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The Politics of Liberalization in India

Liberalization is an excellent subject for the study of political economy, the necessary entanglement of economic policies with political conflict. Liberalization, strictly speaking, refers to a set of internally interconnected economic policies. But the introduction of these policies is, in most cases, an intensely contentious political process. Liberalization of an economy never happens in isolation, but always against the background of some already settled ways of ongoing economic life. The changes collectively called 'liberalization' happen in the context of previous conventional, settled habits of policy formulation by governments and the general economic conduct of ordinary people.

There are a great variety of states in the modern world, and different kinds of states follow significantly different orientations towards the economy. Thus, what liberalization would actually mean for citizens of a particular state would depend to a large extent on the kind of relation that already exists between the state and the economic sphere. In economic terms, states in the modern world could be classified into four groups. In some cases, like the United States, the society conventionally worked on the basis of a very limited conception of the state's economic role. The state usually provided law and order, the enforcement of contracts, and minimal conditions for the efficient operation of a capitalist economy. State intervention in economic life was deeply disapproved of as inefficient, bureaucratic, and also as inducing an economic culture opposed to self-reliance. Diametrically

First published in Simon Bromley, *et al.*, eds. *Making the International: Economic Interdependence and the Political Order* (London: Open University and Pluto, 2004), pp. 133–72.

opposed to this model were the economies of former communist states in the Soviet Union and Eastern Europe, which were run by state planning. In these economies, the state not merely assumed overall direction of the economic activities as a whole, but also engaged in the direct management of production. Thus, the vast majority of people were direct employees of the state, and the state was the primary producer of goods and services. It was also the provider of a comprehensive system of welfare. European states of the late twentieth century developed a deliberately complex form which admitted structures from both of these models, without surrendering the entire functioning of the economy to either the unrestrained logic of the market or the total control of the state. These were characterized as 'mixed economies'. Despite considerable divergence in the exact mix of the two elements, and the precise fashioning of the institutional structures, these represented a recognizable third form.

However, despite their disproportionate influence, the world system consists not merely of Western states, but also a vast number of non-Western state forms. In economic terms, non-Western states would seem to belong to a fourth category. In these contexts, the states or political regimes simply did not develop capacities to regulate economic life in any comprehensive sense. Economic activities—ordinary peoples' livelihood, mercantile exchange, market organizations—all proceeded without much reference to the state. Usually, the state exacted a certain revenue from the society's economic activities, where it could; but in premodern economies its taxing and regulatory capacities were extremely limited. In our analysis, one particular distinction is of crucial importance. Both in the first and the fourth types, the state leaves much of the economic activity alone; but these should not be confused. In the first case, the state has the capacity to interfere; and it occasionally does—for instance, in cases of war or emergency. In the second case, the state simply lacks the capacity itself.

'Meanings' of Liberalization

Given this diversity among states, and their divergent relations with the sphere of economic activity, liberalization can mean quite different things. (i) First, liberalization can occur in economies that are already following liberal free enterprise policies as a settled habit of economic practice. Such societies are already organized on 'liberalizing' principles. These either do not require 'liberalizing' policies or feel minimal disturbance in their experience of economic life when they are introduced. But in all other types of states, the experiential impact of liberalization can be radical. (ii) Secondly, liberalizing policies can be introduced in socialist/communist economies in which ordinary people's economic life was entirely controlled by the state, and centred on its institutions. The effects of liberalization in such contexts mean nothing less than a total reorganization of economic life. Historically, however, the conversion of communist societies to markets have led to very different trajectories of social change. This process affected completely state-planned economies like the former Soviet Union the hardest, taking away secure jobs, destroying social security, creating highly unstable quasi-markets which often collapsed into open lawlessness. However, there were other examples of more successful and orderly transitions, in cases like Hungary and Poland. The most intriguing and paradoxical example came in China where a secure, unchallenged communist regime has supervised a phased introduction of a booming market economy. (iii) Third, liberalization occurred in economies where the habits of policy were relatively non-liberal, where the people expected large economic benefits from the state's activity, and consequently the state habitually intervened substantially in economic life either by regulatory structures or by direct management of economic enterprises. In Western Europe, where mixed economies flourished in the 1960s, this meant cutbacks in welfare spending by the state, a reduction of the political power of trade unions, and large-scale privatization of state-managed companies providing public utilities. (iv) Finally, liberalization can happen in societies that had a large, premodern economic sector unacquainted with modern controls of economic life, where economic and productive activities took place in unregulated spontaneity, with the state being indifferent and irrelevant to much of ordinary economic life. This is very different from the two dominant forms of modern economic life: in the liberal version the state leaves enterprise free but enforces contracts, prevents and punishes malpractice, and provides the legal framework for capitalist industries; in the socialist version it regulates economic life, ensures substantial redistribution, and at times manages direct economic production.

In the last two types of contexts, liberalization of the economy means nothing less than an alteration of the settled forms of economic practice.

Often economic liberalizers seek to insulate such changes from political conflict by claiming that these changes are 'technical' economic questions, a matter of simple determination of the most effective means for achieving narrowly economic objectives. However, it is, in fact, never so simple, or so clearly a-political. These changes affect the life-chances and life-structures of major social groups who are bound to respond powerfully to such reforms: and this means that liberalization is always serious politics. Liberalization might appear to be 'freeing the spirit of enterprise' of economic individuals and groups, but, contrary to ideological images of the process, there is nothing spontaneous or natural about it. Treating people as 'economic individuals' with atomistic self-interested inclinations is not a natural human trait but a cultural construct. In the second and the fourth kind of economies, it means serious reorganization of economic life, which only the state has the legal ability and the sheer social power to carry through. This leads to the first paradox of liberalization: though the eventual and ideal objective of liberalization is to reduce the state's role in economic life, ironically, it is only the state which can reduce the functions of the state. Or, to put it less paradoxically, economic liberalization in most cases requires a significant use of political power.

Since we shall be concerned primarily with liberalization of the Indian economy, let us see where in this typology we can place the Indian case. The Indian economy is extremely diverse and internally complex, but its segments are a mix of the second, third, and fourth types. In a case like India, liberalization could not be anything but a deeply contested political affair. This essay cannot go into the details of the economic policies through which liberalization of the Indian economy was carried on, starting from 1991; it will discuss the *politics* that went before liberalization and prevented its happening earlier; that went on around it and made it feasible; and the politics of its likely future. Liberalization will be seen not as an economic but a political process.

The process of liberalization of the Indian economy has to be understood in terms of two contexts. First, the impulse towards liberalization came, in part, from outside the country—from international agencies and a strand of highly influential contemporary economic thinking.[1] Secondly, it is essential to ask two questions specific to Indian political economy: (i) what kind of economic structure did India have earlier, which liberalization was meant to dismantle and transform? and (ii) why were those earlier policies adopted? What were the arguments for their justification?[2]

The Global Context

It is a commonplace today to link changes of any large magnitude in national economies with the process of globalization. But how revealing or analytically useful this statement is depends on the exact meaning placed on the term. At times, the contemporary trends of globalization are presented as historically unprecedented; but clearly, on a longer view, the present phase of globalization is an accelerated process of a historical tendency continuing for two centuries, at least since the rise of modern industrial capitalism in the West. Globalization as a concept can be construed narrowly or broadly. In the broad sense, it refers to the process of intensifying interdependence and emergence of networks of regular transaction between economies and states across the world that began with European colonization and the rise of the

[1] This directly implies that this strand of thinking was not influential before. Indeed, the study of how and why individual economic doctrines become dominant and begin to shape government policies is an intriguing but neglected field of academic research. At the time of Indian Independence, immediately after the Second World War, economic thinking was dominated by theories—like socialist or Keynesian ideas—that were critical of the market mechanism.

