T. N. Srinivasan, *India's Economic Reforms*, (Ministry of Finance, Government of India: New Delhi, 1993; Nirupam Bajpai, "Economic Crisis, Structural Reforms, and the Prospects of Growth in India," *Discussion Paper* No. 530 (Cambridge: Harvard Center for International Development, 1996). Ranjit Sau questions the official thesis which links fiscal deficit to payments deficit in India. The basic problem, it is argued, is not just financial, but deep rooted in the real sector of the economy—in its technology, innovation, resource allocation, and management, that governs the growth of industrial productivity. See Ranjit Sau, "Making of a Payments Crisis: India 1991," *Economic and Political Weekly* Vol. 27, No. 33 (1991), pp. 1741–45. V. Cerra and S. C. Saxena demonstrate that overvaluation as well as current account deficits and investor confidence played significant roles in the sharp exchange rate depreciation. See Valerie Cerra and Sweta Chaman Saxena, "What Caused the 1991 Currency Crisis in India?,"*IMF Staff Papers*, 49 (2002), pp. 395–425.
183. From 1991 onwards the assumption of short term pains for long term gains became quite popular in media and academic publishing. In fact, as Jos Mooij and S. Mahendra Dev point out: "Throughout the period 1991-2002, there was a great belief in the "trickle down" mechanism. Even though initially the poor could be negatively affected, there was an explicit assertion that in the end economic growth would help them. The 1990 budget speech was still very critical of the 'trickle down' mechanism, but from 1991 onwards [the] belief . . . became again prominent in the thinking of the subsequent Finance Ministers" ("Social sector priorities: An analysis of budgets and expenditures in India in the 1990s," *IDS Working Paper* 164, Brighton, Sussex, UK: Institute of Development Studies, September 2002, p. 4).
184. Indian economy was able to cope with far more severe oil shocks in 1973 and 1979. Yet, it could not withstand the "mini-shock" of 1990, which followed the invasion of Kuwait by Iraq. See Amit Bhaduri and Deepak Nayyar, *The Intelligent Person's Guide to Liberalization*, (Penguin Books: New Delhi, 1996), p. 27. Thus, the mini oil shock simply exposed the fragility and vulnerability of India's economy created due to unsustainable macroeconomic policies over a prolonged period. See Joshi and Little, *Indian Economic Reforms*, p. 12.
185. Bhaduri and Nayyar, *The Intelligent Person's Guide to Liberalization*, p. 22.
186. Alfred Maizels, *Exports and Economic Growth in Developing Countries* (London: Cambridge University Press, 1968); Ian Little, Tibor Scitovsky, and Maurice Scott, *Industry and Trade in Some Developing Countries* (London: Oxford University Press, 1970); Jagdish Bhagwati, *Anatomy and Consequences of Exchange Control Regimes* (Cambridge: Ballinger, 1978); and Anne O. Krueger, *Foreign Trade Regimes and Economic Development: Liberalization Attempts and Consequences* (Cambridge, MA: Ballinger, 1978).
187. Bimal Jalan cautions that it is too simple to generalize that the interventionist state is incapable of formulating effective macro-economic policies. See Bimal Jalan, *India's Economic Crisis: The Way Ahead*, (Oxford University Press: New Delhi, 1991), pp. 1–35. Atul Kohli points out that the interventionist state in India did have some success in producing economic growth, industrialization, and a more vibrant private economy. However, the "the fragmented-multiclass state that India inherited and created" was so inefficacious that it limited the impact of state interventions and retarded the rate and pattern of industrialization. Kohli argues that the state versus market mindset is not useful in distinguishing various forms of state interventions. He shows that state intervention is efficient when it is characterized by market-reinforcing behaviour. See Atul Kohli, *State-Directed Development: Political Power and Industrialization in the Global Periphery* (Cambridge: Cambridge University Press, 2004), p. 221. Bhagwati

also insists on the necessity to design appropriate policy interventions to suit different kinds of market failure. Jagdish Bhagwati, cited in Terence J. Byres, "Introduction," *The Indian Economy: Major Debates since Independence,* in ed. Terence J. Byres (New Delhi: Oxford University Press), pp. 1–19.

