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Politics of Economic Liberalization in India

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Summary. — Attempts at "liberalizing" India's import-substitution model of development have had a mixed record. Some success in changing the policy regime highlights the role of a new technocratic leadership that has received support from both Indian business groups and from external aid agencies. Conversely, "popular sectors" within India — including the rank and file of the ruling party, the organized workers in the public sector, and the numerically significant middle and lower peasantry — have registered their opposition. While the government remains committed to liberalizing the economy, the momentum has slowed down and, given the pressures of electoral politics, a populist economic program has been simultaneously readopted. It appears that the marriage of political and economic liberalism may not be an easy one in countries like India.

1. INTRODUCTION

The capacity of different types of governments for facilitating economic change in the Third World has been a subject of enduring interest in comparative development studies. During the 1950s and the 1960s, this interest was evident in the debates over the developmental capacities of communist versus noncommunist political systems. More recently, the impressive economic performance of the newly industrializing countries (NICs), mainly of East Asia, but also of Latin America, has given rise to a challenging new idea: state induced, market-like competitiveness may be the secret for facilitating rapid economic growth. While the economists continue to analyze the economic components of this proposition, political analysts need to investigate the issue of the political prerequisites of economic policy choices. An important question for research is thus, what types of regimes are most likely to choose and to successfully pursue a market-oriented, liberal pattern of economic development?

The existing debates on this issue tend to veer toward one of two positions. A number of analysts have proposed that the observed association between the well organized, technically competent authoritarian regimes and the pursuit of a market-oriented development strategy is more than a mere association; that authoritarianism of a specific type may well be necessary for adopting a development strategy that strives to promote both domestic and international economic competition.[1] The logic of this proposition often rests in part on the need to contain political pressures generated by those who lose out in a market-oriented model of development, and in part on the need to provide political stability to attract investment. Conversely, other analysts have challenged this emphasis on structural constraints by highlighting various dimensions on which policy choice rests: ideology of the leaders rather than the nature of regime organization, it has been proposed, is a key determinant of economic policy choice; winners and losers of a market-oriented readjustment are difficult to predict and to identify: authoritarianism hardly guarantees political stability; and leaders with will and skill can push an economic program of their choice quite far.[2]

This essay analyzes some empirical materials from India that shed light on the broader question of how much room for economic policy choice a developing country leader has, especially in a democratic setting. India's leaders have over the last decade sought to liberalize that country's relatively controlled, import-substitution model of development. Initial steps in this direction were taken both by the Janata government (1977–80) and by Indira Gandhi

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during 1980–84. Since coming to power in late 1984, Rajiv Gandhi has made the liberalization of the economy a priority. Significant changes in the domestic political economy and some changes that alter India's links with the world economy have recently been introduced. These include easing of state control on such activities of national firms as entry into production, production decisions and expansion in size; lowering of corporate and personal income taxes; a long term fiscal policy that substitutes tariffs for import restrictions and assures business groups of future patterns of taxation; some devaluation; and lowering of import barriers on selected items.

These changes do not as yet add up to a dramatic change. A liberal model of development has not replaced the mixed economy model premised on state controls and import substitution. The legal and bureaucratic framework of a highly interventionist state remains intact; so do the numerous public sector activities and governmental restrictions on private economic activity. Nevertheless, policy reforms have been aimed at enhancing competitiveness and at broadening the scope of individual and corporate initiative within the old framework.

The purpose of this essay is not to assess the merits of these policy reforms. Serious debates on the issue of whether liberalization is the way for India to go have been underway for some time;[3] such discussions are also best carried out by policy-oriented economists. The purpose of the present essay rather is to analyze the political underpinnings of these economic policy changes. What political changes within India have created the preconditions for a shift in the development strategy? Are these changes primarily in the ideological realm, or do they also reflect a shifting balance of power among contending political actors? Why has the pace of reform been slow, piecemeal and even hesitant? What forces are constraining a decisive shift in development strategy? Aimed at answering these questions, this essay analyzes the recent role of the political elites and of interest groups in India's macroeconomic policy making. The analysis has obvious implications for an understanding of the process of India's economic liberalization. It also, however, sheds some light on the broader issue of political conditions under which economic liberalization of a controlled developing economy may or may not be undertaken.

It is argued below that the immediate and the most sustained push for liberalization has come from a group of technocratically inclined leaders that has come to control the levers of India's economic policy making. Business groups have, on balance, supported the government's attempts to liberalize the domestic economy. However, they have opposed any serious attempt at international opening. For reasons to be specified, professional and other groups within India's urban middle class also supported the government's early policy reforms. Conversely, concerted and direct opposition to the reforms has come from three quarters: the rank and file of the ruling party, the Congress; the left intelligentsia; and the organized working class in the public sector. Diffuse but numerically significant opposition has also been expressed by such rural groups as the middle peasants and the landless poor.

The growing opposition to reforms has not forced the government to reverse its economic agenda. On the contrary, both Indira Gandhi and Rajiv Gandhi succeeded in implementing some significant policy reforms. These policy initiatives highlight how and why leaders indeed have some room for policy choice. At the same time, however, the need to build political support has pushed Rajiv Gandhi to slow down his liberalization program. While liberalization has not come to a grinding halt, a more populist economic program has been simultaneously readopted. This policy behavior, in turn, lends weight to those who would maintain that a major shift in development strategy from a state-controlled economy to a more liberal one is not easy within the framework of a democratic regime.

2. SOME PRELIMINARIES

Prior to presenting political analysis of India's changing economic policies, it is important to provide three pieces of preliminary information. First, the term economic liberalization is no more than a grab bag for numerous policy measures that governments may undertake selectively. In the Indian case, as will become clear, it does not really refer to an opening of the economy to the outside world in terms of freer movement of capital, goods or money. Privatization of the domestic public sector is also not a policy priority in India. What liberalization, therefore, really refers to is a set of policy measures aimed at loosening governmental controls on the functioning of the private economy. Even within this limited scope, it is important to further recognize that the attempted decontrols influence only the industrial and the service sectors directly and the agricultural sector only indirectly.

A second caveat concerns the fact that the focus of this essay is on the policy process. Therefore, when analyzing the forces that have

propelled the move within India toward economic liberalization, there is an overemphasis here on the proximate causes — such as the role of the elite — and a tendency to neglect the distant or structural changes in the environment of the elites that are clearly also significant. I will only mention some of these structural changes in both the international and the national context. Careful elaboration of these distant, causal factors would require studies in their own right.

Within India's international context, a number of factors loom large that have inclined its leaders toward liberalizing the controlled economy. The success of the NICs, especially of Asian countries like South Korea, has created a sharp sense of having been left behind. Whereas in the past this sense of being left behind was often blamed on colonialism, a new generation of leaders is now forced to ask if the country's emphasis on socialism and import substitution was mistaken from the beginning. Additionally, the fact that major communist countries like the Soviet Union and China seem to want to embrace the market is of considerable significance. For the present there are few exemplary models left in the world that could help sustain anti-market arguments. Finally, there has been an important change in the nature of external forces that help legitimize Indian technocrats as skilled technocrats. Instead of the left-leaning economists of an earlier generation, who were often trained in England, those deemed as really competent by Indian leaders now generally receive their education in American universities and some of their practical training in such international development institutions as the World Bank. A fair degree of consensus prevails in these legitimizing institutions on the issue of what is an appropriate development strategy. This consensus, in turn, becomes a significant force propelling policy movement toward liberalization.

Within India's national context also there have been important changes that are important background variables that will not be discussed in any detail below. For example, there is a growing agreement within India that the public sector is grossly inefficient. Along with this, virtually no one would disagree that India's redistributive efforts, such as land reforms, have not been very successful. This sense of the failure of socialism provides a major opening for a new beginning. Of course, as we will see momentarily, there are major disagreements concerning the appropriate future direction — toward more or less socialism. A sense of past failure of socialism, however, is part of contemporary India's political consciousness. Additionally, over time, the force of anti-colonial and nationalist sentiments has declined. While again there is no consensus on this issue, many of India's new leaders are more willing to open the economy to and learn from the West than the leaders of the post-independence generation. This general decline in a commitment to socialism and nationalism has, in turn, created new political and economic possibilities.

Last in this list of preliminary information, it is important to point out briefly the economic background of the more recent governmental efforts toward economic liberalization. While India's economy continued between 1950 and 1980 to grow at its steady but sluggish pace of 3–4% per annum, India's industrial growth slowed from about 7–8% in the pre-mid 1960s period, down to about 5% per annum over the last two decades.[4] The overall growth rate has picked up in the 1980s. Much of this growth, however, has been located in the service sector. The slowing of industrial growth has generated an excited debate, especially because India's savings rate over the last several decades has continued to climb, from under 10% of the GNP to over 20% in the early 1980s.[5]

The competing explanations that have been proposed for the deceleration of India's industrial growth can be grouped around three alternative hypotheses: that the root cause of the slow growth is the inefficiencies generated by a closed, state controlled economy;[6] that the sluggishness reflects low aggregate demand;[7] or that the deceleration is associated with declining public investments and the related infrastructural bottlenecks.[8] These hypotheses, and especially the policy implications that flow from them, do not have to be exclusive of one another. Nevertheless, each argument is distinct and leads to a different policy emphasis.

As suggested above, the purpose of this paper is not to take sides in this debate and, by implication, to argue for or against the Indian government's attempts to liberalize the economy. The new government is clearly closest to the first of these three arguments. The purpose served by pointing to the existence of these economic debates for the political analysis that follows is somewhat different and is twofold. First, these debates highlight that there is widespread agreement among economists and policy makers that all is not well with India's industrial policy regime. The need for change in the industrial policy regime, therefore, is not itself in question. The second and more important point that the existence of the debates demonstrates, however, is that there is little agreement as to the appropriate direction of change.

This assertion is crucial for the development of the argument below. Policy changes that the

Indian government has undertaken over the last several years are not objective responses to an objective situation. That an objective situation exists, namely, an economy whose industrial sector is not doing very well, is clear; the need for change, therefore, may be said to be rooted in the economic situation. There is also broad agreement among economists that many of the governmental controls have outlived their utility in India. The responses to this situation, however, are political choices. Specialists who study the objective economic situation are not in agreement that there is a single, clear way to solve the problem. These disagreements among specialists only add contentiousness to what are already difficult political questions: who has the power to push through their preferred policies and why? Who benefits from these policies and why?