[2] Of these two questions, obviously, the first is descriptive, and the second set is evaluative. The second set of questions raises further ones, by implication: were earlier political economic policies wrong from the start, when they were adopted? Or were these superseded by historical changes in the Indian and the international economy? Did the early Indian elite adopt these policies for purely economic reasons, or for a combination of economic and political objectives? For discussions about some of these crucial issues in India's political economy, see Chakravarty 1984, and Bardhan 1984. Some of the political implications are analysed in Kaviraj 1994.

modern world economy. This process was clearly discerned by the more historically perceptive theorists of the nineteenth century, like Marx.[3] This general process, however, went through several distinct stages, keeping pace with the development of productive technology and the evolution of new techniques of political organization, which theorists like Michel Foucault characterize as 'disciplinary power'.[4] Both technology and disciplines of bureaucratic control vastly expanded the capacities of economies and states to affect the lives of social groups, sometimes at great distances. Undoubtedly, this long-term historical process has recently gone through a qualitatively new phase of acceleration, in which such interdependence and capacity to produce reciprocal effects has gone further than ever before. Narrowly, this is called 'globalization' since the 1980s. This has been caused by the growth of new technology, based on digital communication, and corresponding developments of political and economic institutions, which can at least encourage and monitor, if not regulate, the networks created by these technological leaps. For a historical understanding of what is happening to our world, it is essential to guard against two common errors—the first is to believe that nothing like this ever happened before, the second to think there is nothing new in the present stage. From the 1970s, there was wide realization that the structure of the world economy was changing, and intensive trade practices had fundamentally altered the structure of the world economy that emerged from the world wars. States veered round to the view that greater, more intensive economic exchange between societies was inevitable, and each state had to find a way of turning it to its benefit. From the late 1970s, another unexpected development accentuated this trend. It became increasingly clear that the Soviet system in Russia and Eastern Europe was in serious economic difficulty. The utter collapse of these states removed the imaginative attraction of an alternative economic model. It became possible to simplify this historical trend as 'the end of history', when only one single economic and political model was left standing. Widespread reforms towards

[3] Marx's *Capital*, vol. III, contains a sketchy but powerful analysis of the emergence of a world system through capitalist development in the West.

[4] Particularly useful is Foucault's discussion of the idea of 'governmentality'. See Foucault 1991.

liberalization of economies occurred in this international setting. But to understand liberalization in India we have to ask: what was the structure of the Indian economy before the reforms began, and why was it the way it was? What were the intellectual justifications, in other words, of Nehruvian political economy?

The Indian Context

The complex of policy changes collectively called liberalization represent, without doubt, the most radical change in overall policy orientation in the Indian economy since Independence. These policies were brought in explicitly to transform, alter, and reorder very different policies the Indian state had followed for over four decades. The earlier set of policies can be seen at two levels: the first is the level of intellectual discourses of political economy, i.e. the arguments put forward by economists and public intellectuals; and second, at the level of governmental policy-making—the attitudes and decisions of major political actors, the bureaucracy, political parties, pressure groups. In the first case, we should analyse how economists formulate policy directions on the basis of more technical considerations about economic objectives, and how these technical ideas are taken up by political groups who derive their support from particular social constituencies. To have serious political effect, those 'technical' economic ideas must go through a popular translation. Political parties give those ideas a more accessible, less technical form, so that these then become part of political discourse reflected in public meetings, parliamentary debates, and journalistic arguments. At the second level, we must study opinions and interests inside the bureaucracy, the formation of party policies, and pressures brought on the government by organized interests. These constitute the non-electoral side of democratic politics, which is sometimes neglected by an exclusive focus on elections and government responses to their verdicts. Actual political events are determined by both discourses and interests. It is wrong to believe that individuals or social groups have some kind of immediate, pre-theoretical understanding of their own interests, that they can understand their interests the way persons feel pain. Rather, persons and groups 'perceive' what is in their interest through the languages of political discourse. These discourses shape the horizons of popular imagination

about what is regarded as desirable and possible. The more mundane politics of interest-pursuing actors occurs in the context of such possibilities already shaped by discourse.

After Independence in 1947, the Congress Party ruled India uninterruptedly for nearly forty years. This long period of Congress rule can be divided into two phases. In the first, Congress followed a reformist (some would call it socialist) programme of industrial development devised by a relatively radical elite around Nehru; but in the period after his death, when leadership of the party passed to Indira Gandhi and Rajiv Gandhi, Congress policies changed in significant ways. In the period of Jawaharlal Nehru's leadership, from 1946 to 1964, a fairly coherent and well-reasoned structure of policies was put in place through a discourse of political economy that achieved almost complete intellectual hegemony and which became a kind of social 'common sense'. Over the next two decades, these policies subtly changed their character, leading to serious unintended and undetected consequences which eventually undermined those policies. By the early 1980s, that old, reformist, redistributive, state-centred intellectual consensus had lost its persuasiveness. A vague but distinctly discernible new kind of 'common sense' emerged in economic circles, and began to circulate in the political public sphere through academic discussion, journalism, media debates, and the unceasing flow of political gossip which often plays an important role in opinion-making. Initially, through the decade of the 1980s, this remained a subtle change in the climate of elite opinion, without achieving much tangible policy consequence. But in 1991, due to some dramatic turns in political life, a new government took office that decided to introduce policies of economic reform.

The Legacy of Economic Nationalism

The nationalist movement that brought Independence to India was a wide, broad-based coalition of social groups, economic interests, and ideologies. The Congress Party, which formed the centre of this mobilization in its final stages, represented this large, coalitional, ambiguous nature of Indian nationalism. Although we speak of Indian nationalism in the singular, in fact several strands inside this broad movement entertained strikingly dissimilar views on what to do with state power once it was won from the British. Since the late nineteenth century a group of political economists had advocated a 'drain theory' about Indian poverty.[5] It claimed that British dominion led to an economic impoverishment of Indian society. They were particularly scathing about what they saw as a process of de-industrialization in which British industrial goods slowly ruined Indian artisanal crafts, and extraction of revenues from the Indian colony fuelled British economic growth. There existed highly significant differences between various nationalist strands on economic policy; but until Independence became a serious prospect, these remained primarily theoretical disputes. From the late 1930s, however, economic policies were discussed with a new seriousness. Interestingly, Congress always had strong relations with political leaders of the Indian business community. A few years before Independence, a group of politically minded industrialists published an outline of the kind of economic policy they thought the state should follow after Independence. It was popularly known as the 'Bombay Plan'. Although primarily a platform supported by industrialists, it advocated policies derived from the tradition of economic nationalism and advocated two key ideas—surprising for a capitalist group. Not surprisingly, the Bombay Plan initiators advocated a strong protectionist policy for the development of indigenous industries, shielding them from competition from more powerful Western business. They wanted this policy to apply to industries not merely located in India, but actually controlled by Indian business. Indian business, as a social class, saw clearly that while the nationalization of industries could go against their interests, protection against foreign competition required a large role for the state; and a weak state could not pursue economic nationalist policies. They also supported the idea that the state should play a significant role in running industries which capitalists could not support, and provide economic infrastructure. Leftist nationalists, influenced by Marxist and Fabian ideas, had already pressed for such policies. Thus, there was an interesting convergence between discursive advocacy of leftist opinion and the hard interests

[5] The major authors of this school were Dadabhai Naoroji, the author of *Poverty and Un-British Rule in India*, and a member of the British Parliament for a time; and R.C. Dutt, a high civil servant who wrote a more academic, but no less critical, *Economic History of India*, vols I and II.

of the capitalist class, which promoted an incipient political consensus in favour of an interventionist state. True, leftist forces and capitalist groups supported the state on the basis of radically different principles, and expected rather different things from its intervention; but they did support the idea of an active state. Such discursive facts often play a very significant role in political life. In India, this consensus got written into the founding political institutions of the state, and shaped the political imagination of elites and ordinary people, structuring political life in particular ways.