188. T.N. Srinivasan, "Economic Liberalization and Economic Development: India," *Journal of Asia Economics* Vol. 7, No. 2 (1996), pp. 203–16.
189. Anne O. Krueger and Sajjid Chinoy, "Indian Economy in Global Context," *Economic Policy Reforms and the Indian Economy*, ed.in Terence J. Byres (New Delhi: Oxford University Press, 2002) pp. 9–46.
190. Ashok K. Lahiri, "Budget Deficits and Reforms," *Economic and Political Weekly* Vol. 35, No. 46 (2000), p. 4049.
191. Rathin Roy, "Riches amidst Sterility: Debates on Fiscal Policy," in *The Indian Economy: Major Debates since Independence*, ed. Terence J. Byres (New Delhi: Oxford University Press, 1995) pp. 335–82.
192. Frankel, *India's Political Economy,* p. 580.
193. Reserve Bank of India, *RBI Bulletin*, March 10, 1995.
194. Nirvikar Singh and T.N. Srinivasan, "Fiscal Policy in India: Lesson and Priorities," in *A Sustainable Fiscal Policy for India*, eds. Peter S. Heller and M. Govinda Rao (New Delhi: Oxford University Press, 2006) p. 387.
195. After taking into account inter-governmental adjustments, in 1980–81, the total expenditure of Center amounted to Rs 23,194 crores and that of the States Rs. 22,770 crores, totaling 37,879 crores. By 1990–91, the Central Expenditure had increased by nearly 5 times to Rs. 1,07,995 crores and the corresponding figures for the states was Rs. 91,242 crores totaling Rs. 163,673 crores. See Reserve Bank of India, *Report on Currency and Finance, Annual Issues*, 1981 and 1991.
196. Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992).
197. Robert P. Inman and Daniel L. Rubinfield, "The Political Economy of Federalism," in *Perspectives on Public Choice Theory: A Handbook*, eds. Peter S. Heller and M. Govinda Rao (New York: Cambridge University Press, 1996) pp. 73–105.
198. *India's Political Economy,* p. 580.
199. Panagariya, *India: The Emerging Giant*, p. 96.
200. See Jairam Ramesh, "Mahathir's Mantra," *India Today* May 21, 2001. Vanita Shastri has also noted the significant willingness for reforms among Indian policy makers. Vanita Shastri, "The Politics of Economic Liberalization in India," *Contemporary South Asia* Vol. 6, No. 1 (1997), pp. 27–56.
201. Jagdish Bhagwati and T. N. Srinivasan, "India's Economic Reforms," in *Understanding India's Economic Reforms*, eds. Raj Kapila and Uma Kapila (New Delhi: Academic Foundation, 1995) p. 82.
202. Panagariya, *India: The Emerging Giant*, p. 95.
203. Raja J. Chelliah, M. Govinda Rao, and Tapas Kumar Sen, "Issues before Tenth Finance Commission," *Economic and Political Weekly* Vol. 27, No. 47 (1992), pp. 2539–50.
204. V. G. Kulkarni, "The Middle Class Bulge," *Far Eastern Economic Review* Vol. 156, No. 2 (1993), pp. 44–46; Leela Fernandes, *India's New Middle Class: Democratic Politics in an Era of Economic Reform* (London: University of Minnesota Press, 2006).
205. Jagdish Bhagwati, *India in Transition: Freeing the Economy* (Oxford: Clarendon Press, 1993); and Paul. R. Brass, *The Politics of India since Independence* (New York: Cambridge University Press, 1994).
206. E. Sridharan, "The Growth and Sectoral Composition of India's Middle Class: Its Impact on the Politics of Economic Liberalization," *India Review* Vol. 3, No. 4 (2004), p. 405.
207. Fernandes, *India's New Middle Class,* p.38.
208. V. A. Pai Panandikar, "The Political Economy of Centre-State Relations in India," in *India's Economic Reforms and Development*, eds. Isher Judge Ahluwalia and I. M. D. Little (New Delhi: Oxford University Press, 1998), p. 392.

209. Mckinsey Global Institute, *The Bird of Gold: The Rise of India's Middle Class* (Washington DC: McKinsey Global Institute, 2007), p. 12.