3. LIBERALIZATION UNDER INDIRA GANDHI

The trend toward the liberalization of the economy was initiated, not by Rajiv Gandhi, but by his mother, Indira Gandhi. This fact has not received as much attention as it deserves. An understanding of why Indira Gandhi initiated such policies after coming back to power in 1980 helps put in perspective what is really new under Rajiv Gandhi. This background is also important for understanding why Rajiv's attempts to liberalize have evoked considerable reaction, including negative political reaction, whereas Indira Gandhi's went relatively unnoticed.

The Indira Gandhi that returned to power in 1980 — after the brief Janata interlude of about three years — was not the firebrand Indira Gandhi of *garibi hatao* (abolish poverty) vintage. While the anti-poverty rhetoric was seldom translated into real policy before or during the Emergency (1975–77), now even the rhetoric was altered. Critical observers have suggested that, after 1980, Indira Gandhi moved "rightwards,"[9] whereas her own former advisors have noted that during this phase, she was more "pragmatic,"[10] or by implication, less ideological. Whether labeled rightward or pragmatic, what is clear is that Indira Gandhi's political and policy orientation during this phase — compared to her pre-Emergency orientation — was distinct.

The changing political orientation was evident in a number of policy areas. Communal themes, for example, especially themes of Hindu hegemony that appeal to India's Hindi heartland, gained currency in Indira's political speeches.[11] Under her son Sanjay's influence, militant thugs were inducted into the ruling party as a source of mobilization for both mass rallies and elections. While the rhetoric of both socialism and nationalism was maintained, anti-poverty programs were put on the back burner. There was also a change of attitude toward such international institutions as the IMF; negotiations for the largest loan ever granted by the IMF were completed during this phase. Finally, many of the economic policies adopted tended to move in the liberalizing direction.

After completing the loan agreement of SDR 5 billion with the IMF, Indira Gandhi took some important economic policy decisions during 1981–82: steel and cement prices were decontrolled; manufactured imports were liberalized; and controls on both entry and expansion by national firms were relaxed. During 1981, the government sanctioned four times as many applications for expansion and new undertakings as in any of the five preceding years.[12] Over the next two years, as the perspective on the seventh plan developed, it became clear that the new emphasis would be on efficiency of investment and that this would be accompanied by a general move "away from administrative to financial controls."[13] Soon thereafter, following the recommendations of the L. K. Jha Commission on Economic and Administrative Reforms, the government placed 20 important industries under "automatic licensing."[14] In practice, this meant virtual decontrol by the government on expansion and new production in these industries.[15]

Why did Indira Gandhi adopt these policy changes and with what political consequence? As to the reasons for the policy shift, the new economic direction has to be seen as part and parcel of the overall political shift that Indira Gandhi adopted. This involved a move away from India's left or populist values of secularism and socialism, and toward the package hitherto offered primarily by the right-wing parties, namely, Hindu chauvinism and pro-business. It is important to underline right away that there is no inherent reason why Hindu chauvinism has to go hand in hand with a preference for business or why liberalizing policies, aimed at enhancing market competitiveness, should be pro-business policies. In India's political culture, however, the two packages of secularism and socialism and Hindu chauvinism and pro-business have tended to offer two alternative legitimacy formulae for mobilizing political support. The logic underlying these value packages seems to be something as follows.

Secularism in India has often meant eschewing appeals to caste, religion and community as a tool of political mobilization. While practice often deviated from principles, India's founding fathers understood that national integration in a

multinational and multiethnic polity like India could only be facilitated by avoiding the politicization of deep-rooted, "primordial" loyalties. For the task of political mobilization, therefore, Nehru favored appeals along economic lines: the need to uplift the poor, the downtrodden, the peasants, etc. Socialism was related to this political logic.

Whatever socialism has meant in practice — in India it has never meant anti-capitalism but rather, state guided capitalism, involving planning, public sector emphasis, a state controlled economy and a few anti-poverty programs like land reform — its electoral significance was always closely associated with a preference for secular over communal appeals.

In contrast, those who wanted to argue for business interests faced a dilemma: in a poor democracy like India, how do you mobilize the support of the majority, who are after all very poor? One solution to this puzzle was to cut the majority-minority pie at a different angle. If the poor were majority by the criterion of wealth, Hindus were the religious majority. Appeals to the majority religious community against minority communities, then, can be an alternate strategy for seeking electoral majorities by downplaying class issues at the expense of communal ones. Whereas the Congress traditionally stood for the secularism and socialism package, parties like the Jan Sangh had in the recent past advocated Hindu nationalism and a pro-business attitude.

When Indira Gandhi returned to power in 1980, several things must have been clear to her. In the entire Hindi heartland, Congress had been routed by the Janata party in the 1977 elections. Even though she had won the 1980 election, primarily due to factionalism and incompetence within the Janata, her support base in the Hindi heartland was, at best, soft. She had to build up this support and fast.[16] The full force that business communities had thrown behind Morarji Desai's government must have also left Mrs. Gandhi peculiarly vulnerable, especially for the future of electoral finances. It appears that, after 1980, Mrs. Gandhi sought to build her support in the Hindi heartland and with business communities by shifting away from the formula of secularism and socialism and toward the one of Hindu chauvinism and pro-business. The new political posture had two ingredients: an emphasis on communalism that has great appeal in the Hindi heartland; and a more pragmatic attitude to build up her support with the industrial and commercial groups.

It must have been further clear to Mrs. Gandhi by now that her socialism was not working. Anti-poverty programs had simply not been very successful.[17] The support she was getting from the poor, therefore, was based not so much on concrete rewards, but primarily due to her ideological and rhetorical appeal. This rhetoric she knew she could maintain, while watering down the overall socialist program. Further socialist rhetoric would not have brought her much more political capital in any case; the limits of rhetorical socialism had been reached. A movement toward liberalizing the economy, while maintaining some rhetoric of socialism and some of the anti-poverty programs, she must have calculated, was likely to strengthen her politically.

Besides such overtly political considerations, other factors probably also played some part in pushing India toward economic liberalization. The extent to which the IMF conditionalities influenced policy changes is hard to judge. The World Bank has also periodically kept up the pressure on the Indian government to decontrol and open up the economy. In a large and relatively well established polity like India, however — "well established" in the sense of being staffed by competent bureaucrats — one has to maintain that organizations such as the IMF or the World Bank can never be decisive. Even the decision to enter an agreement with the IMF, and all that involves in terms of policy changes, must be viewed as a prior political decision by the Indian government. Though, once the government chose to enter this arrangement with the IMF, it is clear that this must have created pressures to "get the prices right" in the economy.

Within the government, report after report put together by bureaucrats and specialists since the 1970s had recommended liberalization of one aspect of the economy or another.[18] The influence of these on real policy changes can easily be overestimated. If one is not cautious, one could easily conclude that policy momentum in India is driven by the expert knowledge that is periodically brought to bear on pressing national problems. Such a conclusion would be misleading. The decision to set up commissions is a political decision. Commission members are appointed by leaders and the policy preferences of these members are generally well known. Most important, whether the government chooses to act on a report is a political decision. For every report that recommends liberalization of the economy, there are literally dozens of others, sitting gathering dust, waiting for some action on their recommendations concerning how to improve the conditions of small farmers or of scheduled tribes or how to desilt India's rivers.

Another factor that is worth considering here

is the changing economic situation itself. As noted above, industrial growth had been sluggish for quite some time. A particularly bad year was 1979. The Janata government had taken some economic measures around that time that could be interpreted as liberalizing measures.[19] Industrial growth had jumped back to over 8% in 1980. The extent to which this success created momentum for further liberalization is hard to judge; the timing for the adoption of a new political program seems, however, to have been more than just a mere coincidence.

The issue of a sluggish industrial performance was, in any case, at the forefront. New policies were needed. Various alternative policy measures summarized above were in the air. Whatever their economic merits, some alternatives clearly suited Indira Gandhi's political design better than others. To attack demand constraints would have meant, among other measures, shifting resources toward agriculture — thus alienating urban industrialists and middle classes — as well as attempting what had not worked before, i.e., land reforms and other income generating projects for the poor. Increasing public investments was also not easy. If Bardhan's analysis is right, this would have meant "rationalizing" the patronage network that holds India's dominant classes in a delicate alliance with one another and supportive of the state.[20] Given Indira Gandhi's preoccupation with her political vulnerability, she was not about to undertake major surgery on established state-society relations of this scale.

None of this is supposed to lead to the conclusion that the liberalizing alternative is without political pitfalls. On the contrary, as we will see below, of Rajiv Gandhi's many current difficulties, those that have resulted from his attempts to liberalize the economy are not insignificant. Indira Gandhi, however, seems to have made a different political calculation and apparently a correct one. Her credentials with the poor were well established. Since these were based primarily on ideological appeals, she was not about to lose this support over the short run. Given political difficulties elsewhere, she must have decided that communal appeals to the dominant Hindu community and economic measures supporting the business and industrial groups were the way to go.

Now, it was not at all self-evident that the so-called liberalization measures would be welcomed by the business groups. Import liberalization is likely to be and had been seriously resisted by India's well-established indigenous capitalists. So, to put the general political decision of wooing business support into practice, Mrs. Gandhi must have asked one or more of her such senior advisors, such as the late L. K. Jha: what is wrong with our industry and what do the businessmen really want these days?

Advisors like L. K. Jha have long worked with both businessmen and the government. Jha had never favored rapid opening of the economy to external forces. He had, however, argued for removing restrictions on both entry and expansion of firms, and for reduction in direct and indirect taxes.[21] These measures are supported by most business groups: reduction in taxes is supported by all types of businessmen; big business favors removal of constraints on expansion of capacity (in Indian business lingo, removal of MRTP restrictions); while small businesses often fear this, freedom of entry raises even their prospects for competing in some hitherto unexplored areas. As advisors like L. K. Jha were brought into prominent policy roles, and as policies favored by him and others like him were put into effect, the message to the business community must have been clear: socialism was being put on the back burner and a new policy regime that might work to their benefit was being initiated.

