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ECONOMIC TRANSITION IN A PLURAL POLITY: INDIA

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ABSTRACT

How did India effect the transition from import substituting industrialization towards trade-led growth, in the context of a plural polity? It is argued that a pro-trade executive orientation at the time of a severe foreign exchange crisis can enable the executive to initiate significant policy change, if the executive takes advantage of the agreement with the IMF. Both the pro-trade orientation and the arrival of the severe foreign exchange crisis in 1991 are explained by tracing the process from India's path of import substituting industrialization. The exogenous shock, a temporary rise in oil prices in 1990, was less significant than the ISI driven fiscal deficit, for generating the balance of payments crisis. Path reversals need not depend largely on an exogenous shock, as a path may have a built-in tendency to get reversed. The argument highlights the strategic nature of the international and domestic bargaining tables and the need to consider them simultaneously rather than additively.

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This paper traces the process that led to pro-trade economic policy change in India beyond 1991. In his inaugural address to the 84th Annual Meeting of the Indian Economic Association, C. Rangarajan described the importance of that year:

> The country went through a severe economic crisis triggered by a serious balance of payments situation. *The crisis was converted into an opportunity to introduce some fundamental changes in the content and approach to economic policy.*[1]

The process that led to India's transition from import substituting industrialization (ISI) towards trade-led growth (TLG), culminating in significant policy change beyond 1991, provides valuable insights about the politics of economic transition. High tariffs, an overvalued exchange rate, import controls, and industrial licensing characterized ISI in India.[2] The trade and investment reforms of 1991 occurred in a thriving democracy at a time when the ruling Congress Party had an insecure majority. Second, India's size had made it easy for it to pursue ISI, compared with countries characterized by small internal markets.[3] India's democracy and its size make it a particularly interesting economic transition, with possible lessons for present and future democracies.[4]

Democracies, it is argued, often find it tough to make trade friendly policy change requiring a flexible labor policy, industrial deregulation, the sale of public sector assets, increased taxation, and, a tight money policy. Such policies hurt small but powerful interests such as the political party in power, the bureaucrat, the rent-seeking ISI industrialist, and, managers and workers in the public sector and ISI firms.[5]

Authoritarian regimes in Taiwan and Korea have successfully initiated economic transitions. They managed labor and business consistent with the demands of TLG. They allocated credit for export promotion, increased taxes, pursued a tight money policy, and successfully reduced the risks for the exporter by providing vital

information and finance. Korea under democratically elected Syngman Rhee muddled up economic policy, while the autocratic hand of President Park made South Korea globally competitive. President Soeharto of Indonesia was able to redefine the state's relations with labor and business by destroying old institutions and creating new ones.[6] Allende's Chile, Rawling's Ghana, and Ozal's Turkey had military governments. In the newly democratized Bolivia, Paz Estenssoro enjoyed a great deal of autonomy.[7]

India's economic transition stands in contrast to the authoritarian transitions from ISI to TLG. Prime Minster Rajiv Gandhi's reform efforts initiated in the 1980's did not succeed despite a comfortable majority in the Parliament.[8] Why did India transit from ISI toward TLG in 1991? India had faced a balance of payments crisis in 1966 but had sustained ISI with renewed vigor from 1967.[9] The balance of payments crisis alone is not a sufficient cause for the policy change initiated in 1991. It is puzzling that the Congress Party coalition Government of Prime Minister P. V. Narasimha Rao could initiate far reaching reforms with an unstable majority in the Parliament in 1991.

Synergistic issue-linkage between the IMF, the executive, and domestic interest groups, due to the IMF agreement during the foreign exchange crisis of 1991, is critical for explaining the Indian foreign economic policy change. Synergy is a situation where the executive attempts to gain domestic approval for a policy by linking it to the perceived benefits of an international agreement.[10] Policy change in India occurred when a pro-trade executive made use of the agreement with the IMF, to gain the acquiescence Indian industry and labor, at the time of a foreign exchange crisis.

I trace the path that ISI traversed in India.[11] I locate a mechanism that began with ISI but changed to TLG.[12] The process highlights ISI's propensity to sow the seeds of its destruction by generating unsustainable fiscal deficits. These deficits were at the root of India's balance of payments crisis. The Gulf War driven exogenous shock (1990) was less a burden on India's balance of payments than the two oil shocks (1973 & 1980) that India had weathered with great ease. Second, ideational changes in the executive due to unresolved policy puzzles arising out of ISI, convinced the executive to change course.