In countries with a democratic political set-up, the movement of ideas and the formation of public opinion are crucial in the determination of long-term policy, though in the Indian case, due to widespread illiteracy, this effective 'public' was highly restricted. The Gandhian national movement had mobilized huge masses of the people on large general issues like the right of self-determination; but illiteracy reduced ordinary voters' ability to influence more specific questions of policy. In the first two decades of democratic politics, ordinary voters were mainly politically quiescent, leaving unusually large room for initiatives by political elites and intellectuals. In India's post-Independence history, there were broadly four stages of development of politico-economic ideas. In 1947, gaining freedom from the British empire seemed a magnificent political achievement. It was hardly surprising that, immediately after decolonization, the overriding concern for the new nationalist elite was the protection of this newly won political sovereignty. Indian nationalists had since the early twentieth century contributed to a strong sense of economic nationalism. They were convinced that Indian poverty and British affluence were both based incontrovertibly on the colonial 'drain of wealth'. From the mid-1930s, this tradition of economic thinking, developed by giving an ingenious nationalist twist to Scottish political-economic doctrines,[6] was increasingly linked to analytical frames drawn from Marxist critiques of imperialism. Jawaharlal Nehru's own economic understanding played a significant part in producing a form of 'common sense of

[6] The major writers on the drain theory drew most of their main principles from British political economy, the works of Adam Smith, Ricardo, and later John Stuart Mill. But these texts were regularly and widely read by Indian intellectuals from the early nineteenth century.

the state'—an underlying strand of thought which helped shape state policies at a fundamental level. Nehru was critical of the political practices of the Soviet Union, but he applied a primarily Marxist framework to the understanding of international politics. In contrast to the standard 'realist' view that relations between states could be explained in terms of their single-minded search for power, the Marxist theory believed there was a deeper underlying field of causality related to productive and economic forces. Power came out of the institutional organization of economic capacities. The protection of political sovereignty was thus not just a narrowly political question. It depended heavily on India's place in the complex structure of the world capitalist system. This was a highly plausible theory, which saw the industrialization of the West as the real source of its colonial power; it argued that if ex-colonial societies were to move out of their crippling dependence on the West, they had to industrialize themselves, rather than agree to the disingenuous ideas of comparative advantage. Continued specialization in agricultural production, which had been their conventional strength, would lead to a perpetuation of economic backwardness because of the adverse international terms of trade between industrial and agricultural goods. Significantly, even simple industrialization in consumer goods was not likely to dispel Western economic domination, as this would continue the dependence on Western technology and machinery. Nehru and nationalists feared, like elites in other post-colonial societies, that the West might use its economic leverage to reduce political sovereignty, and turn them, despite formal Independence, into effective satellites. Sovereignty depended on economic independence. True economic independence could emerge only if India could develop her own heavy industries.

Several major policy directions followed from this theoretical perspective. Since indigenous Indian capitalists simply did not have the kind of capital required to establish these large industries, this could be done only by the state. Following this line of reasoning, the state in independent India assumed a large role in direct economic production in certain sectors, particularly in steel, heavy engineering, petrochemicals, power generation, and distribution—all lines of economic production regarded as essential for the development of other, consumer-oriented industries. Although this model of economic growth gave the state in India a large and in some ways determining

economic role, it was also fundamentally different from Soviet-style planning. India was seen as a 'mixed economy', with economic activity left largely to private enterprise, though, because of the theoretical mistrust of private enterprise in socialist economics, the state was also given large regulatory powers.[7] The economic ideal of the Nehru regime could be called 'socialist' in a broad sense, because it used an eclectic mix of various leftist ideas; it certainly included a Marxist understanding of the working of the capitalist world system, and a Fabian concern with redistribution of income, but within a democratic political framework. Its economic ideal was the creation of an economy that was self-reliant, not autarkic.[8] In early public debates, there was considerable voluble discussion about the state's role in income redistribution and social justice. Nehru recognized that the new state's resources and tax base were just too small to attempt serious redistribution, or sufficient provision of welfare.[9] In fact, welfare in the strict sense was limited in Nehru's times to programmes intended to help the urban poor by providing low fixed-price food through state distribution channels called ration shops. By the time the Nehru regime had worked out its economic growth model in some detail, by the mid-1950s, the state had established a large role in the economy in two ways—its ability to impose regulatory controls through bureaucratic institutions, and its role in directly running crucial productive industries, which provided infrastructure or essential inputs into other industries.[10]

[7] The idea was very widespread that capitalist enterprise, left to itself, led to 'anarchy of production', crises of overproduction, large-scale unemployment, and increased social inequality. Not merely Marxists, socialists, and communists believed in these arguments—so did many liberals.

[8] This was a major difference between Nehruvian thinking from communist economic ideals of either the Soviet or the Chinese variety. It was always seen to be functioning primarily within the structure of the capitalist world economy, not a separate or oppositional model.

[9] Even in his most romantic moments, for example, when he was devising a programme for long-term economic development and social justice, in the Avadhi session of the Congress Party, Nehru proposed cautiously a 'socialistic pattern of society' instead of a socialist one.

[10] The railways had been a wholly state-run industry since colonial times. New industries set up as public corporations included steel-making, heavy electricals, and petrochemicals.

This was the overarching intellectual frame for economic policies, but the actual pursuit of these objectives in the real world contained surprising, unintended developments. Interestingly, there was little serious intellectual opposition to this basic policy from any organized social group. Organized labour, under the influence of communists or left wing Congressmen, welcomed them in any case. The middle classes were large intellectually persuaded by the cogency of these arguments and a realistic expectation that this policy of industrial growth would materially benefit them by the creation of management and technical jobs: engineering education became a great favourite of ambitious middle-class families. Bureaucracy was enticed by its nationalism and the prospect of immense increases in its own size and powers of control. Even business, as we saw earlier, supported this brave protectionist vision of industrial development, resulting in something like a rare economic consensus. But the actual pursuit of these objectives led to surprising events.

Nehru was always a socialist, but never, after the 1930s, an admirer of its Stalinist model. He admired the Soviet Union's astonishing industrial growth but was repulsed by the methods of terror used to achieve it. Under Stalin, the Soviets heartily returned his dislike, calling him, at times openly, 'an agent of Western imperialism'. Despite his very early, but short-lived, admiration of Soviet society (which was incidentally shared by many Western socialists in the 1920s) a convergence of policies between independent India and post-War USSR was highly unlikely. In spite of sharp criticisms of Western societies for their colonial past, and continued gentleness towards European colonialism, in Nehru's thinking Western states like the UK and the USA were the most likely allies of independent India. Realities of the post-War political world soon altered this perception. Serious friction began between India and the Western powers on both political and economic issues. Immediately after the war, the US-led Western coalition began a frenetic search for allies across the third world for containing communism, by establishing a ring of interconnected military alliances around the perimeter of the communist bloc. Nehru thought these treaties contributed to increased tension, and decided to follow a policy of non-alignment, a strategy condemned initially by both the superpowers as a devious way of siding with the other camp. Western powers also used their economic leverage to pressurize Nehru on this

question, which simply increased his suspicion that they wished to compromise India's political freedom of decision-making.

On the economic side, Western governments, especially American ruling circles, looked upon his statist policies with deep suspicion and feared that they could be a prelude to a comprehensive nationalization of foreign and private industries. When Nehru's government sought technology and capital to develop his primarily state-led industrialization plan, American response, from government and business circles, was hostile and negative. But this led to a mutual misunderstanding of motives. The West thought it had enough reasons to treat Nehru as little better than a communist; Nehru thought the West was little better than imperialist.

Foreign Policy and Development Strategy

Nehru's regime had two options—either to abandon its ambitious plans for industrialization, or to look elsewhere. The change of regime and fundamental shifts in Soviet policy after Stalin made this possible. The end of the Stalin era led to not merely some internal changes in the Soviet system, but also to a comprehensive revaluation of Soviet policies towards the world. The Khrushchev regime slowly began to change its attitude towards newly decolonized states, and made cautious overtures towards them. In part, this was also driven by a crucial and more realistic assessment of the structure of world power. The inflated ideological discourse of bipolarity often confused the real condition of the world. It stated correctly that there were only two superpowers who dominated the world, but often went on to imply incorrectly that their powers were broadly equal. In fact, the bipolarity of the post-War world was marked by an asymmetry between the West and the Communist world in terms of economic strength and political influence. Only in military power was there something like an equality of conventional arms and nuclear deterrence. But the asymmetry meant that the objectives of the two sides were determined very differently. The West generally expected its allies to give full support to its military and political objectives. The communist system, as the weaker player, would have been content if countries like India did not follow the lead of the West, and the post-Stalin regimes recognized this in their policies. In other words, the Soviet objectives were lower than the Western; and therefore this created a possibility of a convergence between Soviet and Indian objectives, without ideological agreement.

A combination of this kind of economic thinking and short-term political moves eventually shaped the outline of the political economic structure India was to follow for nearly three decades after Independence. It was undoubtedly a mixed economy, with a sprawling private sector, loosely or insufficiently regulated, but dominated by a highly visible public sector in crucial industries like steel, mining, heavy engineering, petrochemicals, oil exploration. Much of the technology and some of the capital needed for this drive towards heavy industrialization came from the USSR. The coincidence of Soviet and Indian policy towards Kashmir and other international disputes sometimes made this convergence of interest look far worse in Western eyes, and among some panicky bourgeois groups inside India. Equally, Western hostility to legitimate ambitions of industrial growth and the mysterious ways of Western foreign policy made Indians increasingly mistrustful of Western declarations.[11] What Indians found particularly strange was how the Americans, who were in theory fighting for the free world, in practice preferred army regimes in Pakistan over elected ones in India.