210. E. Sridharan, "The Growth and Sectoral Composition of India's Middle Class"; Satish Deshpande, "Mapping the "Middle". Issues in Analysis of the "Non-Poor" Classes in India," in *Contested Transformations: Changing Economies and Identities in Contemporary India*, eds. M. E. John, P. V. Jha, and S. S. Jodhka (Delhi: Tulika Books, 2006) pp. 215–36; Martin Ravallion, *The Developing World's Bulging (but vulnerable) Middle Class* (Washington: The World Bank Development Research Group, 2009).
211. Jos Mooij and Stéphanie Tawa Lama-Rewal, "Class in Metropolitan India: The Rise of the Middle Classes," in *Governing India's Metropolises*, eds. Joël Ruet and Stéphanie Tawa Lama-Rewal (London: Routledge, 2009) pp. 81–104; Pranab Bardhan conceptualizes "middle class" as a part of the dominant coalition governing India ("A Political-Economy Perspective on Development," in *The Indian Economy: Problems and Prospects,* ed. Bimal Jalan (New Delhi: Penguin Books, 1992, p. 333)); Barbara Harriss-White calls it a powerful intermediary class regulating India's market economy (*India Working: Essays on Society and Economy*, Cambridge: Cambridge University Press, 2003, pp. 43–71); and Atul Kohli describes middle class as one of the influential constituency supporting liberalization ("The Politics of Economic Liberalization in India," *World Development* Vol. 17, No. 3, 1989, pp. 305–28).
212. In the 1960s and 1970s, the discursive conditions favored socialism and nationalization. The Swatantra Party, which did not favor this policy, lost its political relevance. The unwillingness of the Jana Sangh to adopt a more *laissez-faire* economic program during this period was most apparent in the reluctance of the party to form a pre-electoral coalition with the economically conservative Swatantra Party. The Jana Sangh merged with the Janata Party in 1977 and supported *limited liberalization* with continued support for an interventionist economic policy through the early 1980s, signifying the discursive climate of those times. The dominating view in 70s and 80s was in part inspired by the rising economies of South Asian countries.
213. Kohli, *Democracy and Discontent,* Chap. 11.
214. Kohli, *Democracy and Discontent,* Chap. 11.
215. M. L. Ahuja and Sharda Paul, *General Elections in India* (New Delhi: Associated Publishing House, 1992), pp. 177–83.
216. See Election Commission of India, *Report of the Ninth and Tenth General Elections to the Lok Sabha.*
217. Sudha Pai, "Caste and Communal Mobilisation in the Electoral Politics of UP," *Indian Journal of Political Science* Vol. LV, No. 3 (1994), pp. 307–20.
218. Pradeep Chhibber, "Who Voted for the Bharatiya Janata Party?," *British Journal of Political Science* Vol. 27, No. 4 (1997), pp. 631–39.
219. Stuart Corbridge and John Harriss, *Reinventing India: Liberalization, Hindu Nationalism and Popular Democracy* (London: Polity Press, 2000).
220. Paranjoy Guha Thakurta and Shankar Raghuraman, *Divided We Stand,* p. 467.
221. Pradeep Chhibber, "Who Voted for the Bharatiya Janata Party?," p. 657.
222. The internal fighting began in 1985 and culminated in 1987 with a split when the Bombay group within FICCI left the organization. See Stanley A. Kochanek, "Liberalization and Business Lobbying in India," *Journal of Commonwealth and Comparative Politics* Vol. 34, No. 3 (1996), pp. 155–73.
223. Stanley A. Kochanek, *Business and Politics in India* (Berkeley:University of California Press, 1974); Stanley A. Kochanek, "The Politics of Regulation: Rajiv's New Mantras," *Journal of Commonwealth and Comparative Politics* Vol. 23, No.3 (1985), pp. 189–211; Stanley A. Kochanek, "Regulation and Liberalization Theology in India," *Asian Survey* Vol. 26, No. 12 (1986), pp. 1284–308.