The paper is divided into two parts. First, I elaborate the process that began with ISI and but changed to TLG. Second, I discuss the lessons from the Indian story. Why is the study of mechanisms or processes a fruitful way to comprehend economic policy change?

I

FROM IMPORT SUBSTITUTING INDUSTRIALIZATION (ISI) TO TRADE-LED GROWTH (TLG)

In this section, I outline India's path from ISI to trade-led growth (TLG). This involves the creation of a series of causal chains. A path can be traced from the initial condition of ISI to TLG.[13] This method reveals a mechanism by which economic transitions may occur in any plural polity.[14]

Two Consequences of Import Substituting Industrialization

ISI and Social Mobilization

Industrialization can create political awareness among people and encourage them to participate in political activities. That industrialization and economic development facilitates political protest is borne out by democratization taking place from Southern Europe to East Asia.[15] Even Germany up to World War 2, which was

considered the exception to this rule, seems to have witnessed considerable social and political mobilization after rapid economic development in the late 1800s and the early 1900s.[16] In this section, I argue that ISI was a strategy of economic development that generated a competitive political system in India with ever-newer demands on the executive.

Import substituting industrialization (ISI) is a modernization strategy adopted by late industrializers based on rapid heavy industrialization in the context of a closed economy. India's Second Five-Year Plan (1956 – 1961) was an attempt in planned industrialization using internal economies of scale rather than trade. Its architect, P. C. Mahalanobis, pointed to a remarkable resemblance between the Indian plan and the Soviet experiment of the late 1920s. It emphasized rapid industrialization, economic independence and socialism, reflecting Prime Minister Nehru's vision of a modern India.[17]

Industrialization encourages people to leave the village to move to towns and cities for better employment opportunities. Second, the ISI driven industrial strategy rests on improvements in literacy. Improved literacy rates increase access to the print media. Industrialization may also improve access to mass communications by making the television and the radio set more easily available. ISI, therefore, is the breeding ground for urbanization, literacy, and mass communications – the basic ingredients of a strategy of modernization.

Modernization can generate social mobilization. Huntington has argued, "Social and economic change, urbanization, increases in literacy and education, industrialization, mass media expansion – extend political consciousness, multiply political demands, broaden political participation."[18] Literacy and the growing spread of mass communications produce a heightened feeling of relative deprivation.

Urbanization leads to erosion of traditional loyalty to the joint family and the feudal hierarchy of the village. Breaking of old commitments and greater respect for individualism generates new time for new purposes and produces new aspirations. Patron client relations in the village increasingly get replaced either by class based, or sector based, or communal group demands.[19]

The mobilized people increasingly participate in politics. New groups seize opportunities and old groups feel threatened. Autonomous political participation based on voluntary action such as casting of a vote takes over old forms of coerced participation. Interest groups such as professional organizations and cultural organizations begin to have an independent voice. Political participation of the mobilized people includes, voting, lobbying, organizational activity, and, various forms of political protests including political violence.[20]

The practice of ISI driven modernization in India resulted in the rise of education, urbanization and mass communications. The literacy rate grew by 5.34 percent between 1961-1971, by 14.22 percent between 1971-1981, and, by 8.54 percent between 1981-1991.[21] Urban population as a proportion of total population grew steadily from 18 percent in 1960 to 21.3 percent in 1975 to 27 percent in 1994.[22] In 1983, only 25 percent of India's population was within television transmission range. With the rapid growth of electronic media, the same figure grew from 50 per cent in 1985 to 75 percent in 1990.[23]

As access to literacy, urbanization and mass communications improved, political participation and protest witnessed a significant rise. Cases of student indiscipline increased from 93 in 1958 to 2665 in 1968 and to 9174 in 1978. Prime Minister Indira Gandhi, faced with student mobilizations against her, declared "national emergency" or authoritarian rule (1975-1977). That the period 1975-1979

recorded a decline in college enrollment could be the result of policies undertaken to curb social mobilization.[24]

Participation in riots per million people was stable up to 1963, but showed a steady increase thereafter. Riots as a proportion of total cognizable offence grew steadily between 1967 and 1971. The authoritarian regime of Prime Minister Indira Gandhi brought down the incidence of rioting in 1975. When democracy returned in 1977, it was life as usual once again.[25]

Communal riots in India appear to be a modern urban phenomenon, concentrated within cities and in industrial areas. During the period 1961–1970, 32.55 per cent of the communal incidents occurred in the villages where 80 percent of India resided. According to another estimate, only 3.6 percent of the deaths due to communal violence occurred in the villages in the last fifty years.[26]

