What explains policy change? Understanding the historical political economy of India

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Perspectives

Drawing on insights from his new book, 'History of Economic Policy in India', Rahul De frames policy change as precipitating through three circumstances: crisis, coalitions, and contingency. He uses historical examples of policymaking in post-independent India to delineate why and under what circumstances certain policies were implemented. Using instances from the Nehruvian planning regime to the economic liberalisation in 1991, this article aims to use political economy concepts to incisively explain major economic policy changes in India.

The discipline of economics provides multiple statistical tools, modes of reasoning and mathematical models to explain socioeconomic changes – as a trend (for example, sectoral growth shares in GDP); a variable (women's fertility); or an economic outcome (literacy). However, explaining the why of policy change is a tricky challenge – why did the government under Nehru choose to focus on heavy industries after independence? Why did the Congress government choose a technocratic and market-oriented solution to the food shortage crisis in 1965? Why did the government announce liberalisation reforms in 1991? This challenge comes from the limitations of the tool kit that an economist deploys to answer these questions, and the increasing reticence to learn from the humanities and other social sciences.

As I was penning a *History of Economic Policy in India* (2023), I was plagued by indecision about how to explain policy change, as different sources gave different explanations. Why is a policy introduced at a certain time? What explains the mechanism of its implementation?

What explains the chronology of how it is implemented? The internalised economist’s voice of reason in me feels like saying that there is one main explanation for a change– as this is efficient and easy to understand. However, as I studied policies historically and read public documents, private papers, newspaper reports, data and academic literature, I understood that the complexity of the policymaking process makes it impossible to claim that there is one essential explanation for a policy. Policies are shaped by political cultures, social institutions, global pressures, and historical context; their design and shortcomings cannot be understood just by looking at data about the impact of the policy, or a normative analysis of the principles that the policy is based on. While writing I wanted to go beyond the explanations that the economist's toolbox provides to explain historical change. In my work, I have framed the narrative of policy change through three independent political economy concepts: crisis, coalition politics and contingent events. In this article, I will explain how I have deployed these concepts to explain historical policy change.

Economic crisis

While standard economic theory frames a crisis as an economic problem that needs to be solved by policy intervention, Marxian political economy assumes that a crisis is an organic culmination of instabilities within the economy. The Paris Regulation School (2001), one of the offshoots of Marxian and Keynesian economics, theorises that capitalist economic systems go through cycles of high growth, stagnation and crisis, which then gives rise to a new cycle of growth. I have applied the Marxian concept of crisis to structure the history of the Indian economy into the Nehru regime (1950-1966), Indira regime (1967-1979), and early liberalisation (1980-2003). The choice of categorising these periods has been founded on the idea that it is possible to glean the dominant vision or philosophy of economic development within a stable political regime. Further, each of the periods is divided by an economic or political crisis. While a crisis might present itself through a particular sector or economic process, it is indicative of broader structural imbalances within the balance of policies. Moreover, a crisis creates conditions for political and policy changes as they are volatile times and voters and politicians are more amenable to sudden changes.

Let me illustrate with an example from my manuscript. The Nehruvian policy regime (1950-1966) was focused on industrial development and self-reliance. The state channelled its resources towards the development of key infrastructure and heavy industries through the public sector. It institutionalised the planning mechanism to ensure coordination with private industries, protection from foreign competition, and subsidisation of imports. The focus on developing a self-reliant, heavy industry-intensive form of capitalism came at the cost of reduced public investment in the agricultural sector and allocation of fewer resources to address poverty and social inequality. The alarming aspect of Nehruvian policies – especially when it came to aiming for self-reliance – was its heavy dependence on foreign aid, mainly PL-480 wheat imports from the USA.

India faced a severe food shortage crisis in this period, a consequence of the choice of policies followed under Nehru. The crisis itself was triggered by a spectacular fall in agricultural production and private consumption due to two extensive droughts in 1965-66. India, having lost an expensive war with China and amidst another crucial one with Pakistan, did not have the resources to import food without serious fiscal consequences. It was at this crucial juncture that the US government started negotiating conditionalities tied to its PL 480 aid programme. India had no other choice but to import food grains to compensate for the losses caused by the drought; lower supply led to higher agricultural prices and consequently unleashed crippling inflation upon the lower-income classes of the country. These imports severely damaged India's Balance of Payment (BoP) position and undermined the state's effort to maintain an overvalued currency to protect domestic industries. The crisis had not only destroyed the objectives the Nehruvian policies aimed to meet, but also created conditions for political change.

There was a change in the policy environment after the 1965 crisis – agricultural growth was prioritised, and the New Agricultural Strategy was introduced, which led to a shift of public resources to the agricultural sector. Consequently, industrial policy was de-prioritised and the mechanisms of planning that were introduced by the Nehru-led government were diluted. Eventually, these new policies allowed India to gain self-sufficiency in food grain production by 1971, a time which was dubbed 'the Green Revolution'. The 1965 crisis highlighted the issues with Nehruvian policy and created political support for a new set of policies.

The politics of coalition

Independent India's path to capitalist development is unique in the world, especially as it was at the time of its independence, one of the largest economies in the world to adopt a universal representative democracy – no other economy had achieved capitalist growth alongside a universal democratic system before India. The Indian government, therefore, faced the difficult task of creating mechanisms of growth in India while dealing with redistributive concerns. This is particularly constraining as the government needs to gain a popular mandate to bring in new policies, some of which could be detrimental to a majority of voters. This introduced a complication in policymaking about what economic issues to prioritise within a five-year cycle of an elected government's tenure. Since, the defeat of Indira Gandhi in the 1977 elections, the central government has been formed through a coalition of parties, and the party with a majority of the votes has had to accommodate the demands of its coalition partners. Coalition politics has led to shaping of important policies, as well as explains the failures of some well-intentioned policies. The following is an illustration from my book about how coalition politics has shaped policy design in India.