224. Aseema Sinha, "Understanding the Rise and Transformation of Business Collective Action in India," *Business and Politics* Vol. 7, No. 2 (2005), pp. 1–35; Vanita Shastri, "The Politics of Economic Liberalization in India," *Contemporary South Asia* Vol. 6, No. 1 (1997), pp. 27–56; Baldev Raj Nayar, "Business and India's Economic Policy Reforms," *Economic and Political Weekly* Vol. 33, No. 38 (1998), pp. 2453–68;

Baldev Raj Nayar, *Globalization and Nationalism: The Changing Balance in India's Economic Policy, 1950–2000* (Sage: New Delhi, 2001); and Stanley A. Kochanek, "The Transformation of Interest Politics in India," *Pacific Affairs* Vol. 68, No. 4, (1996), pp. 529–51.

225. Pedersen, "Explaining Economic Liberalization," p. 270.
226. Stanley A. Kochanek, "Liberalization and Business Lobbying in India," *Journal of Commonwealth and Comparative Politics* Vol. 34, No. 3 (1996), pp. 155–73.
227. Sinha, "Understanding the Rise," p. 22.
228. Though the growth rate decelerated to 4.8 percent in 1997–98 and remained at an average of 5.7 percent from 1997 to 2003, this did not have a delegitimizing impact on reforms, rather the mainstream view was that the deceleration was not due to reforms but despite reforms, and the reason was inadequate and weak reforms, improper sequencing and a slow and halting pace. See Montek S. Ahluwalia, "Lessons from India's Economic Reforms," in *Development Challenges in the 1990s - Leading Policymakers Speak from Experience*, eds. Timothy Besley and Roberto Zagha (Washington, DC & New York: World Bank and Oxford University Press, 2005), pp. 187–202.
229. Arvind Panagariya, "India's Economic Reforms: What Has Been Accomplished? What Remains to Be Done?," *ERD Policy Brief No. 2* (Manila: Asian Development Bank, 2001), p. 3.
230. See *The Hindu*, 8 May, 1996.
231. See *The Hindu*, 20 May, 1996.
232. Newsweek, 16 December, 1996.
233. Aseema Sinha, "The Changing Political Economy of Federalism in India: A Historical Institutionalist Approach," *India Review* Vol. 3, No. 1 (2004), pp. 43–45.
234. *Far Eastern Economic Review*, 2 Feb, 1995.
235. Ramesh Thakur, "The Politics of India's Economic Liberalisation Agenda," *Agenda* Vol. 3, No. 2 (1996), pp. 215–16.
236. *The Hindu*, 1 July, 1995.
237. Sumit Mitra, "Speedbrakers Ahead," *India Today,* February 24, 1999, p. 45.
238. Rajat Ray, "Two Decades of Left Rule," *Seminar* Vol. 497 (January 2001), pp. 25–27.
239. Thakur, "The Politics of India's Economic," p. 215.
240. Moises Naim, "Latin America: The Second Stage of Reforms," *Journal of Democracy* Vol. 5, No.4 (1994), pp. 32–48; Dani Rodrik, *Has Globalisation Gone Too Far?*, (Washington, D.C.: Institute for International Economics, 1997); and J. Williamson, "Our Agenda and the Washington Consensus," in *After the Washington Consensus*, eds. P. P. Kuczynski and J. Williamson (Washington, DC: Institute for International Studies, 2003) pp. 323–31.
241. Jenkins, *Democratic Politics and Economic*, p. 25.
242. Fernandes, *India's New Middle Class*, p. 203.
243. Sinha, "The Changing Political Economy," pp. 43–45.
244. Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (New York: Cambridge University Press, 1992); Susan Stokes, "Public Opinion and Market Reforms: The Limits of Economic Voting," *Comparative Political Studies* Vol. 29, No. 5 (1996), pp. 499–519.
245. Adam Przeworski, "Public Support for Economic Reforms in Poland," *Comparative Political Studies* Vol. 29, No. 5 (1996), pp. 520–43.
246. Leela Fernandes, *India's New Middle Class,* p. xx.
247. BJP and RSS are two different bodies with overlapping memberships. The former is concerned with capture and exercise of political power and hence is pragmatic. The latter is concerned with Hindu nationalist social movement and hence is more ideological. See Thomas Blom Hansen, "Hindutva and Capitalism," in *The BJP and the Compulsions of Politics in India*, eds. Thomas Blom Hansen and Christophe Jaffrelot (New Delhi: Oxford University Press, 2001) p. 306; Christophe Jaffrelot, *The Hindu Nationalist Movement and Indian Politics* (London: Hurst and Company, 1996); and

Achin Vanaik, "The New Indian Right," *New Left Review* Vol. 9, May-June (2005), pp. 43–67.