Voter turnout increased rapidly at the end of the Second Five Year Plan. It increased from 48 per cent in 1957 to 58 percent in 1962, but stabilized in the range of 58 percent and 62 percent thereafter (in 1996 the figure jumped to 67 per cent). There has been a rise in the turnout for the elections to the state legislatures since 1989. Turnout in the local level Panchayat elections has also increased, even though reliable turnout figures are not available.[27]

Politics in India became competitive as a result of social mobilization. From 1947 to 1967 the Congress Party was almost congruous with the Indian political system. Major contests on Indian political issues occurred within rather than outside it. The Party was accustomed to winning two-thirds of the seats in the Parliament (Lok Sabha) and a majority in all the states.[28] The election in 1967 changed this pattern. Between 1967 and 1969, the Congress lost power in eight states. What was polarity within the Congress took the shape of polarity between the Congress and a

united opposition. This bi-polarity began to spread to other states. A variety of contests such as Congress versus the left, Congress versus the regional party or parties, and, Congress versus the right wing Jan Sangh (which later became the Bharatiya Janata Party or BJP) began to surface.[29]

The Congress Party under Indira Gandhi, unable to respond to an increasingly mobilized opposition invoked "national emergency" between 1975 and 1977. The electorate supported the movement against authoritarian rule and dislodged the Congress Party from power in 1977.[30] This was the first successful united opposition against the Congress Party at the national level. The opposition coalition could not remain united, and the Congress Party returned to power in 1980.

Oftentimes, increased mobilization in the absence of adequate institutional mechanisms to address the concerns of the mobilized populace induces the ruling party to use nationalism for winning elections.[31] The Congress Party adopted even this strategy to win its electoral battles in the 1980s. In the early 1980s, the Party adopted themes that belonged to the Hindu chauvinistic right. The opposition was often branded anti-national. The Rashtriya Swayam Sewak Sangh (RSS), which belonged to the right-wing Hindu nationalistic BJP, helped the Congress in the elections of 1984.[32]

The Janata Dal victory in 1989 was the result of a horizontal cooperation among disadvantaged and backward castes, rather than a vertical mobilization by the higher castes. The coalition of Muslims, backward castes like Ahirs, Jats, Gujars and Yadavs - comprising the better off among the backward and middle castes, and, the Rajputs, put up a formidable opposition to the Congress Party. In an earlier era, such cooperation between the Rajputs (ruling caste) and backwards was unthinkable. The

Bahujan Samaj Party – the first party to be lead by a member of a scheduled caste, also facilitated the Janata Dal victory in 1989.[33]

In sum, India's ISI-driven modernization promoted literacy, mass communications and urbanization. This mobilized the people to participate in political protest and voting. The decline of the Congress Party since the mid-1980s, and the rise of regional, backward caste and minority group based parties has been due largely to the Congress's institutional incapacity to deal with ever increasing social mobilization.

ISI and Low Productivity

ISI also generated the classic conditions of low productivity in India. The infant industry protection inspired ISI had a deleterious impact on efficiency.[34] First, it was not easy to locate an infant industry. Second, it was not easy to determine the optimal amount of protection needed to propel an infant industry into a mature one.[35] Third, ISI depended on governmental decisions with respect to protection and subsidy. With no clear guidelines about the optimal amount of protection, ISI generated lobbying or rent-seeking behavior that is detrimental to efficiency.[36] It became economic for an industrialist to bribe the government in order to get production and import licenses.

The ISI strategy had a negative impact on productivity in India. The public sector accounted for 27 per cent of the GDP. Its turnover investment ratio was .79 in 1971, went up to 2 in 1981 and then declined to 1 in 1991. Any figure below 3 is considered very low. 27 out of the 129 public sector undertakings utilized less than 50 per cent of their capacity in 1977-1978.[37]

Isher Ahluwalia's study on the productivity of India's manufacturing industry noted the dismal performance in total factor productivity growth in the 1970s and a

positive turnaround in the 1980s, owing largely to some deregulation in the economy. However, the capital labor ratio in the manufacturing sector of a labor abundant economy was increasing, leading to inappropriate factor use over time. And, the higher was the capital labor ratio in an industry sector the lower was the growth in total factor productivity in that sector. And, India was fared much worse than more trade-oriented countries such as Hong Kong, Singapore, Taiwan and Korea.[38]

