

## Chapter 2

# Understanding Economic Reforms for India: A Book Review

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**Abstract** Economic development going well beyond growth has been the principal agenda of each and all of the governments in India since it became independent more than six decades ago. Many factors, including, in particular, the fact that India chose to follow a democratic political system and that the state was agreeably destined to play a vital role in the social, political and economic development of the country, have been critical in shaping the State of the Nation at different times. The country, unavoidably, went through phases of development, retardation and crises from time to time until 1991 when a totally new paradigm had to take over. The last book that Professor Suresh Tendulkar wrote, co-authored by Professor Adi Bhavani, brings it all out remarkably well. No wonder, after all Suresh was a critic, a witness as well as an important contributor to the process of policy formulation for many years. The book is a must read for those all interested in India's development.

**Keywords** Economic Reforms for India • Economic Policy in India

India's post 1991 reforms have been widely discussed in alternative contexts with different approaches and in varying depths. Most of us tend to believe that we understand the process which has been on for more than two decades. Yet its depth of coverage, its analytical underpinnings and its social, political and economic consequences are by no means easy to grasp. Not surprisingly so since, by its very nature, the process is extremely complex and multifaceted. We have therefore to remain indebted to Professor Suresh Tendulkar and his co-author Professor T.A. Bhavani for helping us with their book **Understanding Economic Reforms for India—Post 1991**, published first in 2007. We are also grateful to Oxford University Press for bringing out a second edition of the book in 2012 with an additional chapter to update the discussion. Since this edition is in paperback it is

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bound to encourage greater readership among social scientists, policy makers, teachers and students, and many others interested in India's progress.<sup>1</sup> Since the current edition came out after Professor Suresh D. Tendulkar had passed away it begins with a tribute to him. I strongly feel that the brief tribute must be read by economists, political scientists and policymakers to gain inspiration from an eminent scholar-statesman who fits the description of both a "guru" and a "rishi".

Tendulkar and Bhavani deal broadly with four related issues.

The first two chapters outline the general agenda of reforms along with its analytical framework, following the work of W. Baumol and Douglas North. The next four chapters deal with the different phases of economic policy in India since independence. Here we have a characterization of the so called Nehruvian model of (Chap. 3) followed by an analysis of the slow growth regime which ended circa 1981. The 'Eighties, marked by higher growth along with the cost of fiscal imbalance, seemed to be a turning point. Chapter 6, the last in this set, examines why the reforms had become unavoidable in 1991.

The third major issue taken up in Chaps. 7 and 8 relates to the political dimensions of economic policy formulation and implementation. The last chapter looks ahead with a vision of problems and possible solutions.

The new paper-back edition is valuable, both for the comprehensive research presented in the volume and as well as an excellent update. It is no doubt also timely because since the second half of 2012 India seems to be going through severe swings in the mood for reform—from prolonged extreme pessimism to a burst of actions on the reform front towards the end of the year.

The reform process in the Indian perspective has been analysed in the book in terms of the role of five factors namely, (a) external influences; (b) the reforming leaders; (c) economic and political crisis; (d) ownership of reforms; and (e) the needed consensus building. The framework is a lasting contribution which captures the inter play of different factors and interpretation of facts. Let us now take up the underlying issues in some detail.

The first Chapter on the "Reforms Process" seeks to explain many aspects of the reform process since 1991, recognizing that the reform process has not been smooth, internally synchronizing, complete or fully successful. It attempts to illustrate its systemic, continuing and wide ranging character. While the continuing elements are highlighted in all the chapters, the update tries to explain reasons for the apparent discontinuity or a pause in the very recent past. The book seems to offer some clues towards unscrambling the puzzling features of the Indian reform process, while addressing political economy and institutional aspects. As mentioned earlier, the analytical framework adopted is that suggested by economic historian Douglas North supplemented with certain conceptual distinctions made by William

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<sup>1</sup>Having received a copy of the first edition of the book autographed by Suresh soon after it was published in 2007, I had the privilege to read the book and find how excellent it was in its coverage and depth. Without much delay I felt inclined to convey to him how outstanding the work was, giving me a chance for even deeper interaction with him on complex issues bothering us all.

Baumol (p. 5). Economic reform is recognized as a process, and the context, timing and directions of the various elements of the process have been explored.