The economic policy shift under Indira Gandhi is thus best understood as an integral aspect of her overall political strategy. This, in turn, was aimed at strengthening the soft areas of her support. The question that remains to be answered in this section is why did these policy shifts go relatively unnoticed? Given her socialist commitments, why did a policy trend toward the liberalization of the economy never become a political liability for Indira Gandhi? An important part of the answer is fairly simple: the extent of change was not significant enough to raise too many political eyebrows. Yet, this alone will clearly not do. It, in turn, raises a thorny question of political management: when can changes be made to look marginal and when do they appear significant, deserving political response from all those who may wish to oppose them?

Indira Gandhi was a master political artist. As noted above, she understood well that her popular image was one of a leader on the left. She had built up these credentials, not by careful implementation of socialist policies, but by undertaking highly visible acts like nationalization of banks, pursuit of antimonopoly legislation and the adoption of poverty alleviation as the central platform of her party and government. Now, it is a well established political adage that leaders of the left can more easily take selected rightist decisions without invoking the wrath of the left, or vice-versa for that matter. When

leaders are judged by their citizens, what leaders seem to stand for turns out to be as important over the short run as the substance of the policies they pursue. Indira Gandhi benefited from this general political trust that groups in the popular sector bestowed on her.

Indira Gandhi further benefited from both the circumstances and the effective stage management she provided for the policy changes. India's political attention was increasingly on such regional issues as Assam and Punjab, rather than on economic policies. Indira herself downplayed the significance of the economy or of economic achievements as tools of legitimacy. When attention did turn to the economy, the picture for popular consumption was more of continuity than of change. The rhetoric of socialism, though toned down, was maintained; so were most of the anti-poverty programs. Left of center economic advisors like K. N. Raj and Sukhamoy Chakravarty were kept on in visible but largely ceremonial positions in the Economic Advisory Council. The policy changes, however, were being influenced by such advisors in the background as K. C. Alexander, L. K. Jha and Arjun Sengupta. The changes themselves appeared largely technical: a lowering of a limit here and an expansion of restriction there. The attempt, it seems, was to depoliticize economic decisions as far as possible. A number of advisors noted this during interviews; the focus they suggested was on "results," not "ideology."[22]

Indira Gandhi's attempts to liberalize the economy did not draw sharp political reaction. This was a result of a number of factors: the scale of change; the conscious attempt to maintain an image of continuity as well as to depoliticize economic decisions; and, of course, other pressing political circumstances that drew attention away from the economy. The tension between the pursuit of economic rationality and the rationality of democracy during Indira Gandhi's last few years was kept within manageable bounds. It is hard to know how far she intended to push liberalization and how far she would have succeeded. Her assassination pushed these questions into the realm of the hypothetical. What we do know is what her son tried; he has pushed liberalization harder than his mother and has also drawn considerably more political opposition.

4. LIBERALIZATION UNDER RAJIV

In the four years that Rajiv Gandhi has been in power at the time of this writing, economic policy has gone through three phases. During the first six months of his rule, there was a genuine attempt at a new beginning; an attempt was made to make a decisive shift from the state controlled and import substitution model to a liberal model of development. When this attempt ran into political obstacles, the pace of change slowed. The next two years are best characterized as two steps forward toward and one step backward from the defined agenda. With Rajiv's political popularity continuing to decline, the loss of Haryana elections in May 1987 marked the beginning of the third and the present phase. This is the return to India's "muddle through" model of economic policy making. Within this "model," the policy makers remain committed to economic liberalization. While the general trend is still in this direction, political considerations have necessitated the renewal of populism. The sense that there was to be a new economic beginning in India has thus been quickly lost.

These three phases of economic policy making — attempt at a new beginning, two steps forward and one step backward, and back to muddling through — are intimately linked to the overall political situation, both as a cause and as a consequence. Since the overall political situation cannot be analyzed in detail here, the focus in the next three sections will be primarily on those political factors that impinge most heavily on, and thus help explain, economic policy fluctuations.

Rajiv's rise to power was largely circumstantial. There is no doubt that prior to Indira Gandhi's assassination, Rajiv had begun to be groomed as the heir apparent. His grooming, however, was no more than two to three years in process when Indira Gandhi's assassination suddenly brought him into power. He was a natural heir in the sense that he had been put into that role by Indira Gandhi and he was more or less accepted as such by Indira's loyal second tier. These political minions in the second tier did not enjoy any independent political support. They must have calculated that their and the Congress' best chance to maintain power was to select Indira's son; he was likely to inherit a fair amount of Indira's popularity and to gain new support in sympathy for her assassination.[23] Rajiv's initial power and legitimacy were thus based on a series of factors, none of which had much to do with Rajiv's preferred economic policies. As Rajiv was thrown in to fill the power vacuum left by Indira's assassination, only a handful of Indians must have known, and the rest probably did not care to know in the post-assassination mood of trauma and crisis, what type of economic policies the new government would pursue.

During the very brief period of his rise and consolidation, Rajiv Gandhi and his advisors

must have made a crucial decision: the new regime was going to stress a new beginning rather than continuity with the past. This emphasis on change became clear relatively quickly, in both rhetoric and action, and in both the political and economic arenas. In the political arena, for example, the new emphasis was manifested in a shift away from Indira's apparent recalcitrance (as in dealings with Punjab and Assam) to a more accommodating and compromising set of policies. Similarly, with regard to the issue of primary interest in this essay, the government promised new economic policies. Shortly after winning a massive election, Rajiv summed up his government's economic approach as involving a "judicious combination of deregulation, import liberalization and easier access to foreign technology."[24] That this involved a fairly sharp break from Nehru and Indira Gandhi's rhetorical emphasis on "socialism, planning and self-reliance" should be self evident.

As if to underline the break from the past, Rajiv Gandhi surrounded himself with a new breed of politicians and advisors. Consider some of those who appeared influential, at least in 1985–86. Confidants like Arun Nehru and Arun Singh had backgrounds as executives of multinational corporations. Economic advisors included individuals such as Montek Ahluwalia, Abid Hussain, Bimal Jalan and Manmohan Singh. Individuals like L. K. Jha were considered to have direct access to the Prime Minister. While clearly a competent group of managers, economists and bureaucrats, they were all marked by a technocratic rather than a political image. Some of them had World Bank backgrounds; most of them were known for their decontrol and proliberalization proclivities. If one contrasts Rajiv and this group of India's new elite with Nehru and his band of seasoned, left-leaning nationalist leaders and advisors, then the image of a sharp break with the past is unmistakable.

It is important to note here that this issue of change in the nature of economic policy makers is as much or more an issue of image than of substance. For example, if one were to focus primarily on the economic advisers of an earlier generation — Pitambar Pant, I. G. Patel, Bootlingam, Vishnu Sahay, Tarlok Singh, Ashok Mehta, V. T. Krishnamachari — there is probably more continuity than change between this group and the contemporary advisers in terms of both technical skills and preferred policies.[25] What has changed, however, is both the nature of the political leadership and the sense of who — the leaders or the advisors — are really in charge of economic policy making. Since Rajiv and his crucial political aides like Arun Singh and Arun Nehru had a managerial and technocratic image, there was a sense that the political leaders and their technical advisors were cut from the same cloth. Additionally, Rajiv's relative inexperience created a popular image that policy making was increasingly in the hands of bureaucrats and experts. Such considerations added up to an image of a sharp break in the nature of India's economic policy makers.

The image and the real attempt to make a sharp break with the past were probably responsible for Rajiv's early popularity and may well also prove to be his undoing. The issue that presents itself, therefore, is what helps explain the government's emphasis on change over continuity? The question is especially salient because the economic changes that Indira Gandhi had already introduced and those that Rajiv's government has actually pursued since then, could have easily been accommodated within an image of continuity. Why, then, the need to emphasize a sharp break?

An important part of this answer has to be — and this is further discussed below — that Rajiv and his advisors initially intended the changes to go much further than they have actually gone. This, in turn, must have seemed feasible due to Rajiv's unusual rise to power. His massive electoral victory was based on sympathy and fear on the part of the electorate. This victory freed Rajiv Gandhi — if only momentarily and artificially — from coalitional entanglements and interest group pressures. This freedom from politics as usual must have heightened the illusion that a sharp new beginning is possible, even in a polity like the Indian one. The politically inexperienced cronies and advisors that surrounded Rajiv, as we will see below, did not help much in dispelling such illusions.

The considerable sense of power, and the hurry in which it had been acquired, must have created a sense among the new rulers that they had hijacked the state. The state suddenly stood quite autonomously, seemingly free of societal constraints, ready to be used as a tool for imposing economic rationality upon the society. Situations of state autonomy like this always encourage the powerful to pursue their ideological whims.[26]

The illusion of autonomy and, with it, the euphoria of a new beginning lasted about six months. The first major product of this new beginning was the 1985–86 budget, presented by the new government in March 1985, less than three months after coming to power. The budget created many ripples. The word socialism was not mentioned even once in the budget speech.[27]

Substantial tax concessions were offered to both the corporate and the urban upper-middle classes. Imports were liberalized in certain sectors, especially the sector favored personally by Rajiv Gandhi, namely, electronics. Most important, licensing regulations for domestic industries were relaxed drastically and the limit on the size of a firm that qualifies it as a monopoly were raised substantially.

The reaction of both business and upper-middle groups, was euphoric. India's leading news magazine, *India Today*, ran such cover captions as "The Economy: Buoyant Mood" and "We are Gearing for Take-Off."[28] Other commentators hailed it as "the most important budget in 30 years."[29] Since the parliament was totally dominated by individuals beholden to Rajiv Gandhi for their position, there was no question at this early date of any substantial opposition from this group. The left and other opposition parties reacted sharply; they characterized the budget as a pro-rich budget and the new government as a pro-rich government. In the middle of 1985, however, these were voices in the wilderness. They were drowned, at least momentarily, in the euphoria of a new beginning.