248. Zoya Hasan, "Introduction: Conflict Pluralism and the Competitive Party System in India," in *Party and Party Politics in India*, Zoya Hasan (New Delhi: Oxford University Press, 2002) p. 18; and Nayar, *Globalization and Nationalism,* p. 251.
249. "Power Down: A Major Blow to Rao's Reform Drive," *Asiaweek.com*, 18 August, 1995.
250. Thakurta and Raghuraman, *Divided We Stand*, p. 204 and 475.
251. Thakurta and Raghuraman, *Divided We Stand*, p. 86.
252. Swadeshi meant India for Indians, roughly. Thus Yashwant Sinha's definition irked the RSS lobby. In November 1998 RSS and SJM leader Dattopant Thengadi castigated Finance Minister Sinha at a public meeting and derogatorily dubbed him "incompetent" and "useless." See Thakurta and Raghuraman, *Divided We Stand*, p. 484.
253. Yashwant Sinha quoted in Nayar, *Globalization and Nationalism*, p. 252.
254. The Hindustan Times, 19 April, 1999.
255. This argument is unsustainable because the hike of 8 percent on all customs duties, due to which it was termed as a Swadeshi or India for Indians budget, was eventually rolled back. See Nayar, *Globalization and Nationalism*, p. 255. Furthermore, the fact that the same budget also reflected the compelling need for the government to assuage foreign investors to counter the impact of the economic sanctions imposed on India as a result of the nuclear tests conducted in May makes it difficult to sustain such an argument. See Thakurta and Raghuraman, *Divided We Stand*, p. 463.
256. The second generation reforms involved a comprehensive agenda of reforms in various sectors such as: telecommunications, transport, power, health, education, agriculture, international trade, foreign investment, and insurance. Broadly speaking, the Second Generation Reforms aimed at bring about structural changes in the Indian economy by carrying out land reforms, public sector enterprises reforms, financial and banking sector reforms and reforming labor laws, capital market, and competition policies.
257. Williamson, "Our Agenda," p. 329.
258. Naim, "Latin America," pp. 33–34.
259. Hasan, "Introduction: Conflict Pluralism," pp. 15–19; and Nayar, *Globalization and Nationalism, pp. 251–3*.
260. Thakurta and Raghuraman, *Divided We Stand*,
261. Panagariya, *India: The Emerging Giant*, p. 97.
262. Despite this, the verdict against NDA does not seem quite overwhelming in terms of vote share. NDA lost 89 seats but only 3.2 percent of votes cast. UPA gained 66 seats but lost 2.4 percent of its share of votes. This has been noted by Jos E. Mooij, "Introduction," in *The Politics of Economic Reforms in India*, ed. Jos E. Mooij (New Delhi: Sage, 2005) pp. 15–45.
263. Jagdish Bhagwati and Arvind Panagariya, "Great Expectations," *Wall Street Journal*, May 24, 2004.
264. Venugopal Y. Reddy, "Liberalization and Privatization of Public Enterprise in India," in *Public Enterprise at the Cross Roads: Essays in Honour of V .V. Ramanadham*, ed. Jos E. Mooij (London: Routledge, 1990) p. 108.
265. Baldev Raj Nayar, *The Myth of the Shrinking State* (New York: Oxford University Press, 2009).
266. Government of India, *Economic Survey (2002–03)*, p. 211.
267. Amartya Sen, *Poverty and Famines: An Essay on Entitlement and Deprivation* (Oxford: Clarendon Press, 1981); and Amartya Sen, *Resources, Values and Development* (Cambridge, MA: Harvard University Press, 1984).
268. World Bank, Economic Growth in the 1990s: Learning from a Decade of Reform (Washington, DC:World Bank, 2005).
269. P. P. Kuczynski, "Setting the Stage," in *After the Washington Consensus*, eds. P. P. Kuczynski and J. Williamson (Washington, DC: Institute for International Studies, 2003) pp. 21–32.