Timmer and Szirmai have noted that while Taiwan and South Korea were catching up with the US's level of productivity between 1963 and 1993, India did not catch up. The South Korean gross value added per worker as a percent of the US gross value added per worker grew from 7.5 percent in 1963 to 48.5 percent in 1993. The same figures for Taiwan were 11.8 percent and 31.3 percent respectively. For India, the figures were 7.5 percent and 10.1 percent respectively. India, Taiwan and Korea were at the same level of productivity relative to the US level in 1963, but India lagged far behind Taiwan and Korea in the race for "catch-up" in 1993. Timmer and Szirmai also found that productivity was not so much a function of moving labor and capital towards manufacturing, which was the essence of the ISI strategy. Rather productivity has more to do with economy wide improvements in the technical competence of the people, financial and business services, physical infrastructure, and investment ratios.[39]

India's international competitiveness declined. India's share in the manufacturing exports of all developing countries came down from 22.1 percent in 1962 to 3.4 percent in 1990. Its share in the manufacturing exports of the world came down from .84 percent in 1962 to .54 percent in 1990.[40]

Social Mobilization, Low Productivity and the Fiscal Crisis

India's ISI contributed both to low levels of productivity and competitiveness, as well as, political demands for better living and work conditions. The same people who were contented with their abject poverty became more vocal about their economic demands. The politics of "command" characterized by state autonomy transformed itself into the politics of "demand" led by pressure groups.[41] Two things could happen under these circumstances. First, the feeling of relative deprivation could lead to political violence and the declining legitimacy of the Government, if there were few opportunities for socio-economic mobility, and political participation.[42] Or, the Government could subsidize various sectors by providing seeds, fertilizers, irrigation, housing sites, land, and, concessional finance.[43] If the Government spent most of its resources in a way that did not earn adequate returns on investment, this would inevitably lead to a fiscal crisis.

Indian farmers constituting a substantial vote bank compelled the Government to subsidize their economic activities. They could never be taxed. Fertilizer subsidy rose over the decades. The agriculture sector consumed approximately 25 per cent of the electricity but accounted for the bulk of the losses of the state electricity boards. Out of total power sector losses of Rs. 43.5 billion, Rs. 41 billion was estimated to be losses due to the farm sector. The story of the irrigation sector was much the same. Revenues as a proportion of recurrent expenditure fell from 22 per cent in 1980 to 7.5 percent in 1989.[44] In 1988, the National Front government of Prime Minister V. P. Singh wrote off the debts of small farmers, at a time when it had foreign exchange reserves worth $ 3.7 billion, just enough to cover two months of imports.[45]

The political clout of the industrial sector, which included labor and capital, played an important role in explaining the degree of protection accorded to various

industrial sectors. The greater the clout of organized labor and industry the greater was the degree of protection granted to that sector.[46] The Government subsidized bankrupt industrial units on uneconomic grounds. In a study of 23 such industrial units, it was found that in 17 out of 23 cases, the Board of Industrial and Financial Reconstruction (BIFR) sanctioned excessive write-offs through subsidized credit.[47]

Government expenditure of a non-economic kind rose due to the demands of the farmers, organized labor, and industrialists. Total non-developmental expenditure rose from 6.5 per cent of the GNP in 1960 to 15 per cent in 1989. The percentage of subsidies in the expenditures of the Central and state governments rose from 3.2 per cent in 1960 to 12.1 per cent in 1989.[48] The increasing demands of the politically mobilized people ensured that the growth rate in government expenditure, which was 6.9 per cent between 1979 and 1983, rose to 9.5 per cent between 1983 and 1987. Rising Government expenditure at the time of low productivity generated the unsustainable fiscal situation.[49]

The gross fiscal deficit is total government expenditure, minus government revenue plus capital grants. It measures the overall borrowing need to finance India's government expenditure. The fiscal deficit never crossed the 6.4 per cent of GDP mark till 1983. Thereafter, between 1983 and 1990 it fluctuated between 7.5 per cent of GDP to 9 per cent of GDP.[50]

The twin ISI driven dynamics of low productivity and social mobilization played an important role in generating the fiscal crisis of the Indian Government.[51] ISI driven modernization had generated new financial demands on the Indian Government. At the same time, ISI was not a strategy that generated high productivity. Financial demands on the Government at the time when Indian

productivity was abysmally low created the classic condition of an unsustainable fiscal situation.