The opposition that began to simmer at the grassroots, however, did not take long to crystallize. It was first expressed on a significant scale — much to the surprise of the new leadership — within the ruling party. The occasion was an attempt by Rajiv Gandhi and his cronies to have the Congress party ratify an economic resolution. The politics surrounding this debate is further analyzed below. Suffice it to note for the moment that Rajiv ran into considerable and unexpected opposition from the rank and file of his party. The resolution he wanted ratified represented an attempt to get his party formally behind the new economic beginning that he had already begun with the budget. The resolution that was eventually ratified, however, recommitted Rajiv and the Congress party to socialism.[30]

The significance of this dramatic event should not be underestimated. Many in India are so jaded with Congress' socialism that any continued talk of it is deadening to sensibilities; it simply evokes no, or worse, very cynical responses. Even the head of India's leading Chamber of Commerce dismissed this recommitment to socialism on Congress' part as "mere rhetoric."[31] Rhetoric it may well be, but its significance was considerable. A recommitment to socialism underlined clearly and starkly that the government's economic policies will maintain continuity with the past, that socialism will define the limits within which new policies will have to fit. Now, it is clear that these limits are very, very flexible; the economic resolution, while reaffirming socialism, also accepted all the policy changes Rajiv's government had introduced so far.[32] Nevertheless, a tolerance for what many observers would consider gross inconsistencies is a very different political picture than one in which the party would wholeheartedly support the liberalization of the economy. Rajiv's first major encounter with his own party thus immediately set limits on how far he could carry economic policy changes. It cannot be doubted that this must have slowed the pace of change Rajiv and his advisors would have otherwise pursued, had the Congress party supported them fully.

The confrontation with his own party marks the beginning of the second phase in economic policy making. From here on, until very recently, the government continued to push piecemeal liberalizing reforms. Most of these were carried out while reemphasizing the government's commitment to socialism. We will never know what was never attempted because the advisors concluded that it would be hard to justify, even by Congress' standards of socialism. What we do know is that, in spite of these constraints, the government has succeeded in pushing through some important reforms. Others, however, had to be modified or reversed so as to fit the socialist commitment.

The rhetoric on economic policy increasingly became quite confusing. While celebrating Congress' centenary the day after the confrontation with the working committee over the economic resolution, Rajiv reaffirmed that Congress' goal, now as ever, was socialism.[33] Over the next few months, economic policy changes involved several liberalizing measures. These are further discussed below. When presenting the seventh plan to the National Development Council in November, however, Rajiv Gandhi once again argued that the "industrial policy remains unchanged."[34]

Shortly thereafter, in the same month, Rajiv argued that, when and where "import substitutes are not cost-effective," India should opt for "imports, especially of technology."[35] This was followed by the release of the Abid Hussain report that emphasized the need for boosting exports and for an outward looking industrialization strategy.[36] Lest the observers nail down the government's real policy, two days later government spokesmen reiterated that, whatever liberalization may take place, the public sector will continue to maintain the "commanding heights" of the economy.[37] The Prime Minister himself went on to argue for top priority to the public sector and to reemphasize that there was "no

shift from socialism."[38] The main thrust of the seventh plan, it was further suggested, would be "eradication of poverty, self-reliance and growth with social justice."[39] Finally, several months later, the government let it be known that privatization of the public sector was not on the agenda, that the mixed economy model would stay.[40]

If the rhetoric was confusing, and probably purposefully so, more of a pattern is discernable in the actual policy changes. Shortly after the Congress party had made Rajiv recommit himself to continuity with the past, a new textile policy was quietly passed. Without too much discussion or debate, this policy removed the restrictions on the capacity of the mill sector.[41] While seemingly a minor, technical change, it hit at the heart of some of old Congress' nationalist values. The removal of restrictions, it could be argued, would assure that both the power loom and the hand loom sectors will go into a long-term decline due to the more efficient mill sector.[42] While clearly rational, such a change would have been abhorrent to the first generation nationalists. The dumping of the more efficient textiles by the British had been understood by the nationalists to have caused the destruction of the Indian textile industry in the 19th century and thus of nascent Indian capitalism. Now, a generation later, Indian leaders were themselves promulgating similar policies. Old nationalist themes in economic policies are clearly on the decline.

Other important policy changes followed. The role of the Planning Commission was decisively diminished, again without any pronouncements, by the creation of a new Ministry of Programme Implementation. The "New Fiscal Policy" announced in November 1985 was very significant; it replaced import quotas with tariffs and laid out long-term patterns of taxation, assuring the corporate sector that no negative surprises were looming on the horizon.[43] In spite of the worsening balance of payments, the government did not reverse the liberalized import policy, even in the capital goods sector, which had been hurt quite badly. Companies restricted under the monopoly act were, moreover, given further concessions[44] and the budget of 1986–87 brought some further excise and customs relief to national firms.[45]

All these policy changes are clearly part of a pattern. They are aimed at relaxing the scope and the degree of state control over the private economy. What is interesting from the point of view of this essay is the little immediate political response that the changes just documented evoked. A number of factors help explain the minimal opposition from the popular sectors. These policies generally tended to affect, as in the case of textile policy, one specific segment of the society more than others. The values violated — in this specific case, themes from the old anticolonial heritage — are also not felt as deeply as before. Since neither the values nor the interests of the society at large were hurt, political opposition was minimal. Other policy changes that went unopposed, at least over the short run, shared another set of traits: more often than not, they were supportive of powerful business interests; and they were brought about quietly, without much fanfare, as seemingly technical changes in a piecemeal fashion. Very few political groups in India have the resources that it would require to monitor economic policy changes of this minute nature. Opposition groups, therefore, generally concentrate their political energies on policies that are highly visible and that influence widely shared interests and values in the society.

If these policies went more or less unopposed, another set evoked considerable response. The balance has now tilted toward mounting opposition. Policies that actually had to be modified or reversed showed one of two characteristics: they were either opposed by powerful groups like the businessmen; or they created diffuse but real disenchantment among the popular sectors. A number of examples will support these generalizations, as well as highlight the policy fluctuations and reversals that have occurred due to growing opposition.

The seventh plan came under opposition from within the ruling party. While the details are not known, it is clear that several groups from within the Congress had approached Rajiv to register their protest, namely, that the plan did not assign enough resources to anti-poverty programs. The plan was changed to accommodate this political opposition, even though the planners know and argue that resources devoted to such programs in the past have not been used effectively.[46]

A different type of policy fluctuation characterized the approach the government has adopted toward industries that import goods and thus directly affect the balance of payments. A good example here is the approach toward the automobile industry. During 1985, the government let it be known that it would look kindly on expansion of automobile production, including expansion involving further foreign collaboration — especially with Japanese manufacturers. In early February 1986, after numerous plans to undertake such expansion were underway, the government changed its mind; the implementation of the new automobile policy was postponed indefinitely. Among the reasons cited were the

need to conserve petroleum and the worsening balance-of-payments situation.[47] There is also some indication, however, that pressure was brought to bear on the government from those established automobile manufacturers who feared a glut of overproduction and competition from new and probably better products.[48] What adds weight to this interpretation is the fact that the policy was not reconsidered, even when petroleum prices dropped in the world market in July 1986 and India's balance-of-payments situation improved considerably. The government actually used the occasion of a shift in the anticipated automobile policy to make a more general statement that marked an important policy shift: ". . . pace of domestic liberalization has not been slackened . . . external liberalization (however) was not really an objective of the (overall) policy."[49]

More serious opposition, because it was popular opposition, was evoked over the issue of price hikes in February 1986. Within a few days of the announcement of price increases in petroleum and other related products, such as kerosene, every opposition party in the country had announced plans for strikes and the closing down of one city or another. Congress politicians themselves argued against this hike, fearing a popular backlash. Even before the strikes materialized, however, the government reversed its decision.[50]

The above examples demonstrate cases of specific opposition and associated policy reversals. The type of opposition, however, that hurts in India the most politically, and that is the most hard to document, is the more diffuse and growing disillusionment with the national leadership. Rajiv's overall political popularity has gone into a sharp decline since late 1986. He has lost virtually every state election since the assembly elections in March 1985. The loss in Haryana in May 1987 was especially devastating because it is in the area of Congress' power base, the Hindi heartland. Now, it is true that most state elections are influenced by important regional themes. Even when national themes are important, positions on economic policies are only one part of the overall assessment citizens make of leaders. In spite of such diffuseness around the issue of loss of electoral popularity, these political changes have two important implications for understanding economic policy fluctuations. First, and this is further documented below, the image of Rajiv and his government as pro-rich has stuck. This is related both to the style of political management and to the substance of the economic policies adopted; it has also contributed to his loss of electoral popularity. Second, irrespective of how damaging these economic policies have been politically, one possible way to recover sagging political fortunes in India is clearly to adopt populist economic policies.

It is this last set of considerations that have come to influence economic policy making in the present and third phase. Throughout the second phase, it is fair to suggest that economic policy changes slowed from what was probably intended to be a major departure from India's mixed-economy model of development. Socialism was reestablished as the framework. In spite of this rhetorical reversal, as well as the change of pace and some important setbacks, the overall thrust during this second phase was to continue to push ahead toward lifting governmental controls and restrictions on the Indian economy. With the electoral debacle in Haryana, however, the future of economic policy is now unclear; India has returned to its usual pattern of muddling through.

There was a growing sense in the aftermath of the Haryana elections that a major policy reversal might be in the making. This has not come to pass. It is fair to suggest that Rajiv Gandhi and his key advisors remain committed to liberalizing India's economic policy regime. The opportunities to do so, however, have narrowed. As Rajiv's popularity has declined, the opposition has adopted a relatively left-leaning position that criticizes Rajiv for the neglect of farmers and the poor. This challenge, led by V. P. Singh in the Hindi heartland and by others like Jyoti Basu of the Communist Party of India, Marxist (CPM) in West Bengal and N. T. Rama Rao in Andhra Pradesh, has exposed Rajiv's electoral vulnerability in the popular sectors. As this challenge has grown, the drive toward economic liberalization has slowed. The angry conclusion of a prominent Indian journalist on this score appears to be only a slight exaggeration:

> While no one can doubt that Gandhi was sincere in his desire to liberalize the economy, it is equally beyond doubt that he has failed.[51]

The increased allocation to pro-farmer and anti-poverty programs in the new proposed budget for 1988–89 only highlights the fact that electoral pressures have pushed issues of liberalizing the economy to the sidelines. Some important liberalizing measures are still being pursued. They may also be put back on the agenda if Rajiv reconsolidates his power and popularity after the next elections. For now, pressed politically, Rajiv has slowed down any attempts to change India's economic policies.

In a little more than three years, Rajiv and his bold men have dissipated the enormous political

capital that they had acquired almost accidentally. The society has hit back; the state has lost the temporary autonomy it had gained. An enormous sense of power and autonomy during 1985 had encouraged the new leaders to try to impose their own rationality on the society. The loss of this power is now likely to lead to policies that make more sense from the point of view of the logic of winning elections and thus democratic power than of economic rationality. One hopes that it is possible to combine these two rationalities. Contemporary India, however, continues to search for the appropriate mix.