The creation of the new public-sector industries led to the elaboration of a system of public administration, which classified industries, somewhat in the line of British thinking at the time, into four kinds. There were private enterprises wholly owned by capitalists; but besides these there were, legally, three types of government involvement in industries. 'Joint enterprises' had shared private and state control, usually with a majority share with the state. 'Public enterprises' were funded by the state, but their managements were supposed to enjoy managerial autonomy of decision-making. These were, in administrative theory at least, sharply distinguished from 'ministerial departments' like the railways or the post office which were entirely controlled by state ministries, and were regulated by ordinary rules of bureaucratic management. In the Nehru period at least, public-sector industries enjoyed some serious autonomy of managerial decisions from the bureaucracy. And the initial performance of public-sector industries

[11] Western foreign policies seemed from the Indian point of view marked by an inconsistency between principles and practice. Western governments claimed to be fighting a war for the safety of the free world, but seemed unaccountably attracted towards openly dictatorial regimes.

was encouraging: first, they successfully established these industries in the Indian economy and reduced dependence on external sources of heavy industrial goods; and secondly, even their economic performance in terms of productivity and costs was fairly respectable. As a whole, the policy generated industrial growth, though at a relatively modest rate; it created an economy with a large and versatile production base. Most significantly, from the Nehruvian point of view, it helped India, in the thick of the Cold War, to remain impervious to pressures from outside to alter its political policies. India remained more independent of international, particularly of Western, pressure, compared to countries like South Vietnam or South Korea which were seen derisively as Western satellites. For three crucial foundational decades Indian political economy followed this fundamental design.

Assessments of Nehru's Policies

Historical assessments of Nehru's policies diverge widely. There are two main lines of evaluation. Some economists have argued forcefully, since the 1970s, that the state-led heavy industrialization policies were flawed from the inception, in their very design, and not surprisingly they delivered a sluggish long-term growth.[12] Raj Krishna, a leading economist, famously derided it as the 'Hindu rate of growth', though what this rate of growth has to do intimately or causally with Hinduism is unclear. This line of thought believes typically that the criteria for assessment should be exclusively economic, in fact narrowly income-oriented and based on stringently narrow calculations of 'economic growth'. Other economists who support less narrow conceptions of economic development, and advocate wider and more complex criteria like 'quality of life', judge Nehru's policies rather more positively.[13] Another line of thought still asserts the correctness of Nehruvian policies, and blames its two main disappointments—widespread poverty and slow growth—on failures of implementation. Interestingly, from a theoretical point of view both these judgements depend crucially on comparison between actual states of affairs and counterfactuals.

[12] One of the best, and certainly most influential, arguments, is in Bhagwati 1993.

[13] Among the most well-known analyses of India's political economy are Bardhan 1992, and Dreze and Sen 1998.

Consequently, these judgements always leave a certain margin of uncertainty. It is possible to suggest a third, more mixed, judgement. If the criteria used are mixed—combined economic and political ones—and assess growth objectives, some of which can be decomposed individually and others which are indivisible public goods, then the historical judgement on the first stage of policies is bound to be more complicated, at least less pessimistic. Collective and non-economic goods like political freedom of decision-making and political non-dependence would show the performance of Nehru's policies in far better light. But even those who advocate this historical line of judgement must admit that in its two main functions in the economic sphere the state's involvement began to yield diminishing and eventually counter-optimal returns over the longer term. Even after decades of Nehruvian planning, the Indian economy remained plagued by the two problems of slow growth and large-scale poverty.

The problems with the Nehruvian economic design were probably twofold, again some economic and others political. First, as some economists suggested, planning itself went through a first, relatively easy, phase in which the initial effort of inventorying resources and their direct use by the state brought some quick and impressive results. But once this period of 'easy planning' based on more rational use of physical resources was over, there was a need for the political-economic design to change. In fact, the relative success of this kind of planning was altering the structure of the economic world in which it was taking place, making its continued success more difficult. Paradoxically, precisely because state policies were 'successful' in the short run, and their objectives realized, these policies should have been changed. However, it is clear that from the point of view of politics and bureaucratic decision-making this would appear odd, to say the least. It was implausible to ask politicians and bureaucrats to change policies which had been successful. By the mid-1970s there was widespread perception in the political public sphere, in journalistic debates, and in the popular mind, that state-run industries were running uneconomically and inefficiently, running up huge losses which eventually fell on the state. The second aspect of state intervention, its system of regulatory controls, increased bureaucratic power and too easily degenerated into corrupt practices.

But the degeneration of the public sector and its growing disrepute

was not entirely an economic phenomenon. Political processes were equally to blame. After Nehru, the administrative distinctions in management styles and structures between ministerially controlled industries like the railways and post office and relatively autonomous public corporations producing steel were slowly eroded by political interference. Indira Gandhi's attempts to centralize government resulted in increasingly direct bureaucratic and ministerial interference in their affairs. By the mid-1970s, there was hardly any discernible difference between the two types of enterprise: public sector industries were run as bureaucratically as ministerial departments. Everyday political commentary and popular gossip was full of speculation about politicians surreptitiously using the resources of state enterprises for their own political purposes or for straightforward financial malpractice. Thus the degeneration of the 'public sector' was a somewhat complicated affair. There was no doubt that the public sector had degenerated; but it was, equally truly, not the same kind of public sector. This had two highly significant results: first, the economic performance of the public industries became uniformly poor, and began to be universally derided, not merely by economists preferring the market, but also by ordinary commentators. Secondly, it became increasingly clear that the Nehruvian discursive justifications for the sector, for its contribution to the economic strength of the country and preventing concentration of economic power, had ceased to apply. Some larger international developments contributed to the decline of intellectual support for this economic policy. The USSR collapsed with its model of rational comprehensive state control over economic life, leading to a serious philosophical decline in the general credibility of socialist arguments. Finally, and perhaps most significantly, the structures of the world economy and the international state system changed sufficiently to make the 1950s' fears of neo-colonial subjugation appear outdated. This altered political and economic context made 'liberalization' a realistic agenda which could be taken up by political actors.

The Short-Term Context of Liberalization in India

Yet, interestingly, it needed a serious foreign exchange crisis to start serious policy change. By the early 1990s economic arguments for liberalization were not new or unconventional. In the 1960s, to argue against the state sector and in favour of large-scale privatization required some courage, because it was to go against a political consensus about the economy. By the mid-1970s that consensus had lost conviction and was becoming decrepit as an ideology. Some other significant changes had also taken place in the Indian economy. Nehruvian political-economic thinking had regarded agriculture primarily as a sector to be used to encourage industrial growth—by encouraging productivity increases and enabling a transfer of surplus labour from agrarian to industrial occupations. Government policy therefore treated agriculture differently. Industrial production benefited from government activity, agriculture from non-action. Nehru's government had, in accordance with its socialist convictions, been convinced that agricultural productivity could be boosted dramatically by land reforms, rather than by technological fixes. Instead of relying on technological improvements in agriculture, which were likely to increase inequality among the peasantry, Nehru's regime enacted legislation which helped the state to fix ceilings on land proprietorship.[14] The excess land held by rural magnates was to be redistributed by the state to land-hungry poor peasants. It was generally believed that poorer peasants or agricultural labourers, when given land to own, despite their small farm sizes, would raise production enthusiastically. From the mid-1950s, the Congress Party, under Nehru's pressure, enacted land reform legislation.