The Fiscal Crisis and Ideational Change

How did the ISI "policy paradigm" change in India? First, dissatisfaction with a policy paradigm is necessary. A "policy paradigm", implying a variety of policy relevant theoretical ideas sharing certain basic assumptions about development, generates expectations about behavior. When these expectations are not met, disenchantment with the paradigm begins to occur." Paradigm shifts" described by Thomas Kuhn need not occur merely as a result of disenchantment with a policy paradigm. A policy paradigm could generate long periods of continuity despite disenchantment with anomalies.[52]

It is not easy to bring about a change in policy paradigms. Thus, building on anomalies, long periods of continuity may be punctuated by the disjunctive experience of a "paradigm shift". According to this view, continuity is the norm, but change is sporadic and rapid.[53] It could be accompanied by major exogenous events such as depressions, wars, or, a sudden change in the terms of trade.[54] On such occasions, disenchantment with policies generated by the previous paradigm needs the support of a leadership with commitment and the power to implement new policies.[55] The pro-trade technocratic orientation in India became influential in the 1980s as a result of the failures of IS policies, and, the international demonstration effect of the alternative paradigm. But policy change in the direction of using trade for development had to wait till the foreign exchange crisis of 1991.

Policy puzzles persisted due to the malfunction of the ISI driven policy paradigm in India. Infant industries did not mature into competitive ones. Income distribution remained highly skewed, leading to rising aspirations of the less

privileged but newly mobilized people. And, increased demand for resources and low productivity led to an unsustainable fiscal crisis. It therefore became difficult for the policy-maker to marry economics with politics. Moreover, developments in East Asia, China and the Soviet Union validated the view that trade was essential for economic growth.[56] The Chinese shift to trade for promoting growth in the 1980s may have had a greater impact on India than the success of Korea and Taiwan. While it was easy to argue that India and the East Asian tigers were not comparable, China was both larger and a source of inspiration for many in India who believed in the merits of autarky.[57]

Prime Minister Indira Gandhi began considering TLG strategies by the end of the 1970s.[58] The Government set up powerful committees to review the shortcomings of the old policies. Committees on trade (Chair: Abid Hussain, 1984), financial controls (Chair, Narasimhan), the public sector (Chair: Arjun Sengupta) and administrative reforms (L. K. Jha), were set up to provide a critical analysis of the past for the purposes of future policy. These reports stressed that India needed imports for growth. However, these imports required increased Indian exports, because international finance was not easily available to finance the much-needed imports.[59]

The change in Mrs. Gandhi's orientation is evident from a speech she delivered to the National Development Council in February 1981:

> "I would like to point out that not so long ago certain countries used to be mentioned as worthy of emulation by us. Yet, at least one so-called ideal society continues to import vast quantities of grain from every available market, (e)specially capitalist markets, while our 'bourgeois' policy has made us self-sufficient. The trouble with many of our leftist friends is that they continue to think in archaic terms and in grooves of ideas which have long become outdated and which even the most orthodox socialist countries have given up."[60]

Prime Minister Rajiv Gandhi initiated pro-trade policy changes, which met with severe political obstacles.[61] Montek Ahluwalia a technocrat with World Bank

experience was brought in as Special Secretary in the Prime Minister's Office. In June 1990, Ahluwalia circulated a controversial paper arguing in favor of tariff reductions, freer entry of foreign investment, an increase in administered prices, an increase in the permissible asset limit under the Monopolies and Restrictive Trade Practices Act (MRTP), and, labor laws that promote efficiency.[62] The agenda for reform was therefore clear to the executive before the foreign exchange shortfall in 1991.

The pro-trade momentum gained strength during the foreign exchange crisis of 1991. Prime Minister P. V. N. Rao appointed the distinguished economist and policy maker Manmohan Singh as India's Finance Minister. In a rare tribute, the Economics Laureate Amartya Sen has praised Manmohan Singh's doctoral dissertation of the early 1960s, where Singh had argued in favor of exports for India's development.[63] The importance of trade and global economic integration was not lost to Manmohan Singh in 1991.[64]

The Fiscal Crisis and the Balance of Payments Crisis of 1991

The fiscal crisis was the major reason why an exogenous shock, the Gulf War driven rise in oil prices, precipitated a foreign exchange crisis in 1991. Creditor pessimism driven largely by bad fiscal management and political uncertainty had led to a disastrous depletion of foreign exchange reserves. Political mobilization for a greater share of the Government's pie had raised the fiscal deficit to 10 per cent of the GDP in 1991 (Table 1).

