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

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Abstract

This article hypothesizes that economic reforms become sustainable when the discursive conditions prevailing in society tip against the existing paradigm under exceptional circumstances. Thus, unless the pro-liberalization constituencies dominate the development discourse, economic reforms, initiated under the exigencies of crisis and conditionalities, or carried out by a convinced executive with or without the stimulus of a crisis, will be reversed. The discursive conditions are determined based on eight factors: the dominant view of international intellectuals, illustrative country cases, executive orientations, political will, the degree and the perceived causes of economic crisis, attitudes on the part of donor agencies, and the perceived outcomes of economic reforms. The paper seeks to prove this "discursive dominance" hypothesis for the Indian case through a cross-temporal, comparative review of the evolution of economic policy in India over six different phases.

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Introduction

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

In the words of Jagdish Bhagwati:

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

To quote M. P. Singh:

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

Scholars have attempted to explain the conditions under which liberalizing reforms are initiated and terminated. Many studies credit crisis and subsequent World Bank-International Monetary Fund (WB-IMF) aid for encouraging reforms, because the aid tends to be accompanied by pressure to undertake policy changes.[3] Correspondingly, factors such as, a lack of political will[4] and executive orientation[5] are identified as likely causes behind the termination of a reform.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 1: Factors Influencing the Direction of Economic Policy Making

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

Notes: *N.A.* : Not applicable, because the Indian government did not approach the WB or IMF for loans.

TINOA factor implies that there was no other alternative to trying reforms.

(a) Success of the Second FYP and ISI reinforced anti-liberal discourse.

(b) Failure of devaluation reinforced anti-liberal discourse.

(c) Limited and concealed liberalization did not attract media attention or public apprehensions, while forced vasectomy drive turned the political discourse against the ruling Congress Party.

(d) No public reaction as the government emphasized continuity *over* change, while communal unrest in several regions dominated the political discourse.

(e) Anti-liberal discourse was not as strong in 1985 compared to 1966. Thus, the policy reversal in 1987 was also not as radical as it had been in 1969.

(f) All factors determining the discursive conditions turned antagonistic to the socialism discourse.

* Given the significance of a strong economic recovery and declining inflation for political support, it can be safely assumed that the Congress Party would have won the 1977 elections, had the program of forced vasectomy not been carried out (see section III).

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