In the long term, this policy was a mixed success: it both succeeded and failed. In the short run it seemed a failure, because richer farmers managed to retain most of their land by a creative use of legal provisions. Only an insignificant amount of land was eventually redistributed. Over the long term, however, agricultural policies were seen to produce an enormous social transformation in the countryside. Nehru's legislation expropriated the zamindars, a class of absentee colonial landlords who had flourished under British rule and stifled the agrarian economy by their high rent demands. After their rapid demise, the

[14] In the Indian constitution, agriculture falls under the legal jurisdiction of state governments, not of the centre. Nehru's government at the centre did not enact land reform legislation. The Congress Party asked its state governments to introduce land ceiling legislation, which they obediently did.

way was left open for a class of richer farmers to emerge—to replace them as the dominant class in the countryside. They benefited from the startling absence of agricultural income tax, and the general non-existence of regulatory legislation. By the mid-1960s, rich farmers had become a major political interest group in some parts of the country. In the 1960s, government policy too began to turn in their favour. Agricultural productivity remained stubbornly low despite the land-reform legislations in the Nehru years. After Indira Gandhi became prime minister, the government decided that the land-reform strategy had failed, and changed over dramatically to a new 'green revolution' policy of supporting technological change in agriculture. This required preferential treatment to farmers through a raft of measures—subsidized farming inputs, assured prices for agricultural produce, the provision of energy at low prices. These reforms led to an increase in socio-economic inequality in the countryside, but accompanied by a general rise in productivity. The success of the green revolution in the wheat-producing areas released the government from its crippling dependence on food aid and import, and increased its range of freedom of decision-making. Sociologically, Indian society had undergone significant changes: while industries were more widespread and stronger, and spawned a larger, ambitious, politically voluble professional class, a new class of rich farmers had come to dominate rural society with much greater wealth and consequently political ambition.

In retrospect, the causes that produced liberalization in the 1990s were not new. Dissatisfaction with Nehruvian policies, or their mis-implemented form, became increasingly widespread after the mid-1960s. Bureaucratic impositions were criticized increasingly by a minor section of the intelligentsia, capitalist entrepreneurs, private managers, aspiring small businessmen, and ordinary people who had to deal with bureaucratic delays because of the constant overelaboration of Byzantine procedures. Large social groups, who had great electoral leverage, and influential and strategically placed elites who commanded wealth and connections, increasingly saw bureaucratic controls over the economy as serious obstacles to their growth. But the old policies retained solid support from other social groups—the bureaucracy, which enjoyed immense powers from these regulations; the political class, which indirectly or corruptly benefited from its assets; and organized labour, which profited from vastly improved working conditions.

The interest convergence, which had led to the Nehruvian policies without much serious opposition, started fragmenting. The politics of discourse also began to change, but more slowly and more subtly. Intellectually, a major part of the political intelligentsia still defended a state sector that functioned very differently from Nehru's times by wholly anachronistic reference to high-minded Nehruvian economic ideals. But both politicians and common people recognized that the state sector represented a large vested interest rather than a welcome counterweight to the power of private capitalists. The genuine policy consensus of the 1950s and 1960s was thus already in jeopardy. Early suggestions towards liberalization mainly stressed two policy recommendations: reducing state controls over the licensing of new industries, and bringing market forces into sluggish sectors of the economy, thereby ending state monopoly. The climate of opinion changed slowly: though a larger section of economists began to argue forcefully for reduction of state control and greater freedom of the market, they met with a stodgy dismissal.

But there were discernible changes in practical orientations of economic policy. In any case, Indira Gandhi showed, from the start of her prime ministerial career, a more flexible and pragmatic approach to macro-economic policies than her father, certainly less constrained by ideological convictions about development or redistribution. The first major change in economic policy she initiated, the shift to the technical fix in agriculture through green revolution strategies, showed how easily she could abandon the egalitarian conviction behind the earlier policies of land reform and institutional change.[15] For the benefit of sharp rises in productivity, she was prepared to accept large-scale inequalities. More subtly but fundamentally, Mrs Gandhi's attitude towards planning was very different from Nehru's. Under her leadership, economic planning changed in character. Though the Nehruvian rhetoric of planned development was retained, from the Fourth Five Year Plan onwards the government, in imperceptible degrees, gave up the intention of directing economic growth

[15] For detailed discussions on agricultural policy changes, see Frankel 1971, and Mellor 1966. For an excellent account of the political side of agricultural policy, see Varshney 1998.

purposively. Planning slowly became a process of setting down targets and large-scale objectives, and the vast apparatus of planning kept itself busy in statistical exercises.

During the short period of the Emergency (1974–6), in an interesting interlude, a section of the Congress leadership, encouraged by Mrs Gandhi's second son Sanjay Gandhi, began to suggest heretically that India should abandon planned development and adopt 'the Brazilian path', a transparent code for more liberalized economic policies. With the gradual decline of Nehruvian economic thinking behind real control regimes, these policies lost their ideological resilience and crumbled morally from inside. As a result, the control system did not collapse, but it became a gigantic, arbitrary, Byzantine mass of rules capriciously implemented, more to extract bribes or inconvenience adversaries than realize defensible policy objectives. The control system became more repressive and less justifiable at the same time. Already, a certain change in economic thinking was discernible in government circles in the last years of Indira Gandhi's rule. Economists with pronounced liberalizing views were appointed to highly influential and visible advisory positions in the economic ministries. Their presence indicated incipient rethinking in political circles and the high bureaucracy. These economists also made strong attacks on the inefficiency of the conventional state sector and licensing controls, slowly altering the intellectual climate in which government economic policy was formulated.[16]

Arguments for liberalization and market-friendly reforms did not re-emerge in serious public political debates until Rajiv Gandhi came to power. Rajiv Gandhi had a shorter term in power, but his economic tendencies were even more eclectic than his mother's. He clearly pushed for an incorporation of high technology in particular sectors of the Indian economy, especially telecommunications and computers. Although general policies were not radically revised, government attitudes were seen to be friendlier towards risk-taking entrepreneurial initiative. Since high technology could not easily come into the Indian economy without market-friendly reforms, this was seen as a natural entailment of his policies. But Rajiv Gandhi was assassinated

[16] For a view of this kind, see Ahluwalia 1999.

before his initiatives could form into seriously worked out general policies.

Liberalization of the 1990s

The latter half of the 1980s were highly significant for Indian politics. Though analysts and commentators generally remember them for a period of messy, infructuous government, in fact, the political universe of Indian democracy was moving from one historical stage to a very dissimilar one. The central government was always controlled securely by a majority party, the Congress. In 1991, for the first time, Indian society faced the startling fact that no party could secure a majority at the centre. In the elections of 1989, after Rajiv Gandhi's death, Congress, riven by internal factional fights, failed to get a majority. Yet there was no party which could replace it on a stable basis. Congress had declined, but not enough to disappear electorally; the BJP had emerged strongly but not enough to form a government. Historically, this was an interregnum between strong central governments by powerful, all-India political parties and much weaker ones based on coalitions between regionally powerful forces which were obliged by the electoral arithmetic to seek support from others.

Full-scale liberalization, when it arrived, was full of paradoxes. The government that P.V. Narasimha Rao formed was the weakest central government in modern Indian history. In parliament the government did not command a majority. Its survival depended on voting support from some opposition groups, mainly leftist and lower-caste parties. Rao was not secure inside his own party, with a major section of political leaders openly declaring their loyalty to Rajiv Gandhi's widow, Sonia Gandhi, and obstructing his policies. Rao was the weakest prime minister both in parliament and inside his own party. Yet his government undertook what was undoubtedly the most radical reform of the Indian economy since Nehru's times. How was this possible? How could the most radical reforms be carried out by the weakest regime since Independence?

Four types of reasons could be advanced to explain this paradox. First, economic changes from the 1950s had led to a slow, imperceptible recomposition of social classes, altering the balance of economic power in society. The most significant change was the rise of new capitalist farmers in the green revolution areas who were the main

beneficiaries of the absence of agricultural income tax, and some of the regime of subsidies. The professional middle classes, initially the prime beneficiaries of industrial growth, because they monopolized the new job opportunities in both private- and public-sector industries, and the bureaucracies that supervised them, increasingly felt their economic life had reached a point of stagnation. Until the 1960s, these upper-class groups were entirely dominant in the political world; but from the 1970s their exclusive control of the political field was successfully challenged by politicians coming from rich-farmer and lower-caste backgrounds. As this class became less dominant in the political process due to growing democratic participation, they became more receptive to liberalizing ideas, expecting new opportunities of income growth from global economic changes. A highly skilled section of the Indian professional classes gradually got access to the international economy, and developed much greater aspiration for wealth than the earlier structure of policies allowed. Secondly, the structure of the global economy and the nature of economic relations had changed radically. These changes seemed to make fears of neo-colonial control by ex-colonial powers unrealistic, and therefore policies meant to guard political sovereignty unnecessary. In addition, countries that were derided as satellites showed through their prosperity the great economic advantages of intensified trade and a policy which opened economies out to the world rather than closed it in the name of self-reliance. The spectacular economic growth of the East Asian economies was analysed by Indian observers, and this fuelled speculation that, given proper government policies, Indian business could emulate their prosperity. Ideologically, the global collapse of communist systems seemed to undermine the philosophical legitimacy of socialist economic thinking in general, and thus nationalistic arguments that relied on those concepts carried a fading power of persuasion. Even without a concerted intellectual campaign to open up the Indian economy, the slow dispersal of the Nehruvian consensus in favour of import-substitution, state interference in the economy, and redistributive policies led to the emergence of a new, weaker consensus in favour of liberalization. Curiously, no one argued strenuously for the market, except for a small group, but mistrust of the state grew so immense that it amounted to the growth of a new economic 'common sense' which even the leftist parties could not resist with conviction.