Table 1: The Consolidated Finances of the Center and State Governments[65]
(Figures are expressed as a per cent of GDP at market prices)

	1960/61-1964/65	1970/71-1974/75	1975/76-1979/80	1985/86-1989/90
Revenue	12.7	14.6	17.8	20.0
a) Current Expenditure	11.8	14.2	16.3	23.0
b) Defense	2.6	3.0	2.9	3.7
c) Subsidies	0.7	1.1	1.9	3.6
d) Net interest Payments	0.4	0.5	0.7	2.5
e) Current rev. balance	0.9	0.4	1.5	-2.9
f) Capital Expenditure	6.6	5.1	6.9	7.1
Total Expend	18.4	19.3	23.2	30.0
Fiscal Deficit	5.7	4.7	5.4	10.0

Table 1 indicates the reasons for the rising fiscal deficit. The gap between revenue and current expenditure, which was 1.5 percent of the GDP between 1975 and 1980, rose to 3 percent of GDP between 1985 and 1990. Over the same period, interest payments grew by 1.7 percent of GDP, subsidies increased by 1.7 percent (of GDP), and defense expenditure rose by 0.7 percent (of GDP). Interest payments and subsidies registered the highest rise (1.7 percent of the GDP), reflecting commercial borrowings and public demand management.

The budget deficit has a negative impact on the trade deficit. The following equation gives the relationship between the trade deficit and the budget deficit:

Trade Deficit = Savings Investment Gap + Budget Deficit -(1)[66]

Equation 1 identifies the two major components of the trade deficit. The trade deficit is significantly affected by the savings investment gap and the budget deficit. In India, both the savings investment gap and the budget deficit did not augur well for the trade deficit. First, the budget deficit or the fiscal deficit during the period 1985/86

and 1989/90 at 10 percent of GDP was much higher than any period after 1950 (see table 1).

Second, the savings investment gap was much greater in 1991 compared with the period of the two oil shocks. In 1989/90, the gap was 2.4 per cent of GDP, compared with 0.6 per cent of GDP in 1972/73, and, 0.5 per cent of GDP in 1979/80. In 1989/90, public deficit (savings - investment) was 9 per cent of GDP, corporate deficit was 1.8 per cent of GDP, and, household savings were 8.4 per cent of GDP.[67] The household savings surplus was therefore not enough to cover corporate and public investments.

Table 2: Components of the Balance of Payments on the Current Account, 1982/83 to 1989/90[68] (figures should be read as per cent of GDP)

	Average 1982/83– 1984/85	Average 1985/86– 1989/90	Change
Trade balance (customs)	-2.7	-2.3	0.4
Trade balance (RBI)	-3.0	-3.2	-0.2
Net non-factor services	0.5	0.3	-0.2
Resource balance	-2.4	-2.8	-0.4
Net factor income	-0.5	-1.0	-0.5
Net int. payments	-0.8	-1.2	-0.4
Net current transfers	1.3	1.0	-0.3
Current a/c balance	-0.8	-1.7	-0.9

Table 2 describes the components of India's deteriorating balance in the current account. The customs trade deficit due to import liberalization became less. The trade aspect of the balance that deteriorated involved the Reserve Bank of India's purchases of public equipment for military hardware and government purchases. Transfer receipts fell as a proportion of GDP. There was a worsening of net factor income from abroad because of increased interest payments on commercial borrowing. The deficit in the category of net factor income from abroad rose from $

1.5 billion in 1984/85 to $ 3 billion in 1989/90. Result, the current account deficit that was $ 3 billion (1.7 per cent of GDP) in the first half of the 1980s, deteriorated to about $ 7 billion (3 per cent of GDP) in the latter half of the 1980s.

The budget and savings deficits were the prime motors behind the deteriorating current account imbalance. The first and second oil shocks had affected the current account adversely to the tune of about 1.1 per cent of GDP and 1.5 per cent of GDP respectively. The impact of the oil price rise in 1990 on the current account balance was not more severe (1 per cent of GDP) than the oil shocks.[69] Yet, India was less capable of dealing with the exogenous shock of 1991 on its own, largely because of a combination of a large fiscal deficit, and, the savings investment gap.

The adverse credit rating of the Moody's in October 1990 pointed to a rise in the debt-service ratio, high dependence on commercial borrowings, increase in the debt-export ratio, the effect of the Gulf War, the budget deficit and the public debt, and, recession in the OECD countries. This led to a shutting down of all the credit windows. Political uncertainty and mismanagement led to a further downgrading of India's credit rating in March 1991.[70]

Frantic moves to gain access to foreign exchange ensued. In April 1991, the Government sold 20 tones of gold to the Union Bank of Switzerland. In July forty-seven tones of gold were shipped to the Bank of England. The deposits of non-resident Indians at $ 10 billion, turned into a modest net-outflow of $ 0.3 billion between October 1990 and March 1991. There was a net outflow of $ 1 billion in the period between April 1991 and June 1991. In January 1991 and in June 1991, India was on the verge of a liquidity crisis with not enough foreign exchange to cover a fortnight of imports.[71]