A description of the framework in the next chapter can be treated as a set of useful tools in understanding reforms. There is almost a prophetic statement towards the end of the chapter which deserves to be highlighted. It says, “As long as interest groups together do not take fiscal deficits to unsustainable levels through the earlier mentioned transmission mechanisms and so long as partners in the distributional coalition honour the implicit contract regarding their individual agreed shares, the distributional coalition is viable. The coalition becomes unviable the moment it makes the public exchequer unsustainable in terms of huge fiscal deficits.” (p. 16). There are some who believe that the current environment of discomfort with coalition politics may be reflecting the unviability that has been flagged by the authors.

Next we have an impressive summary of the development strategies adopted after independence. The narration is comprehensive but succinct and unexceptionable. However, conspicuous by its absence, is the role of Rajaji (C. Rajagopala Chari), the first Indian to have taken over as the Governor General of India. Rajaji was later also Chief Minister of the then Madras State. He was, undoubtedly, an impressive national leader who rubbed shoulders with Pandit Nehru. He proved the uses of deregulation by pioneering the abolition of post Second World War ration system of food-grains in Madras state, and making a success of it. He differed significantly with the development strategies adopted at the Avadi session of Congress Party, described as Nehruvian socialism. He founded a political party, namely, Swatantra Party, among whose objective was the abolition of what he described as “License Permit Raj”. While the Party attracted a large following among the intellectuals in India, the party lost its electoral battles.

In some sense, the intellectual and political guru of deregulation and liberalization in India was Rajaji who along with many of his followers had to sacrifice their political careers in view of the rejection of their ideology by the electoral dynamics. In other words, many people unequivocally rejected at that point of time a strategy of development that emerged as being relevant decades later—in 1980s and 1990s in India. It is, perhaps, necessary to explore further the dynamics behind the failure to gain legitimacy at that time of what now appears to be an eminently sensible development strategy. Such exploration could help appreciate the social context and the timing of the reform that has actually occurred three to four decades later.

“The Slow-growth Phase” up to 1980–81 covered in Chap. 4 is very exhaustive and is a very good description of the forces that led to what may be described as low growth equilibrium. The uniqueness of the slow growth phase over three decades since 1950 is best summarized in the concluding paragraph of the chapter. “GDP growth averaged around 3% during the decade. We interpret this to be a case of low-growth equilibrium with fiscal and balance-of-payments stability albeit with distorted prices” (p. 56). But it is very interesting that the decade of 1980s produced impressive growth accompanied by noticeable deterioration in the fiscal conditions and in the balance of payments, resulting in a crisis. The reading of Chaps. 4 and 5

together provides interesting insights into the perceived trade-offs between growth and stability.

The discussion next move to the decade of the 1980s has rightly noted the widely prevalent intentions to reform as expressed through several committees. However, it might be worthwhile to explore the reason for not acting on most of the recommendations of the official committees. One possibility is that the committees were reactive to the problems of individual elements of economic policies in a compartmentalised fashion. They did not consider the issues as part of grand strategy. The chapter rightly concludes that the high growth was unsustainable due to the persistence of distorted prices, and the fiscal and external payments imbalances. However, a more comprehensive view of the strategies of development, perhaps, could have avoided the imbalances which were clear and persisting. There may be lessons from this experience for the current challenges to public policy in 2012, opening up an important interesting area for research.

This brings us to a very objective presentation of the context and timing of the 1991 reforms. Of particular contemporary relevance is the phenomenon of fiscal deterioration coupled with high current account deficit. "Our interpretation of this result is that the external payments crisis would have occurred even in the absence of exogenous shocks, which merely hastened its arrival and offered a window of opportunity as the external payments crisis shook the polity much more than the brewing fiscal crisis" (p. 81). The subsequent chapter explores the reasons for continuing reforms in the era of coalition politics. By the very nature, the explanations for continuing reforms in an era of coalition are somewhat exploratory and speculative. The central theme is that the instrumental role of rapid growth for sorting out distributional conflicts in an orderly fashion has to be recognized by all the political parties in the coalition game, if the reform process is to continue. In this light, it will be useful to explore further the reasons for breakdown of momentum in the reform process in the recent past.