However, this kind of consensus by default, which exists as a background common sense among economic and political elites, cannot translate into economic policy without some political agents to carry it through. Although it is sometimes casually asserted that political democracy and economic liberalism have an elective affinity as both are based on principles of unrestricted choice, in actual historical contexts this relation does not hold so simply. The mere existence of democracy is no guarantee that voters will choose liberalizing policies. It is more likely that voters will reflect on the possible effects of liberalization on their own economic interests, and that large social groups which rely on benefit from state action will vote against liberalization initiatives. In India, despite this widespread feeling of the inefficiency and unpopularity of state-centred policies, pushing through liberalizing reforms was widely seen as a hazardous, unpopular business. Liberalization, if fully implemented, would help some groups and injure others, and consequently large political parties shrank from taking the first step. Organized political groups would have agreed to allow liberalization policies to go through only if others enacted them, and they could avoid the responsibility. Here an extraneous, non-economic factor intervened. The Rao government came to power without an absolute majority, and it used its position of relative weakness with masterly political skill. In 1991 the balance of payment situation came to such a crisis that radical decisions could not be avoided. Rao's finance minister, Manmohan Singh was a distinguished economist who became a bureaucrat and eventually a minister, but not a career politician who had to cultivate an electoral constituency. He fashioned a powerful, cogent, and eloquent intellectual justification for these reforms, bringing the vague drift of opinion among elites to a clear focus. Liberalizing reforms were unpopular to a large section of the Congress Party itself. But they could not produce a counter-strategy to deal with the immediate crisis. Rao, as prime minister, resolutely protected his finance minister from pressures from inside his party and from the opposition in parliament. Ironically, other parties had, in their own way, come round to similar conclusions about the long-term economic strategy, though they were unwilling to admit it publicly. For them, it was in fact advantageous that Congress was forced to take the initiative, and would take the blame. It is remarkable that although in the intense debates in the political public sphere both the Hindu

nationalist BJP and the leftist parties criticized the Congress and warned about the effects of liberalization, no political group opposed it hard enough.

There was also an entirely non-economic but politically compelling reason. Although the debate about liberalization was a mainly economic one, it did not happen in a vacuum. Academic analysis separates out single problems—like liberalization in our case, and seeks explanatory accounts. People do not live in the comparative luxury of such single issues in real political life; they live within tangled webs of interconnected exasperations. What political actors decide to do about one issue is sometimes determined not by what they think about that problem but what they think about others. Similarly, the actual decision of Indian political parties in 1991 was determined, ironically, not by their thinking on the economic consequences of liberalization, but the possible effects of a takeover by the BJP, the Hindu nationalist party which began to emerge into prominence from the 1980s: this cast its shadow on all other questions in Indian political life, including liberalization.

Briefly, as a party the BJP is both old and new. After Independence, the Jana Sangh was the major party of Hindu nationalism which wanted India to become a Hindu rather than a secular state. Its political campaigns have always been strongly anti-Muslim. Interestingly, the Jana Sangh never had a clearly defined economic programme, though its major political support came from lower government employees and small businessmen in northern India. But the Jana Sangh was never able to go beyond modest gains in electoral terms. In 1977 it decided to join the coalition of opposition forces against Indira Gandhi and merged into the Janata Party. Ideological rifts soon began in the Janata Party, and when it broke away it assumed a new name, Bharatiya Janata Party (BJP), presumably to emphasize its 'Indianness' and indigenism. In the elections of 1984 the party's fortunes fell to a record low of two seats in parliament. It began a highly visible and divisive campaign over the destruction of the Babri mosque at Ayodhya and the building of a temple in its place, alongside a broader campaign for rebuilding many other temples after destroying mosques. The campaign was surprisingly successful and rebuilt the BJP's electoral base. By the time of the liberalization initiatives by the Congress, it had started to threaten to launch a bid for power at the centre.

From the mid-1980s the BJP enjoyed a startling electoral revival: in successive general elections it stormed to ever-larger share of seats, and by the time Narasimha Rao became prime minister, Congress dominance had been more seriously eroded than ever before. Narasimha Rao was not a strong politician, but a wily one. With long political experience, he knew how to calculate on the weakness of his enemies. He played the interconnection of the two issues with masterful political adroitness. All political combatants realized that if the BJP was able to form a government at the centre, it would probably re-structure Indian politics in a fundamental way, changing both the constitutional thrust of secularism and the common sense of everyday politics. For opposition parties, therefore, the choice was invidious. They could seriously threaten Rao's reforms only by letting the BJP into power. The left parties disliked liberalization, but they disliked the prospect of a communal takeover at the centre even more. Rao gambled, as it turned out quite rightly, that if he pursued liberalization policies forcefully, the left would merely criticize him, but not topple his government. By enacting legislation for liberalization, he dared them to dismiss his ministry. Understandably, the leftists and other opposition parties thought liberalization was a lesser disaster than the BJP's accession to power. Predictably, they stopped short of voting Rao's government out of office.

The Content of Liberalization: The Fixing of Sequences and Priorities

In politics vagueness is often an unanswerable strength. Liberalization went through successfully partly because of the ambiguity of its meaning and the great variety of expectations. Different groups meant different things by liberalization. At least some interested social groups or political parties believed that they would allow some aspects of liberalization to take place and delay or stop others. There was also another underlying irony. Seen from any angle, liberalization sought to reduce the role of the state in the economy; but it was only the state which could reduce the power of the state.

Intellectually, those who advocated liberalization, the Congress government and its general supporters, understood its internal logic clearly. Liberalization meant the adoption of a structured set of interconnected policies, the success of each part of which depended on the other parts. Segments of this policy structure could succeed up to a point, but not entirely. Just as Nehruvian planners slowly realized that the structure had an indispensable internal coherence, liberalizers understood the coherence of this alternative set of policies. Liberalization meant several radical changes in the received structure of the economy, and consequently in the settled forms of economic practices in everyday life. All observers saw some constituents of liberalization as crucial: reducing the labyrinthine regime of industrial licensing, reducing tariffs, particularly on import goods, reducing subsidies, the creation of a flexible labour market giving greater power to managements, and finally, in cases where state-sector industries were running at a loss, privatizing them. Obviously, each one of these measures went directly against the settled policies of the Nehruvian design of political economy; therefore, their adoption would have meant, irrespective of the tact or skill with which they were handled politically, a radical change in the overall character of economic life for all social groups.

We need to understand how each component policy of liberalization reforms was likely to affect large social interest groups. Social groups have complex and not always predictable relations with political parties. Thus the translation of group interests into political sentiments is a complex affair, as is the further transfer of these into party policies.

Social Groups and Liberalization

Indian liberalization, it is generally acknowledged, proceeded slowly, compared to China and some cases in Africa. Accordingly, its economic and political results were also quite different. This slow progress was not merely because of obstacles, but for deliberate political reasons. The Congress Party was itself divided about liberalizing reforms, and a large segment opposed it—out of habit, if not conviction. The part of the leadership which had to push them through therefore had to conciliate not merely the opposition, but sections of opinion in their own party. Secondly, the reforms progressed slowly out of deliberate political calculation. Some more acute observers of the Indian liberalization programme have noticed that in effect the decision-makers made deliberate distinctions along two separate axes: some policies could have effects only in the long term, others almost instantly.[17]

[17] Sridharan 1993.