5. SUPPORT FOR LIBERALIZATION

So far the focus of analysis has been on the economic policy makers and on the fluctuations that economic policies have undergone. The roles of other actors and groups who influence this policy process have been mentioned, but only in passing. Now it is important to restore the balance. The groups who have supported or opposed the policies are a crucial part of the overall picture of the politics of economic policy making. Some understanding of the role and the views of the more significant actors is thus important. Those who have, on balance, supported governmental initiatives are discussed immediately below and those who have opposed these policies are discussed in the next section.

(a) *Business groups*

Business groups have, on balance, been very supportive of Rajiv's government and policies. This support, however, varies along a number of dimensions. At the most diffuse level, business groups have felt in tune with the new government. Rajiv's emphasis on technology and efficiency, rather than on socialism, has appealed to the businessmen's preference for "results over ideology". With the early incorporation of former corporate executives like Arun Nehru and Arun Singh into the ranks of the ruling coterie, moreover, business spokesmen have suggested that, for the first time in independent India, they have felt as if they were not cheats or pariahs, that they were part of the national mainstream.[52]

Beyond the most general level, Indian business does not interact with the state elite through any one single organization or with one single voice. A few comments on these issues may help clarify how business and government interact.[53] There are numerous points of formal and informal contact between the state and business. Business groups are formally represented by three national and many regional chambers of commerce. Of three national chambers, only one involving the engineering industries is organized along functional lines. The other two main chambers — the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Associated Chambers of Commerce and Industry of India (ASSOCHAM) — bring together a variety of industries. ASSOCHAM started off as an association of British industries in the pre-independence period and has, until recently, maintained its character as a representative of companies with a large component of foreign investment, foreign management or both. FICCI, until recently by far the most significant voice of Indian business, has, on balance, tended to represent indigenous capital. Within the business community, the two chambers are distinguished in a somewhat lighthearted and exaggerated fashion by their cultural composition: ASSOCHAM represents the "tie-wallahs" and FICCI the "dhoti-wallahs."[54]

As long as the overall policy framework was stable, the political task of FICCI and ASSOCHAM was not all that significant. Their role, especially that of FICCI, was to periodically announce policy positions representing interests of their members. FICCI and ASSOCHAM have seldom cooperated on the policy memoranda they present to the government, though they do cooperate on issues of labor management.[55] Clearly, interests combine more easily in some areas than others.

The real points of contact between business and government have generally been quite decentralized. During the 1950s and the 1960s, for example, it is well known that important business houses had certain "captured" members of parliament. With growing centralization, however, business attention has shifted both to cabinet ministers and other leaders of the Congress party and to the bureaucracy. Members of FICCI are generally understood to have well-established contacts within the Congress hierarchy, where black money is contributed "under-the-table" to party coffers in exchange for political favors.[56] Most business houses, moreover, maintain liaison offices in New Delhi that wine, dine and probably bribe bureaucrats and senior politicians to facilitate licensing and access to other resources the government controls. Members of ASSOCHAM claim that their points of contact with the government are not through the party. The Congress culture, they assert, is much closer to the culture of FICCI: "We would rather deal in a club, over a glass of whiskey, with senior administrators . . . like L. K. Jha."[57]

With major policy changes on the horizon, Indian business has tried to come up with a somewhat more unified response than the decentralized mode of operation would have hitherto allowed. However, this has not been easy. Interests of various segments within the business community diverge. One potential divide is between those who favor and those who oppose external liberalization. It would be fair to assume that those in import-substitution industries would oppose liberalizing imports, while those who need imported technology and/or produce for external markets may favor a different set of policies.[58] While these are important tendencies, derived from assumed interests, such divisions are not easy to find. Major business houses tend to do all these things; they produce for protected markets; they, on occasion, wish to improve their technology with imports; and many do or want to cater to export markets.[59] A related area of disagreement within the business community crystallizes between the more traditional business houses that fear competition and the more newly established businesses with new technology and imported MBAs who claim to be ready to compete internationally.[60]

Another major divide, about whose political significance much less is known, is that between big business on the one hand and medium and small businesses on the other. It is almost taken for granted by policy makers that the freedom to enter new production lines and to expand existing capacity will primarily benefit those who are already well established, namely, the big business houses.[61] Why should medium, and especially the small businesses, support such policy developments? Are their interests not threatened by the encroaching "monopoly" houses? Since small businesses are not well organized, their political responses neither are expressed in any aggregated fashion, nor can they be identified easily by observers.

This picture of organizational diffuseness and interest divergence within the business community is not supposed to lead to a conclusion that the Indian business community does not have some clear and coherent policy preferences or that it is politically weak. Those would be absurd claims. What the picture of incoherence helps point to is the mode in and the mechanisms through which business groups have influenced the liberalization agenda. The business community of India has tended to react to rather than lead economic policy. Its power is closer to one of veto than of agenda setting. The policy lead has come from the political actors. The liberalization agenda has thus originated as much in the changing power and interests of the business community, as in the changes within the state, i.e., in the coming to power of new leaders with new ideologies.

The nature of the division of power between the state and business is clearly evident in the policy process. FICCI has been making policy demands for lowering taxes, delicensing and removing restrictions on monopolies for decades. When these changes finally came in a big way, they came because there was a new government in power. Even business representatives were taken by surprise, for example, when the government chose to raise the limit of the MRTP Act to one billion rupees from 200 million, whereas FICCI had asked for the limit to be only 600 million.[62]

The reaction of business groups to the government's new economic policies has generally been very favorable. The initial package that the Rajiv government offered in the budget of 1985–86, and that has been more or less maintained since, has been received with tremendous enthusiasm by all three chambers of commerce. One major area, however, where business response has been quite hesitant, or even negative, is the extent to which the economy should be opened to external goods and capital. There is a widespread feeling among Indian business groups that both foreign borrowing and direct foreign investment are not desirable.[63] This coincides with the nationalist and cautious sentiments on these issues held by the policy makers.[64] The issue of trade liberalization, however, has proven to be more complex. Many industries welcome liberalized imports of technology, but liberalized imports also hurt domestic producers. Given the import-substitution bias of Indian industry, the overall reluctance of business groups toward import liberalization has emerged fairly clearly in a process that involved some trial and error.

This process of trial and error has proceeded something as follows. The government has liberalized certain imports. It has then monitored the impact of these policy changes on both the balance of payments and on specific groups of industries. Business reactions have similarly developed serially. What has emerged, however, is a fair amount of consensus between the political and economic elite.

Business groups have, on balance, decided that they are not ready to deal with any major international opening of the economy. In the words of the head of FICCI:

> after three decades of highly protective industrialization, liberalization cannot be taken up simultaneously on all fronts — it has to be phased. The first stage has to be to allow domestic competitiveness. Only then (after a while), we should open up to outside forces.[65]

Such views from businessmen pampered by import-substitution are not surprising.

What is interesting and maybe even somewhat surprising is that the government more or less agrees. Those who seem to favor a competitive economy have apparently decided that there is competitiveness and then there are the interests of national capital. Senior advisors like L. K. Jha have assured the businessmen that domestic industry "built up with so much effort and sacrifice," will not be allowed "to be killed by imports."[66] Even outside experts like Jagdish Bhagwati agree, because of what is politically feasible.[67] Finally, the Prime Minister himself now feels that import liberalization is not immediately on the agenda:

> Competition within our domestic economy is being fostered. Progressively, we will open our economy to the winds of international competition.[68]

With the government now having accepted the demand of business groups to limit trade liberalization, one would have to conclude that the present government is more or less in complete agreement with business, especially big business that produces for the protected domestic market. Sporadic efforts to raid business houses under V. P. Singh only underlined the fact that the government badly needed some popular and visible issues — corruption in this case — to distance itself from the image of too close an alliance with business. On substantial issues of policy, however, the alliance of the state and big business has probably never been closer in India than under the first three years of Rajiv Gandhi. Critics of Rajiv Gandhi can not be blamed, therefore, if they see his economic agenda primarily as pro-business and only secondarily as pro-market and pro-competition.

(b) *Middle classes*

Within India's political discourse, the term middle class has come to refer to some 60 to 80 million urban dwellers who work mainly in the professions and the civil service or are self-employed.[69] The positive support that this motley stratum provided to Rajiv's economic program in the first two years of his rule can be understood by focusing on two different issues.

First, Rajiv Gandhi's early economic policies provided concrete benefits to the middle classes. Reduction in taxes and abolition of such programs as the Compulsory Savings Deposit Scheme were received with great enthusiasm. Moreover, the government seems to have decided to hinge its new economic strategy on the buying power of these groups. Controls on production have been released and exports are not going up all that rapidly. Who, under these circumstances, is going to buy all the new products that are now suddenly appearing on the market? Clearly, the government is hoping that the middle income groups will use their increased incomes to soak up the growing supply and thus avoid a demand constraint on growth. Whether this will become the basis of a successful development strategy is not an issue under discussion here; that is for the economists to debate.

From the point of view of the political inclinations of the middle income groups, the new strategy has meant not only improved incomes over the short run, but also for almost the first time in post-colonial India, an economy that is not beset by shortages of consumer goods. Growing incomes and availability of products have, in turn, helped generate benign views of the government. That such tangible rewards are more important than any set of shared values with the leadership was highlighted when these very middle groups threw their weight against the government's plans to raise petroleum prices during February 1987.[70] Also, with the emergence of corruption scandals within the government during 1987 and 1988, many in this fickle political group have changed their evaluation of Rajiv Gandhi.[71]

A second issue of longer term significance has not received much attention. Over the last decade, there has been a major change in how Indian industry finances itself. Significant contribution to industrial investment is now made by the sale of public stocks. While exact figures are not known, the phenomenon of middle income groups, including Indians living outside of India, buying stocks in a big way has been widely noticed over the last decade. This is increasingly creating a structural link between middle income groups and big business. The political significance of this fact is likely to grow. Middle income groups now have a growing stake in the economic health of industry and commerce. Policies that facilitate this goal are thus likely to and do receive support.

6. OPPOSITION TO LIBERALIZATION

If both business and urban middle income groups have tended to support the government's new economic initiatives, a number of important actors and groups have opposed these efforts. A brief description of the extent and the mode of opposition will set the stage to conclude this essay.