Let me emphatically state that Chap. 8 on the political economy of reforms is easily the most enlightening part of the book by virtue of the fact that it analyses in depth the political economy of reforms with an insightful analysis of the individual initiatives. This is an in depth contribution to the understanding of reforms process. For purpose of further research agenda, the classification of reform measures through individual initiatives is an excellent way of appreciating the political economy of reforms. The reform measures are classified into: (a) measures carried out by an agency other than central government, such as Reserve Bank of India; (b) measures within the discretionary powers of the government; and (c) measures that require legislative amendments (p. 105).

Professor Tendulkar and Professor Bhavani postulate that reforms can be fastest in category one, slow in category two, and extremely difficult in category three. In reality, has that been the case in recent years? Is it possible that there has been stalling of spirit of reforms in recent past even when exercising discretionary powers? An evaluation of decisions within existing legal framework, in terms of consistency with reform-agenda will be useful. Similarly, not only legislative

inaction but also legislative actions need to be assessed with reference to the agenda.

The next chapter poses and analyses several issues, viz., role of learning from other's experiences, external influences in the reform process, the importance of reformist leaders, the provocation of reform by crisis, and ideological churning in political parties. While all these do play a role, the ownership of reform is considered to be an important consideration. The Indian style of reforms is described as consensus building for ownership. The book argues and quotes Dr. Manmohan Singh to aver that a political consensus has been the bedrock of the reform process in India, but it was implicit rather than explicit. It is indicated that "such consensus is rarely stated in public, but has often been displayed in the execution of policy. This is important and essential" (p. 171). The validity of this statement in the current context and implications for way ahead would also be an important agenda for research.

An interesting debate in regard to the growth performance of India in recent years relates to the relative roles of external constraints and domestic constraints. The underlying theme in the chapter seems to be that the internal constraints imposed by the polity and society, and not the external factors continue to restrain growth and welfare in India. This is an important observation which may have to be revisited in the context of most recent experience with the slowdown in the growth in the Indian economy after the global financial crisis.

While Chap. 8 is the heart of the book, as stated earlier, the Chapter on "An Update" can be described as the soul of the book. The chapter captures developments since the release of 2007 edition and carries Professor Tendulkar's imprint, though the final version had to be completed by Professor Bhavani. The chapter starts with general statement about how rapid growth coupled with coalition politics seems to have brought about laxity on reforms and adoption of populist welfare measures. Various policy initiatives that have been taken and their consistency with goals of reforms are explained in detail. It concludes that "since the UPA government came into power in 2004, there have hardly been any big-ticket reforms" (p. 198). There is a forthright and insightful explanation of the changing balances between growth and welfare in the recent policy. It provides illustrations and points out that there is lack of genuine commitment on the part of the government to reform. A statement of great import for the future of reform is made in the last sentence of the chapter in the book. "Given coalition politics, lack of broad-based political consensus on big-ticket reforms, and an infirm government, further reforms will be hesitant and episodic only when growth derails" (p. 203).

A study of the progress in economic reform and the reasons for possible loss of confidence in the future of reform presented in the book could be supplemented in future by two other areas of study. First, whether the global financial crisis and its lessons should influence the destination of reform and the path of reform that we were considering five years ago. Second, the focus of the book was only central government but, whether the diverse performances in the state government are critical to understanding the future of reforms. It may be critical because the increasing role of government in physical and social infrastructure is essentially at

state level. Further, greater diversity in the political processes may warrant more attention to reform at state level.

The book provides an authentic and excellent exposition of economic policies, in particular reforms in the recent decades, in the context of political economy considerations. While it enhances the understanding of factors that initiated reforms and contributed to continuation of reforms for several years in different coalitions, it poses issues and prospects for reforms in future. While the first edition of the book ended with a somewhat optimistic note, the Update seems to indicate severe challenges for future. The book is informative and insightful, and will, undoubtedly, inspire research on several areas of economic policy in India. The book should be of great interest to economists, political scientists, policymakers and others interested in a study of Indian society in general and of economy in particular. Those who miss reading this book do so at their own peril.

**Acknowledgments** I have had the privilege and honour of working with Professor Tendulkar at the National Statistical Commission and in the Reserve Bank of India. This has given me the opportunity of fruitfully interacting with him on many issues and to learn many things.

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India

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