The Pro-Trade Executive, the Balance of Payments Crisis and Liberalization

I have explained how the fiscal crisis transformed Indian executive orientation. Changed executive orientation alone was inadequate for generating a distinctively pro-trade policy. Political impediments stood in the way. In this section, I explain a change dynamic through synergistic issue-linkage between the IMF, the executive and domestic interest groups, at the time of a balance of payments crisis. Next, I describe the importance of the positive role that the pro-trade executive needs to play to exploit this synergy. Finally, I briefly describe India's trade and investment liberalization beyond 1991.

The Balance of Payments Crisis and Synergy

The simultaneous occurrence of a foreign exchange crisis and pro-trade executive orientation provides a compelling reason for trade and investment liberalization in India's plural polity. *An agreement between the executive and the IMF at the time of a foreign exchange crisis, open's the possibility of synergistic issue linkage in a two level game between the International Monetary Fund, the executive, and domestic interest groups.*[72] The interests of the domestic actors (labor & industry) do not change. But, their preferences can change as a result of the IMF's lender of the last resort function.

Interests may get converted into preferences depending on how they can be pursued in the context of politics.[73] Organized labor and industry may have an interest in increasing their incomes. Based on their interests within domestic politics, they should be opposed to trade and investment liberalization. Years of ISI have accustomed these interest groups to prosper within a protected home market. Trade liberalization, on the other hand, may lead to a decline of uncompetitive sectors and job losses.[74]

An IMF agreement with a debtor country can create a temporary interest in favor of freer trade. ISI is an import dependent industrialization strategy. Though organized labor and capital have an interest in ISI, they are likely to acquiesce to a trade and investment promoting agreement with the IMF in the short-term, because no one else is willing to finance the imports of IS industrialists and workers at the time of a balance of payments crisis. Thus, the interests of labor and capital in the IS sectors may not change, but their preferences may change temporarily in favor of opening trade and investment due to an agreement with the IMF.

The foreign exchange crisis of 1991 created a short-term euphoria in favor of trade and investment liberalization in the business community. The Federation of Indian Chambers of Commerce and Industry (FICCI) representing domestic capital, the Associated Chambers of Commerce and Industry (ASSOCHAM) with historic ties to foreign capital, and the Confederation of Indian Industry (CII) representing manufacturing industry, all supported the trade and investment liberalization from 1991 to 1993.[75] The CII, which had positioned itself as the most influential industry organization, prepared a theme paper outlining the contours of a free economy in April 1991. It held numerous meetings with trade union leaders, journalists, and politicians. One cannot underestimate the importance of industry's support for trade and investment liberalization in a democracy where elections need finance.[76]

This euphoria was short-lived. The opposition to investment liberalization within industry had gained momentum in 1993. The informal Bombay club of prominent industrialists included Rahul Bajaj, H. S. Singhania, L. M. Thapar, S. K. Birla and Bharat Ram, articulated the anti-multinational corporation (MNC). At the Sri Ram Memorial lecture, Rahul Bajaj articulated most forcefully the need for Indian industry to have a level playing field against foreign corporations.[77]

Trade unions did not oppose reduced tariffs or foreign investment but successfully opposed the exit policy, which was designed to make a dent on job security in the organized sector. The New Industrial Policy (July 1991) established the National Renewal Fund (NRF) for restructuring industries consistent with changing technology and market conditions.[78] The November 29 1991 nationwide strike affected financial transactions, steel plants, coal mines, fertilizer factories and the government owned national carrier in a big way.[79] The workers strike of June 16 1992 affected even defense installations, the Post and Telegraph Department, Income Tax and Audit, port and dockworkers, and the oil sector.[80]

The I. M. F. Agreement in 1991 won the temporary acquiescence of Indian industry for trade and investment liberalization because industry needed foreign exchange for ISI related imports. Trade unions opposed the exit policy but did not oppose tariff liberalization or foreign investment. The pro-trade Indian executive team of Prime Minister Rao and Finance Minster Singh used the period between 1991 and 1993 to usher trade and investment liberalization that would be tough to reverse.