(a) *The Congress rank and file*

As noted above, a surprising source of opposition to the new policies has been the rank and file of the ruling party. This is surprising because party organization of the Congress has been moribund for so long that observers cannot be blamed for having forgotten the party as a source of independent political initiative.

Rajiv's early encounter with his own party provides a reasonably clear picture of his original economic intentions and those of his advisors. A summary of the main events is revealing. Rajiv and a few of his ministers took a prepared economic resolution to the Working Committee of the Congress Party, prior to presenting it to the All India Congress Committee (AICC) for ratification. This resolution was reported to have been the handiwork of Rajiv's "whiz kids" or the "World Bank wallahs."[72] These references are to the group of technocratic economic advisors of Rajiv discussed above, especially those in the Prime Minister's Secretariat. The resolution was presented to the working committee by the Finance Minister, V. P. Singh. His opening lines, according to the press, included the remark that "bread, cloth and shelter were not everything of the economy."[73] The resolution itself did not stress socialism and used language that seemed to suggest that a shift in strategy had already been adopted over the last few months and that this was both necessary and justified:

> The strengthening of the growth impulses of the economy, through absorption of modern technology and through appropriate fiscal and legislative changes, was imperative to sustain the tempo of industrial development. In the process of continued development, the policy instruments relevant to one stage cannot be treated as permanently sacrosanct. Nor are they ends in themselves.[74]

Many members of the Congress read in this resolution an attempt to move away from the old development strategy of self-reliance and socialism. The details of the internal debates that took place are not known. What is known is that numerous senior party members and elected officials opposed this economic resolution.[75] As discussed above, the resolution that was eventually approved was a radically revised one; it reestablished continuity with the past by emphasizing socialism as Congress' central goal.

What interpretation can one place on these events? First, these events highlight considerable lack of political judgment on the part of Rajiv Gandhi and his economic advisors. The intended plan seems to have been nothing less than a major shift in India's overall development strategy. Even in an imperfect democracy like India, this would require a considerable amount of prior discussion and what some euphemistically call "consensus building." Forgetting for the moment the various contending interest groups and political forces in the society, the small group of India's technocratic rulers did not even have a clear sense of whether they could carry the ruling party with them, the same party in whose name they rule the country. The explanation for such political behavior would have to stress some combination of extreme centralization of initiative, isolation of the rulers, and the lack of communication between these elites and the party ranks on the one hand, and on the other hand, the arrogance of power that comes especially from a belief in the righteousness of one's own actions.

Why the Congress opposed the original economic resolution and stressed the need to emphasize socialism is also somewhat of an enigma. Press accounts and discussions suggest that three different sets of motives were at work. The most common interpretation stresses that many members feared the electoral and political ramifications of abandoning socialism. They apparently conveyed to the leadership the following view:

> liberalization of the economy, import of technology and also opening the door to multinationals was not going down very well with the party's ground-level workers, who had to constantly meet people worried by their problems of hunger, shelter and clothing.[76]

Nothing brings home this gap between the leadership and the rank and file more sharply than to sit in a district or state level Congress office, where the electric fan goes on and off due to an electricity shortage, and ask them what they think of Rajiv's "march into the 21st century with computers." If they are at all honest, a common answer often is, "this talk is fine in Delhi, but here it will only make you lose elections."[77]

A second set of considerations that led some Congress members to oppose the resolution had more to do with ideology than with electoral considerations. The former president of the party, Brahmananda Reddy, apparently made a strong and open speech during the meeting, criticizing the resolution for neglecting what Congress had always stood for, namely, the "common man."[78] While cynicism toward such statements from Congressmen is often an appropriate response, it would not be wise to ignore the powerful hold some ideas have on older members. The number of such Congressmen is diminishing, but they have far from totally vanished. Notions of national self-reliance are very dear to this set, as is the idea that, even if you can not help the poor, the rich should not

be pampered. State controls on capitalism satisfy this latter ideological urge. Liberalization, by contrast, invokes a knee jerk reaction because it may involve, first, the abandonment of hard won national sovereignty and second, letting the rich run with all that they can.

Lastly, and probably most importantly, another set of Congress members seem to have opposed the resolution, not because they had any serious concerns over the substance of economic policy. Instead, they were generally disgruntled with Rajiv Gandhi and were in search of an issue over which they could let this be known. This group generally consisted of individuals who were well placed under Indira Gandhi but had lost out in the shuffle. As many as one hundred of them, led by Dinesh Singh, apparently met at his house the night before the meeting to chart out an opposing strategy.[79]

Various sets of factors thus mobilized the Congress party to oppose the economic resolution presented by Rajiv and his ministers. The event was significant because it highlighted that the Congress party was not dead, at least not at the top. This same sense emerged when, as discussed above, the party opposed the leadership's decision to hike petroleum prices. What is as significant for the purpose of this essay, however, is a point developed above. This is worth reiterating. The failure to carry his own party put Rajiv on the defensive about his economic program. This probably put important limits on both the pace and the scope of intended changes.

(b) *Moderate left opposition*

Had Rajiv Gandhi carried his own party, he could have probably ignored the opposition from the left without significant political costs. The opposition within Congress, however, gelled around what can be considered a "left" position. This raised the significance of similar opposition generated by non-Congress groups, especially the left intellectuals and parts of the working class. What has made this opposition even more credible is its moderation; the government's new economic policies have been opposed, not from a position demanding massive structural changes, but from a one that is claimed to be, though more broad based, also "politically feasible."

An event of some political significance was the joint statement put out by 29 left-leaning economists in October 1985.[80] As discussed above, this statement was sharply critical of the government's new economic policies. The meeting of the economists was sponsored by the Communist Party of India-Marxist (CPM) and was held in Calcutta. The economists involved, however, were not only Marxists. While the opinions within the group differed, they arrived upon a joint position that not only was very critical of the liberalizing thrust of the new policies, but also provided an alternative economic strategy.

The content of both the criticisms and the proposed alternative can be briefly summarized. The group criticized the new strategy because it will undermine cherished national goals of self-reliance and socialism. They argued that the new strategy will not even succeed in its growth objectives because the underlying analysis was wrong; the real constraints on growth are limited demand and declining public sector investment. The way to boost growth, therefore, while preserving national sovereignty and facilitating some redistribution, was to increase public investment, especially in irrigation, improve public sector performance, implement land reforms and facilitate broad-based, agriculture-led economic development.

This event has a number of political implications. First, India's economists are now more divided than in the past on the issue of the economic direction India should adopt for the future. This is not to deny that India has had some vociferous economic debates in the past. From the second five year plan onward, however, India adopted a development strategy that has more or less been considered an appropriate strategy for India by most Indian economists. There were always those who thought India should be more export-oriented and competitive, and there were always those who thought that the feudal-capitalist alliance was holding back India's economic dynamism. Toward the middle, however, there were many disagreements, but not over the crucial values that economic development should strengthen. Even today, one should not exaggerate the divisions, especially on the broad issue that controls have outlived their utility. Yet, it is important to note that specialists are now quite divided on the issue of what values economic development should satisfy. The consensus of the specialists, which can be a powerful political glue, has come undone.

Related to this general point is a more specific issue. The divisions among specialists have highlighted the political nature of economic decision making. The new economic policies cannot easily be sold any more as technical solutions to complex technical problems. This has no bearing on which set of specialists is really right. The political point is simply that the technocratic element that could help legitimize economic

policies has been weakened. The battle for economic policies will have to be fought more and more openly on political grounds.

This is not to suggest that mere opposition from specialists can form the basis of mass political opposition. That would be a nonsensical claim. The significance of opposition from specialists is that it provides viable, alternative economic plans for political actors to hold on to and mobilize around. It is possible to imagine — though only remotely — that opposition parties like the CPM and the peasant parties like the Lok Dal can come together under the leadership of V. P. Singh around an economic program that emphasizes broad-based, agriculture-led development. What is a more plausible alternative — and some of this has already begun — is that, as Rajiv Gandhi continues to lose his popularity, he will continue to distance himself from the liberalization alternative and move closer to a more populist program that emphasizes the needs of the poor and the peasantry.

Another related opposition to the new policies that is worth noting here is the one day national strike organized by the workers in the public sector in January 1986. The strike was organized around mainly political demands: a halt to the policy of privatization; prevention of injecting foreign and national private capital into public sector activities; protecting domestic goods against imports; and the right of trade unions to influence technological changes, especially computerization. The strike was coordinated by an all-India committee and was by all accounts successful.[81]

The strike was mainly around policy issues that public sector workers fear the government may pursue in the future. It is difficult, therefore, to assess the political significance of the strike. Nothing concrete was up for bargaining; there were no identifiable winners or losers. What strikes like this make clear, however, is the type of opposition the government may expect if it ever really gets down seriously to privatize and to modernize the public sector.

(c) *Rural groups*

Political attitudes and activities of India's rural groups are the most difficult to ascertain and document. They are important, nevertheless, because it is in the countryside that India's elections are won or lost. What sways the rural voters thus remains both something of a mystery and a subject of considerable importance.

What is known for sure is that, since the new economic policies were initiated, Rajiv Gandhi and his Congress party have lost eight successive state elections. Nearly half of India's states are now ruled by non-Congress parties. All of the South and most of the East are under the control of opposition parties. It would be, of course, stretching the evidence beyond recognition to claim that these electoral losses can be attributed to the government's economic approach. Losses in Punjab and Assam clearly had much more to do with regional than national issues. Losses elsewhere, such as in West Bengal, Kerala and now Haryana, have been products of complex regional and national concerns, including the multi-causal variable of Rajiv's generally declining popularity.

In spite of this crucial caveat, there is reason to believe that the new economic policies have hurt Congress politically among two numerically significant rural groups, namely, the middle peasants and the rural poor of the scheduled castes. When trying to understand the political consequences of national economic policies on these rural groups, it is important to bear in mind that political preferences of such largely illiterate citizens are molded by and expressed in diffuse and general terms; the generality, however, does not necessarily reduce the rationality of these preferences. Nehru, for example, was never preferred by the middle peasants of backward castes because he was seen as a Brahmin who lived among and cared primarily for the city folk. By contrast, Indira Gandhi was much loved by scheduled castes because she supposedly stood for the poor, certainly more than the other prominent national politicians. As far as Rajiv Gandhi is concerned, in the words of India's leading news magazine, *India Today*, the "pro-rich image has stuck."[82]

The extent to which this image has been created by bad political management, as distinct from the policies pursued, will never be known for sure. The fact is that the image probably was created with Rajiv's first major economic decision, namely, the 1985–86 budget. This budget, one may recall, offered tax concessions to corporations and middle income groups, as well as other policy concessions that appeared to benefit primarily the urban well off. The liberalization agenda thus got identified as a pro-rich agenda. In spite of policy changes on the margin since then, Rajiv Gandhi has not been able to shed the pro-city, pro-rich image.