Predictably, liberalization policies did not affect all social groups equally, or equally quickly. There are some paradoxes here. Liberalizing economists tend to assume casually that business interests unequivocally favour opening the market; but that, evidently, is not true under all circumstances; it depends on whether business expects to do well because of the market opening. While for international business corporations the opening up of the immense Indian market was a tempting prospect, for Indian business it meant, crucially, an end to protection. Competition by international business could drive some indigenous industries to the ground. Thus, the business response was mixed. On the whole, entrepreneurs welcomed the opportunities for cheaper imports, fewer licensing controls, lower or more rationalized taxes, and openings for easier collaboration with large international corporations that had capital and the latest technology. But they had reason to fear unrestricted competition as well as the great volatility of the international capital markets, which soon afterwards led to the crash of the East Asian economies. Some specific industries, like software manufacture, which were knowledge-intensive and unhampered by the constraints of bad infrastructure, quickly turned these openings to best use. But the success of these industries was partly because of their peculiar nature, their ability to exploit India's social and economic strengths, and the specific conditions of the world market. Other industries could not emulate them so easily. Old-style industries, used to protectionist laws, comfortable with outdated technology, selling to undemanding captive markets, had less reason to rejoice at this impending triumph of the market.

The Indian business world is highly fragmented and stratified. Small businesses formed a different social group and a distinctive political constituency, with a history of support for right-leaning opposition to the Congress. In North India, they had conventionally supported the Jana Sangh and the BJP. These groups, which had complained most bitterly against small-time bureaucratic controls leading to extortionate practices and corruption, stood to gain moderately, or at least to lose nothing. At least in the foreseeable future, big international corporations were not going to swamp their businesses.

Professional managerial groups, which play such a significant role both in directing decisions and opinion in Indian society, were also likely to approve, due to a peculiarity of opinion-formation in social groups. Of course, because of the nature of the Indian economy, this group was divided. Private managers were always in favour of market-friendly policies; bureaucrats and public-sector management in favour of controls. But it is important to recognize that sociologically they constitute a single social group. Although divided by their specific interests, they are tied together intimately by familial and social relations, and the common climate of opinion in classes earning similar incomes. As a result of liberalization, bureaucrats as a special group may face a relative loss of their regulatory or discretionary power. But general group opinion often transcends calculations of narrow individual self-interest. Often, bureaucrats would have family or kin in private management or other professional occupations likely to benefit disproportionately from these reforms. Professional-managerial classes could realistically expect a long-term expansion of their economic prospects as a social class, if not as individuals or families. However, what bureaucrats would lose was often an illegitimate penumbra of power, not legitimate authority, and certainly not their jobs. The bureaucracy thus did not have either strong motivations of group interest or the ideological conviction to resist liberalizing policies.

However, the initial impact of liberalization affected this group in a specific fashion, by opening up utterly unprecedented income differentials within the upper middle classes. Salaries in private management always tended to be higher than government salaries. Now, the more fortunate section that got access to international companies got a vertiginous rise in their incomes, with no chance of bureaucratic salaries catching up—leading to some envy. But social opinion of the group could come to the entirely rational conclusion that what one section lost could be more than compensated by what others gained, and the expectations of long-term gains for the class as a whole.

The likely impact of liberalization on the livelihood of farmers was equally complex, again partly because of the internal differentiation of the Indian peasantry. Farmers who benefited from the green revolution often invested their surplus income into small local or regional businesses. This fraction of their interests was to coincide with those of other small- or medium-scale business interests. But there were two central elements of liberalization which went directly against them. In all liberalization packages, there is a reduction and eventual removal of subsidies. This would have meant a serious reduction of state support for the entire rural sector, particularly its wealthier sections. Apart from conventional arguments against subsidies and their effects on government finances, there was an added problem in India. Since agriculture constituted a much larger sector of the economy than the industrial and service sectors, this meant that a smaller sector of the economy was subsidizing a vastly larger one. This was very different from the European case, where a larger and powerful industrial sector subsidized the agricultural. In the second, European kind of case, subsidies could continue; but in the reverse case, i.e. India, such policies simply could not go on indefinitely. The elimination of subsidies—of the large government subsidies in agro-inputs and energy—threatens a major source of their prosperity. Any proposal for rationalization of the tax structure was also likely to raise the spectre of an agricultural income tax. If the wages of labour in agricultural jobs went up, as liberalizers expected, agriculturists, as net users of hired labour for their farming (especially during the harvest season), were going to lose very heavily. So, liberalization was bound to get a mixed reception from the farming interests. Recently, the scene has become muddied by competitive bargaining among political parties for the rural vote; some parties in a recent election in Punjab have promised to provide farmers electricity entirely free of charge. There is an enormous paradox/contradiction here. Economically, reducing subsidies is a fundamental part of liberalization. But because farm lobbies influence votes in the countryside, it is the hardest measure to implement politically. In this case, liberalizing policies were difficult to implement precisely because the political process was democratic: and the state has to find a way of expropriating people with their consent.

Organized labour, a social group that is powerful because of its numbers, organization, and strategic location in the industrial economy, looked at liberalization with the greatest anxiety. They expect to be the most serious losers in a comprehensive liberalization of the economy. Due to labour legislation influenced by socialist thinking, employment in the organized sector is permanently secure, irrespective of productivity. Reform of the labour market, in line with liberalization policies, will certainly entail retrenchment and prospective unemployment on a fairly large scale. Liberalization will affect the working conditions of workers in the state sector in particular, where labourers have enjoyed large social benefits, not to mention permanent employment. Disinvestment in public-sector industries is bound to end in large-scale

redundancies and new labour rules entailing much greater uncertainty for workers. An additional factor is the great reduction of trade union power which is bound to follow. In India, as elsewhere, the opinion of the working class is sometimes confused with the opinion of trade union leaders, to the benefit of the latter. Not surprisingly, liberalization policies were most strenuously opposed by the representatives of the organized working class, and by the political parties which ran the biggest trade unions. But the conventional left parties, communists and socialists, have steadily declined as a force of effective opposition since the 1960s. Now they simply lack the political strength to stall liberalizing reforms; in addition, their overriding anxiety about the Hindu nationalists capturing power through an electoral opening has constrained them to give their grudging consent to Manmohan Singh's initiatives. Even in the states where leftist parties control power, and do not face an immediate threat from the BJP, the parlous state of government finances has forced them to ask for assistance from international agencies and invite industrial capital, all of which is contrary to their deepest ideological beliefs.

But this is a very incomplete political sociology, because the majority of citizens in India are not businessmen, managers, bureaucrats, rich farmers, and organized labourers. They are mostly poor unorganized labourers in the cities and the countryside, or poor peasantry, small craftsmen, and artisans. Women in very large numbers are housewives, and are affected by policies through the changing economic fortunes of their families. This vast mass of people, who are not organized through professional interest-articulating institutions, have no regular or uninterrupted contact with policy-makers. Their only opportunity for letting governments know what they think of their reforms is during elections. Both political parties and organized groups therefore try to couch their own demands in such a form that they can appeal to a vast number of these unorganized people. But exactly how these people have reacted to liberalization is hard to analyse, since the only data collected is through secondary questions at election surveys.

Liberalization and Political Parties

Policy-makers who introduced the reforms based their moves on political calculations derived from such perceptions of group interest. How the parties moved depended on their sociological support-base and institutional structure. Both Congress and the BJP (which had by the 1990s emerged as the major opposition party) were socially universalist, i.e. they wanted to attract support from all social groups, not just some powerful sectional interests, as the communist and peasant parties did. Thus, they had to make sure that the introduction of liberalization did not inadvertently produce a grand coalition of social interests against them and destroy their chances of winning elections. They chose their priorities and the sequencing of policies with the greatest care.