Welfare and redistributive policies have a long and chequered history in India. Multiple governments have failed to implement redistributive policies, even when introduced with good intent, due to leakages in the mechanisms of delivery and corruption in the bureaucracy. The first United Progressive Alliance (UPA) government (2003-2008) was successful in introducing a host of social welfare policies in a short period, including the Right to Information (2005), National Rural Employment Guarantee Act (2005), Right to Education (2009), Forest Rights Act (2006), etc. The UPA coalition was complex, as it included the leftist Communist Party of India (Marxist) (CPI (M)) and parties with regional and caste identity-based vote banks such as Bahujan Samaj Party and Samajwadi Party. There was little common ideology between these parties except an opposition to the BJP coming to power. The circumstances forced the Congress government, under Sonia Gandhi's leadership, to set a common agenda and find mechanisms to include coalition partners in policy discussions. The success of the UPA coalition is a telling story about how the success and failure of policies cannot be explained just by design, intent and mechanisms but by political capacity.

The UPA created two institutional mechanisms to make the coalition inclusive and effective: The Common Minimum Programme (CMP) and the National Advisory Committee (NAC). The CMP provided a framework for deciding the direction of policies of the UPA government, based on a broad consensus amongst coalition partners. It covered many themes but said little in terms of specific economic reforms, especially regarding industry, trade, and finance – three key themes of the 1991 liberalisation budget introduced by the earlier Congress government. Instead, it focused on policy changes in agriculture and identified different marginalised groups that need to be assisted by government policy, including backward castes, forest dwellers and tribals, women, the disabled, and workers in the unorganised sector.

Another institution created by UPA was the NAC – a government policy development forum comprising of academics, former bureaucrats' civil servants, and social activists. Although the UPA government strategically chose not to select Sonia Gandhi as Prime Minister, as it wouldn't have been acceptable to some of its coalition partners, the NAC provided an institutional mechanism through which she could still influence the policy-making process and participate in negotiations with coalition members. Additionally, the NAC was equally important in bringing non-political actors in direct contact with the policymaking machinery, and Sonia Gandhi's presence meant that they wielded significant influence. The NAC provided a forum through which UPA enlisted civil society organisations in the drafting of social policies and played a key role in Congress' ability to create a set of policies embedded with mechanisms that made the government accountable

Contingency

A third concept I have deployed to explain policy change is contingent events. Contingency is a concept popularised by Italian Marxist Antonio Gramsci (1990), who criticised Marxian theory for framing the history of capitalism as being universal – that is, the stages of formation and reproduction of capitalism follow general laws that are independent of history, social context or political forces. Instead, through his study of the rise of fascism in Italy as a particular variant of capitalist reproduction, Gramsci argued that the direction and character of capitalism was shaped by events that are not determined by the elements of the Marxist theoretical system such as social relations or superstructure. Gramsci uses the concept of contingency to indicate that political or social changes can take place because of an incidental or unrelated, yet contingent event.

The following is an illustration from my book about how contingency has shaped policy implementation. I discussed earlier in this article that the New Agricultural Strategy (NAS) was a response to the 1965 crisis. However, the choice of using market reforms as opposed to socialist policies such as land redistribution to increase food grain stocks can be explained by a contingent event: the discovery of a high-yielding variety (HYV) wheat seed in Mexico which could adapt to Indian conditions. The public celebration of the Green Revolution was due to the successful introduction of HYV wheat in India to achieve self-sufficiency in foodgrain production. This success of HYVs was necessary to defuse the protests in the late 1960s over inflation due to the unequal regional and class-based impact of these new technologies and could have threatened the continuation of NAS.

Another contingent event that shaped the history of liberal reforms in India was the Gulf War of 1990 and the consequent BoP crisis faced by India that pushed the Congress government in 1991 to announce liberalisation reforms. In my manuscript I chart how pro-business reforms were introduced in India in 1980 – however, there had been little publicising of it, as these wouldn't have any immediate benefits for the majority of Indians who were dependent on agricultural production. The 1990 Gulf War happened at a time when India was already going through political turmoil, and its effects on the global economy pushed the Indian economy into a foreign exchange crisis. In April 1991, the RBI had to introduce liberalisation reforms as part of IMF conditionalities to secure loans to offset the shortage of foreign exchange reserves. In 1991, elections were being conducted in April and there was no stable government to make this decision. It was only in July 1991, when Congress formed a government, that their finance minister Manmohan Singh announced these reforms as part of the new government's budget. The Gulf War as a contingent event explains *why* the Congress had to introduce reforms publicly in 1991.

Conclusion

I believe Indian economists have a role in shaping public discourse about public policy and unpacking the consequences of policies intuitively and in jargon-free language for the benefit of informed citizens. Economists need to adapt and borrow tools from other disciplines if they want to extend the insights onwards from quantitative tools and models into aspects of social reality such as social structure, political change, and historical context. In my work, I have adapted concepts from Marxian political economy and social history to provide an intuitive explanation of major changes in economic policy. The three productive concepts I have discussed in this article – crisis, coalition politics and contingent events – hope to contest the notion that policy change is simply the outcome of design principles or logical reasoning.

Further Reading

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