The political reaction of the middle peasants to these images has been quite negative. This is clearest, for example, in a state that is generally dominated by the Congress, namely, Gujarat. Here the backward castes — the Kshatriyas — are also often the middle peasants and are

actually aligned with the Congress. In spite of this, over the last two or three years, peasant agitation against the Congress state government has become a regular feature in Gujarat. During March 1987, for example, nearly a million peasants — generally owner-farmers — threatened to *gherao* (coercive encirclement) the state assembly to press for demands for higher output and lower input prices. When government sought to block the action, massive violence resulted: 73 government vehicles were set on fire; traffic was blocked; railway lines were damaged; 2000 people were arrested; 10 people died; and the former chief minister of the state was beaten up.[83]

Another important example that supports the thesis that middle peasants are feeling more and more alienated from the Congress dominated center is, of course, the Haryana elections. Congress has never enjoyed much support with the main peasant caste of this state, the Jats. The popular feeling that Haryana was losing out to Punjab over various regional issues had also raised the odds against a Congress victory. Yet, the massive electoral loss — in a state that Congress formerly controlled, the Congress won only five of 86 announced results — points to a further erosion of the peasant base in this largely agrarian state.

The opposition in Haryana apparently emphasized themes that highlighted the vast distance that existed between the needs of humble peasants and the rulers in New Delhi. It is reported that Devi Lal, the new state leader, went from village to village in his down-to-earth style, arguing that Delhi rulers were busy with their "foreign wives, foreign banks and foreign money."[84] As a newsweekly editorialized:

> . . . in Devi Lal's campaigning there came to be increasing emphasis on the Rajiv Gandhi government's modernization policies. The attacks on these policies were rough and ready, couched sometimes in urban-versus-rural terms of the familiar Sharad Joshi variety and at other times in terms of a western-oriented upper class minority versus the mass of people. Clearly, the raising of these issues and their undoubted impact on the electorate gives the outcome of Haryana election a greater significance than if the election had been more or less exclusively focused on the Haryana-versus-Punjab issue.[85]

The message that the opposition thus attempted to spread and that was apparently accepted was simple but powerful: Delhi rulers do not have peasant interests at heart.

Another related political development that is likely to be of far reaching consequence is the Congress' loss of rural support. Under Indira Gandhi the Congress had enjoyed the support of the rural poor in general, and specifically of the scheduled castes. This was the major political gain that Indira had secured with her emphasis on *garibi hatao*. If the image of a pro-rich leader is not shed by Rajiv, this support base is bound to erode over time. While hard evidence on this point is not available, there are indications that this trend has already begun. As discussed elsewhere, local level interviews in India reveal widespread concern among Congress members at the district level and below as to how they are going to maintain the support of the scheduled castes, now that Congress talk is all about computers and the 21st century.[86] The communist parties, moreover, that now rule West Bengal and Kerala, and other regional populist parties would be difficult to beat without cutting into some of their support base among the landless of the lowest castes.

None of the above should be read as if there is a groundswell of opposition to Rajiv's Congress in the countryside or that the main cause of this is government's economic policies. Both factually and analytically, such claims would be incorrect. Public opinion polls continue to reflect that Rajiv still remains a competitive leader, though this lead is rapidly declining.[87] Attempts to restore popularity have already pushed Rajiv back in a populist direction. This will probably help Rajiv rebuild his political support among numerically significant groups, but by the same token, the agenda of economic change is for now on the back burner.

7. CONCLUSION

This paper has sought to present an analysis of the politics of economic liberalization in India. The forces that have pushed and/or opposed governmental initiatives, as well as how this political tug of war has influenced the policy process, have been discussed. It is now time to briefly summarize the argument and to draw out some of its implications.

Over the last decade leaders of India have sought to liberalize that country's relatively controlled and closed economy. There has been no attempt made in this paper to discuss the economic merits of such actions. Whereas such actions are probably necessary for boosting India's relatively slow economic growth, the focus of analysis above has been on the political roots and consequences of economic policy change.

In her last four years, Indira Gandhi quietly initiated some important liberalizing economic initiatives. The interesting issue these develop-

ments raise concerns the minimal political opposition that such actions of a socialist leader evoked. There was minimal political opposition because the changes were on the margin and because they were undertaken piecemeal and without political fanfare. Moreover, Indira Gandhi was perceived as a well-established socialist leader. Her attempts to initiate liberalization, unlike her son's, did not evoke a sense that cherished nationalist values of national sovereignty and a concern for the poor were about to be thrown out, only to be replaced by an open embrace of the rich — both Indian and foreign.

Rajiv Gandhi has attempted to push liberalization further and in a shorter time. Major policy initiatives were taken in this direction. The pace of change, however, has now slowed. After some initial successes, there have been important setbacks and the reforms have generated considerable political opposition.

The reforms have been pushed by a technocratic leadership that appears to firmly believe in the economic merits of liberalization. Major support, at least for domestic, as distinct from international liberalization has come from industrial and commercial groups. The motley urban middle classes have also appreciated the tax reforms and the availability of consumer goods in the market.

The extent to which the reforms have succeeded is thus best explained with reference to the ideology of the new rulers. These rulers emerged as rulers for reasons that had little to do with their positions on economic policy. Over the short run, these new leaders utilized their considerable autonomous power to push through a few reforms. It is also important to recognize that these reforms were not opposed, but rather were supported, by powerful and vocal urban groups. Those specific reforms — like the attempts to liberalize the automobile manufacturing policy — that met resistance from powerful business groups were postponed. Additionally, the reforms that were successfully implemented tended to exhibit two characteristics: their negative impact was limited to a small and specific group (as, for example, the reforms in the textile industry); and/or they were pushed through as technical changes without political fanfare. A temporary condition of state autonomy, the ideology of the rulers, support of powerful socioeconomic groups, and the capacity to depoliticize some of the economic issues thus appear to be the main factors that help explain a partial success in liberalizing India's economy.

Conversely, what looms larger than these partial successes is the rapidity with which the constraints on governmental initiatives came into play. Many political and social groups have come to react negatively to the government's attempts at economic reforms. Their opposition is not based on economic issues alone, nor is it always expressed in a coherent and direct fashion. For some, like the Congress rank and file, the opposition is probably mainly opportunistic but is also in part based on ideology and in part due to the fear of electoral implications of the new policies. The left intelligentsia seems to genuinely believe that the new policies will have disastrous consequences; not only, according to them, is higher growth not assured by the new economic policies, but national sovereignty and a redistributive orientation may also be sacrificed. Labor groups in the public sector fear corrosion of employment security. The political reaction of rural groups is less direct. Even they, however rightly or wrongly, in their own diffuse and haphazard way, seem to be communicating to the government that its pro-rich and pro-urban image is suspect.

Rajiv's declining popularity has clearly not entirely been a product of his economic approach. But just as clearly, it would be foolish to assume that his attempts to liberalize the economy have been politically neutral. Some groups, generally the better-off urban groups, have supported the initiatives. The opposition has come mainly from the groups in the popular sector — peasants, workers, rural poor, left intelligentsia and even the rank and file of the ruling party that has daily contacts with some of these groups. As these groups have reacted negatively, the fear of losing electoral support has forced the Rajiv government to slow the pace of economic change. The society has struck back; the state has lost its temporary autonomy.

It is only with some exaggeration, therefore, that one is led to conclude that attempts within India to implement what leaders consider to be economically rational have come into conflict with the rationality of democracy. All other things remaining equal, either Rajiv Gandhi and his government will not push the liberalization agenda too far, or the pursuit of these policies will continue to cost the ruling groups popular support. Since an internal demand-led, redistributive growth model is even less politically feasible in contemporary India, chances are that the government has few options for stimulating growth but to liberalize the economy. The analysis here suggests that such a policy trajectory will continue to cost the Indian government popular political support.

Finally, these empirical materials from India have a bearing on an enduring debate within

comparative development studies with which we began this essay. This debate posits links between specific regime types and development strategies. As mentioned above, some arguments in Latin American studies have suggested that the numerous bureaucratic-authoritarian regimes during the 1960s had their origins in the exhaustion of import-substitution model of development. The implication was clear: moderate regimes may find it difficult to implement policies that, by prevailing economic logic, are deemed to be rational and necessary. This argument has come in for considerable criticism. The issue, however, is too important to vanish. It continues to appear and reappear in different contexts. The success of Southeast Asian NICs has often been attributed to the role of certain type of market policies pursued by authoritarian states. As Latin American countries redemocratize, the issue of their capacities to impose economic rationality has also once again become an open question. The issue of the fit between regime types and development strategies is thus likely to continue to be debated.

Indian materials suggest that it is indeed difficult for a democratic regime to undertake a major shift in development strategy. It has been evident throughout the discussion above that some economic reforms were possible all along. It would thus be absurd to deny that powerful leaders like Indira Gandhi or Rajiv Gandhi can initiate and implement some policy changes that they and their advisors deem necessary. There are, however, fairly sharp limits on how far and how fast a liberalization program can be implemented in a democracy.

The counterargument that nondemocratic countries have also faced obstacles in liberalizing their economies is simply no argument. All that tells us is that liberalization measures can evoke opposition in numerous settings, and that many nondemocratic regimes are also not capable or willing to run roughshod over such opposition. An analysis of a democratic case at least enables one to specify the nature and the mechanics of political opposition. The conclusions are disturbing. In social settings where cultures of efficiency are not well established, calls for efficiency and competitiveness do not buy broad political support. This creates real problems for Third World democratic states that are not products of capitalism, but instead seek to promote efficient capitalist development. The need to build broad coalitions pulls these fragile democratic governments in policy directions other than those that may best promote an efficient and competitive economy. These issues of political rationality ought to complement those of economic rationality when analyzing, judging or advising what developing country governments should or should not do.