Observers have pointed out how the liberalizers selected some policies for early implementation and pushed others down in their priority. As the economic crisis that brought liberalization on was mainly due to a foreign exchange shortage in July 1991, the first moves were to stabilize the economy. Stringent restrictions on foreign exchange were lifted, and tariff regimes were relaxed in the early phase. The actual implementation seemed to separate out policies which were likely to yield short-term results from those which required a long period to succeed. Politically more significant was a distinction between policies, which brought immediate benefits for some groups without affecting others adversely, and those which would mean serious costs to large organized social constituencies. This explains why economic reforms in India have not merely been slow, but selective, or rather why their slow progress has been due to their selectivity and deliberate sequencing. The easing of foreign exchange regulations immediately benefited businesses and the upper classes. The import of capital goods and technology became easier and made export-oriented industries and upper-class consumers happy. Relaxing licensing rules dealt with a long-term complaint of entrepreneurs. It also helped small entrepreneurs whose main capital was technological skills; its best example was the burgeoning software industry in South India. These changes, though quite radical against the context of past policies, mainly allowed new developments without negatively affecting others. Some liberalization policies were politically different, because they would cause serious pain to economic groups. If the government allows more flexible labour markets, permanent employment in the public sector will have to be sacrificed. The closure of loss-making public sector firms will lead to unemployment. Reduction in subsidies was urgently required if the government had to impose fiscal discipline

and cover its costs by making financial economies, instead of simply covering the deficit by printing money and pushing up inflation. But such subsidy-reduction policies would have serious adverse effects for agricultural groups, and if the agricultural sector acted as a single political interest, instead of breaking up into class fractions, they had the immense power of numbers on their side. The only way of avoiding a grand overwhelming coalition of political forces against liberalization was thus to select and sequence its constituent policies—to make sure that these groups were not antagonized by adverse policies at the same time. However, economists advocating liberalization pointed out that the success of liberalization depended on an implementation of the whole package. Breaking up and sequencing the various parts were bound to make the changes less effective. This was another paradox for politicians: to succeed economically, the policies had to work together; to succeed politically they had to be pursued separately and in parts.

The actual progress of liberalization in India has been very interesting. While economists have often deplored the fact that the whole package of policies has not been implemented, and therefore that their full beneficial effects have not been realized, others point to their remarkable success given the unpromising initial conditions. In fact, the political history of the period immediately following liberalization was highly volatile. Four successive governments have come into office, run by parties of very different character. The Congress government, which began the reforms, was followed by a coalition of assorted 'leftist' groups.[18] It drew its main support from parties which had been sharply critical of liberalization; but when they came to office did little to obstruct or reverse them. After a brief and ineffectual period, the coalition went out of office.

This led to the most serious ideological change in Indian politics since Independence, as the BJP finally found a way to power at the centre, even if as the major constituent within a coalition. This was not an insignificant replacement of one coalition by another. The BJP

[18] The coalition was composed of the Janata Dal, a centrist conglomerate, lower-caste parties which supported radical changes in caste-based reservations, and the Communist parties. It was led by I.K. Gujral a veteran politician long associated with the Congress. These groups were strongly opposed to the Hindu nationalist ideology of the BJP.

had always challenged the hegemonic vision of secular nationalism advocated by the Congress; and its electoral success was built directly on the campaign around the demolition of the mosque at Ayodhya.[19] Oddly, however, it had continued the economic indistinctness of its precursor, the Jana Sangh. But as its role changed, and it transformed from a regional North Indian party into a serious contender for central power, it was forced to define its economic policy more clearly. In the event, it developed two somewhat contradictory lines of argument. In line with its general ideological indigenism, it began to appropriate the traditional Gandhian economic ideals of swadeshi—a policy which supported cottage industries, the voluntary restriction of consumption, a simple rural lifestyle, and above all the rejection of foreign-made goods. This was incongruous for a party which was directly linked to the RSS organization—one of whose members had assassinated Gandhi. Yet, the strand of indigenism was quite strong in some sections of the Hindu nationalists, and they increasingly made more assertive claims for swadeshi policies. But the BJP, crucially, wanted to entice the upper and middle classes from their traditional habits of supporting the Congress because of its policy of economic modernism; and the BJP has strenuously sought to dispel the idea that it was a backward-looking fundamentalist force, opposed to modernity. A large section of its social supporters and leadership advocated strongly modernist economic policies, and claimed that under their leadership the economy would come out of mismanagement and stagnation. Ideologically, therefore, the BJP did not have a clear line towards liberalization.

Both the left parties and the BJP fiercely criticized the Congress for initiating liberalizing reforms; but when they came to power they did nothing to stop or reverse them. After the 1998 elections, the BJP ruled at the centre with fluctuating and at times unruly coalition partners in a strange mixture of broad stability alongside small instability—because it was never certain about its allies. Predictably, to keep the coalition together, the BJP had to tone down its ideological stance alongside its deeply anti-Muslim agenda. On economic issues, however, it had a free hand, as none of the coalition parties were strongly opposed to liberalization. In fact, some of its coalition partners, like the dynamic chief minister of Andhra Pradesh, Chandrababu Naidu, used the opportunities created by liberalizing policies to produce an economic interpretation of federalism and press for faster regional development. The BJP's own formal attitude towards liberalizing policies was surprisingly conciliatory. Although it criticized the Congress at the time of their adoption, it kept its own position vague. After the economic situation started to show remarkable improvement on several counts—overall GDP growth, the reduction of inflation, an improvement in export earnings, etc.—others sought to steal some of the credit. Not surprisingly, in character with its general expertise in chauvinism, the BJP, or some sections of it, have kept up a fierce rhetoric of economic nationalism against 'foreign interests', generally unspecified.

[19] In December 1992 activists from Hindu nationalist groups demolished the structure of the Babri mosque at Ayodhya leading to widespread rioting in the whole subcontinent.

But the rhetoric has not threatened to invade actual policy-making. Internally, Hindu nationalists have always been friendly to business, especially small business groups which were their loyal constituency in the first three decades. Big business did not traditionally support them, preferring the more comprehensive modernism of the Congress. But instead of alienating big business or the professional classes when it was making electoral strides towards power, the BJP sought to woo them by promising greater efficiency, less corruption, and by making it clear that it was not advocating a comprehensive re-traditionalization of Indian society. This had two reciprocal effects. As its electoral strength grew, and the prospects of its power improved, upper-middle-class and big business interests became more interested in it; and reciprocally, the party put into more prominent roles its more modernizing leaders. Now the party often fronts individual leaders who try to cultivate a highly modernist image, suggesting a politics which is knowledgeable about international trends, friendly to business and markets, and interested in high technology. This is a partial makeover of its indigenist image, and a very real strand of its quotidian politics. The BJP has also come to realize that international economic pressures demand a continuation of liberalization: it appointed a committee for disinvestment, followed by a special ministry to look after the necessarily contentious process of dismantling government enterprises. And even leftist governments like the CPI(M) in West Bengal have admitted that loss-making state industries have to be closed. As the finances of state governments near collapse, the central authorities can use the situation to force through liberalization.

But the emergence of the BJP and its stable control of the central government also led to other significant shifts. One of the most significant was the slow redefinition of India's national interest. Nehru, and Congress under his influence, thought of foreign policy as primarily an instrument for protecting sovereignty and securing economic development. India's influence in the world was expected to come from the persuasiveness of its suggestions and the moral validity of its position on issues like arms control, apartheid, imperialism, etc. Already, in Indira Gandhi's times, this had changed significantly towards a clearer orientation towards power; and Indian policies clearly sought regional hegemony. The BJP's orientation towards the international society continued and intensified those tendencies. Nehru did not seek nuclear weapons; the BJP dramatized its acquisition of new nuclear weapons. Given its ideology, it naturally emphasized the idea of sovereignty, but interpreted it utterly differently. Its understanding of sovereignty implies a more assertive stance based on increased military power, and, more dangerously, an internal connection of sovereignty with an exclusivist Hindu definition of Indian nationalism whereby the power of this redefined 'Hindu' nation is used to threaten internal minorities. Some of the BJP government's foreign-policy initiatives strengthened the drive towards economic liberalization. Its attempts to improve political relations with the United States, for instance, accelerated liberalization. If foreign investment into India's economy is to be radically increased, its first condition is greater liberalization of economic controls. But the strand of swadeshi cannot be dismissed entirely. Although the supporters of economic swadeshi are not in dominant positions, they remain a major part of the Hindu nationalist formation. Advancing liberalization is bound to exacerbate internal conflict within the BJP on this question.

It appears then that the logic of liberalization has developed a life of its own. Irrespective of which political party comes to office, and what they say rhetorically, their economic administrations are constrained to enact legislations which carry forward into the logical next step the 'logic' of liberalizing reforms. That, after all, is the central objective of the liberalizing policies—to emancipate the economy

from control by the state and the uncertainties of electoral politics, and to render this entire process irreversible. It appears that in India, despite large and unpredictable complexities in this process, the state has gone some way in freeing the economy from itself.

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