NOTES

1. A wide variety of literature in different contexts tends to argue this position. Only a selected sample of this literature is cited here. First, some scholars have traced the roots of Latin American authoritarianism in the 1960s to the need to "deepen" industrialization. Implicit in this claim was the argument that moderate regimes find it difficult to adopt a pattern of development that some would consider to be rational and necessary. See, for example, O'Donnell (1973). For debates around this hypothesis, see Collier (1979). Second, and related to this, numerous scholars of Brazil have argued that the economic adjustments and the high rates of growth Brazil achieved during 1964–74 would not have been possible without the military regime. For specific empirical materials, see the essays by Thomas Skidmore and Fernando Cardoso in Stepan (1973); and more broadly, see Evans (1979). Third, the success of market-oriented industrialization in select East Asian countries like South Korea has been associated with the role of an authoritarian state. See, for example, Jones and Sakong (1980); and the essays in Deyo (1987). Finally, some development economists, who generally favor a liberal model of development, have also wondered whether it is possible to pursue such a model without an authoritarian regime. See, for example, Bhagwati (1986).

2. In recent years, literature emphasizing the role of leadership and the room for choice has developed around the issue of implementing the IMF's stability program. See, for example, Nelson (1984); Bienen and Gersovitz (1985); and Haggard (1985).

3. Academic works that would broadly support the liberalization policy prescription include Bhagwati and Srinivasan (1975); and Ahluwalia (1985). For a brief but succinct statement on the need for liberalization by a policy maker, see Jha (1986). For a sampling of the critical views, see Datta (1985); Paranjape (1985); Patnaik (1986); and Raj (1985). Two essays that, like this one, focus on political issues are Kochanek (1986); and Rubin (1985). Two other essays that came to my attention only after this essay was written are Dhar (1987) and Patel (1987).

4. See Ahluwalia (1985).

5. A good review of this and other debates surround-

ing India's slow industrial growth is Varshney (1984).

6. Two analyses that would broadly support this position are Bhagwati and Srinivasan (1975); and Ahluwalia (1985).

7. For a statement linking limited aggregate demand to slow industrial growth, see Chakravarty (1984). This thesis also crops up in several criticisms of the new economic policy cited in note 3. Moreover, a statement by 29 Indian economists, criticizing the government's emphasis on liberalization, suggested that one important component of any new development strategy should be "expansion of home market." This statement is further discussed below. It was published in *Mainstream*, October 26, 1985, pp. 24–25, and discussed in many newspapers and magazines, including *Economic and Political Weekly* (hereafter referred to as EPW), October 26, 1985, pp. 1813–1816.

8. This thesis was first put forward by Srinivasan and Narayana (1977). Since then it has been argued by quite a few observers, but especially by Bardhan (1984).

9. See Manor (1988).

10. Interview, Arjun K. Sengupta, Washington, DC, June 28, 1985.

11. See Manor (1988).

12. See Jha (1982).

13. For example, see Jha (1984).

14. See *The Economic Times*, September 1, 1984.

15. Most close observers of Indian economic policy agree with this conclusion. See, for example, the editorial in *EPW*, December 1, 1984. Discussions with T. N. Ninan, former Senior Editor (now Executive Editor), *India Today*, New Delhi, December 11, 1985; and with N. S. Jagannathan, Editor, *Financial Express*, New Delhi, December 14, 1985, also confirmed this impression.

16. Jim Manor emphasizes this as a cause of the more "communal" Indira Gandhi of the 1980s. See Manor (1988).

17. See Kohli (1987).

18. Since many of these reports are not public documents, complete citations cannot be provided. The contents of these reports are generally made well known via newspapers. Four of the important relevant documents of the last decade were the reports of the Alexander Commission, Dagli Commission, Arjun Sengupta Commission, and the L. K. Jha Commission.

19. See Jha (1982).

20. Reference is to the analysis presented in Bardhan (1984). An interesting essay that discusses these issues in detail is Rubin (1985).

21. Interview, L. K. Jha, New Delhi, December 16, 1985.

22. Interviews, Arjun Sengupta (see note 10) and L. K. Jha (see note 21).

23. For a detailed discussion of the issue of how leaders in India get into power, see Hart (1988).

24. Quoted in *Times of India*, January 6, 1986.

25. I am indebted to John P. Lewis for bringing this point to my attention.

26. It is reported that a senior World Bank official flew into India at this time and advised the new government to dismantle the structures of economic control all at once. It is not clear how many of the advisors of the Indian government with World Bank connections were sympathetic to this approach. L. K. Jha in an interview (see note 21) suggested that he reacted "very negatively to such suggestions." Given the opposition that even piecemeal liberalization has invoked within India, one wonders about the political sensibilities of both those in power and those who provide "rational" economic advice around the globe. Do ends justify all means? Does it matter whether the political system can withstand such sharp economic changes? Or is it that, given "rational economic policies," and thus a "rationalized economy," all else will work itself out in good time? More sober observers, even economists who favor liberalization of the Indian economy, have openly worried about the capacity of Rajiv Gandhi and his advisors to appreciate the serious political obstacles that such an effort will create. For an extremely well-balanced and sensible essay along these lines, see Datta Chaudhry (1985). Other economists like Jagdish Bhagwati have also, in a more general context, recognized these obstacles. See Bhagwati (1986).

27. For a summary and a discussion of the 1985–86 budget, see *Times of India*, March 21, 1985.

28. These cover captions are for issues of March 15 and April 15, 1985 respectively.

29. Nani Palkhiwala in *Times of India*, April 2, 1985.

30. These events received considerable attention in the press. For example, see *Times of India*, May 7, 1985; *Statesman*, May 7, 1985; *Statesman*, May 9, 1985; and *Telegraph*, May 14, 1985.

31. Interview, D. H. Pi Panandiker, Secretary General, Federation of Indian Chambers of Commerce and Industry, New Delhi, December 12, 1985.

32. See *Times of India*, May 7, 1985. Also see, All India National Congress (I), *Economic Resolution*,

adopted by the All India Congress (I) Committee, New Delhi, May 6, 1985.

33. See *Deccan Herald*, May 7, 1985.

34. See *Statesman*, November 19, 1985.

35. See *Statesman*, November 14, 1985.

36. The report was released in mid-November. For an abbreviated discussion, see *The Economic Times*, November 18, 1985. The report itself is now a public document. See Government of India (1984).

37. See *Indian Express*, November 20, 1985.

38. See *Hindusthan Times*, December 6, 1985.

39. See *Indian Express*, December 19, 1985.

40. See *The Economic Times*, September 14, 1986.

41. For a critical review of the new textile policy, see L. C. Jain in *The Economic Times*, September 26, 1985.

42. I have chosen not to evaluate the actual consequences of the adopted policies in this essay. It may interest the readers to note in passing that the mill sector of the textile industry has done rather poorly in India throughout 1986 and 1987. The reasons for this, however, are only in part policy related.

43. See *Hindusthan Times*, December 12, 1985.

44. See *Indian Express*, January 23, 1986.

45. See the editorial in *EPW*, March 1, 1986.

46. Interview, Raja Chelliah, Member of Planning Commission, New Delhi, December 13, 1985.

47. See *The Economic Times*, February 2, 1986.

48. Ibid.

49. *The Economic Times*, February 24, 1986.

50. See the editorial in *The Telegraph*, February 7, 1986.

51. See Jha (1987).

52. Interview, N. D. Saxena, Secretary General, the Associated Chambers of Commerce and Industry of India, New Delhi, December 16, 1985.

53. For a detailed study, which is somewhat out of date by now, but which still captures important trends in this issue area, see Kochanek (1974).

54. The qualification, "until recently," when discussing FICCI and ASSOCHAM is made because both chambers are currently undergoing major changes in membership.

55. Interview, N. D. Saxena (see note 52).

56. Interview, N. S. Jagannathan (see note 15).

57. Interview, N. D. Saxena (see note 52).

58. For an argument along these lines, see Datta (1985).

59. Interview with a business executive who did not wish to be identified, New Delhi, December 14, 1985.

60. Several of those interviewed suggested this as the major division among the business community vis-a-vis the new economic policies. For example, both T. N. Ninan (see note 15) and N. S. Jagannathan (see note 15) expressed this view.

61. Interview, L. K. Jha (see note 21).

62. Interview, D. H. Pi Panandiker (see note 31).

63. Interview, D. H. Pi Panandiker (see note 31).

64. L. K. Jha (see note 21) suggested in an interview that there was no thought to alter the established national approach on these issues.

65. Interview, D. H. Pi Panandiker (see note 31).

66. L. K. Jha's address to the Indian Merchants Chamber, Bombay, as reported in *The Economic Times*, September 16, 1986.

67. R. K. Roy's interview with Jagdish Bhagwati, as published in *The Economic Times*, September 16, 1986.

68. See *Times of India*, January 6, 1986.

69. Marketing companies generally arrive at this figure by assuming that "middle class" is defined by urban incomes of 1000 to 2500 rupees. A good, nonscholarly survey of the Indian middle classes was published in India's news magazine, *Imprint*, March 1986, pp. 14–28.

70. See the editorial, *The Telegraph*, February 7, 1986.

71. See, for example, the popularity poll published in *India Today*, August 31, 1988.

72. See Chakravarty (1985). Nikhil Chakravarty also brought up these issues, including the fact that he had personally seen the original economic resolution, in a one-on-one discussion in New Delhi, December 17, 1985.

73. See *Statesman*, May 7, 1985.

74. Reported by Chakravarty (1985).

75. See, for example, the reports in the *Statesman*, May 7, 1985; and *Times of India*, May 7, 1985.

76. See *Statesman*, May 7, 1985.

77. While remarks like this were often made, this specific quote is from an interview with Jinabhai Darjee, a veteran Cong. (I) leader in Gujarat, conducted in Ahmedabad on March 10, 1986. The original interview was in Hindi. Translation is my own.

78. See *Statesman*, May 7, 1985.

79. Discussion with the journalist and political observer Nikhil Chakravarty (see note 72).

80. See *EPW*, October 26, 1985, pp. 1813–1816.

81. For example, see "Public Sector," *EPW*, January 24, 1987.

82. See *India Today*, July 15, 1987, p. 22.

83. Reported in *India Today*, April 15, 1987, pp. 22–23.

84. See *India Today*, July 15, 1987, pp. 8–10.

85. See *EPW*, June 20, 1987, editorial on "Haryana Elections."

86. Many of these interviews have been cited in Kohli (1988), Chs. 6–8.

87. See *India Today*, August 31, 1988.

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