<u>The Role of the Pro-Trade Executive in Exploiting Synergy</u>

For sustained liberalization, the pro-trade executive must exploit the foreign exchange crisis to liberalize the economy to an extent from where retreat to economic nationalism is not easy. ISI dominated industry and labor organizations are likely to oppose liberalization after the foreign exchange situation has improved. Years of ISI generate pro-ISI interests whose voice can overpower the minority pro-trade groups. And exit, as an option does not work when dealing with institutions that have a monopoly over decision-making.[81] Second, consumers favoring liberalization are likely to face greater collective action problems than ISI oriented producers.[82]

The crisis is a window of opportunity for the pro-trade executive. The Prime Minister and the Finance Minister constituted the executive team in India's Westminster style parliamentary system. First, the crisis is likely to help unify the legislature behind the executive.[83] Second, the executive's long-term vision of trade and investment liberalization will be fulfilled only through an activist policy, because global economic integration once pursued is not easily reversed. Since, a pro-trade executive is likely to have more in common with the IMF's agenda than a pro-ISI executive, this is likely to increase the positive sum elements in the negotiations. The larger the negotiating "win-set" the greater is the chance of an agreement with the IMF.[84]

The executive team of Prime Minister Rao and Finance Minister Singh were convinced liberalizers. Rao realized that the crisis was an opportunity to give a new definition to India's development policy.[85] And, the importance of trade for India's development had not been lost to Singh since the days of his D. Phil thesis at Oxford. This ensured a large negotiating "win-set". In his first budget speech (July 24, 1991) Singh clearly stated the Indian economic problem:

> The origins of the problem are directly traceable to large and persistent macroeconomic imbalances and low productivity of investment, in particular the poor rates of return on past investments. …The increasing difference between the income and expenditure of the Government has led to a widening of the gap between the income and expenditure of the economy as a whole. This is reflected in growing current account deficits in the balance of payments.[86]

The combination of Prime Minister Rao and Finance Minster Singh worked well. Rao could carry the Congress party with him on reforms and would leave the economic judgement to Singh.[87] Singh's conviction helped him defend stabilization and structural adjustment. When accused of having shown the Union Budget of 1992 to the World Bank before proper Parliamentary debate, Singh replied convincingly:

> Mr. Speaker Sir,
>
> ….. As long as we get external assistance, we are obliged to discuss with our creditors because it is not a world where there is charity. …I want to assert that we had not and we will not accept any conditionalities which are inconsistent with our national interest.
>
> … The letter of development policy which I had laid on the Table of the House was the basis for our request for assistance. … If hon. Member examine this document carefully, they will see that it talks of policy directions which have been extensively discussed and debated in this august House.[88]

IMF's sign of approval on the Government of India's initiatives between 1991 and 1995 demonstrates the common ground between the IMF and the executive team. To quote from an IMF Report:

> Indian authorities have made a determined effort to correct many of the distortions. The initial impetus came from a severe balance of payments crisis in 1990-91. That crisis prompted the Indian authorities to adopt and adjustment program that contained both immediate stabilization measures and ambitious structural reforms.

The Report subsequently went on to praise India's achievements in reforming trade, foreign investment, industrial controls and the financial sector.[89]

Trade and Investment Liberalization

The trade and investment oriented reforms initiated in 1991 have sustained themselves at a steady and gradual pace. India's weighted average duty rate came down from 72.5 percent in 1991/91 to 29 percent in 2002/03. India abolished quantitative restrictions in April 2001. Industrial decontrol and comparative advantage were emphasized. Industries reserved solely for the public sector were reduced from 18 to 3 (defense aircrafts and warships, atomic energy generation and railway transport). Industrial licensing was abolished except for a few environmentally hazardous industries.[90] Foreign direct investment (FDI) responded to liberalization, albeit a little slowly. Its overall FDI rank improved from 42nd in 1990 to 33rd in 1999. India opened its equity market to foreign portfolio investment early. India ranked 6th in portfolio inflows behind South Korea, South Africa, China, Thailand and Brazil.

Exchange rate reform was successful. An increasingly market driven rate had a positive impact on India's exports. Based on the Government's research between 1989 and 1991, the Liberalized Exchange Rate Mechanism System (LERMS) allowed 60 percent of the foreign exchange from exports and remittances to be converted at the free market rate. 100 percent export oriented units and export-processing zones could sell the entire proceeds at the free market rate. The success of the LERMS encouraged the liberalizers, as there was no substantial outflow of foreign exchange reserves. Import of gold was liberalized beyond the 1992/93 budget. In August 1994, India accepted Article VIII of the IMF by allowing the rupee to become convertible on the current account.

India's dependence on trade grew, as imports and exports as a proportion of GDP rose from 15.1 percent of GDP in the eighties to 24.8 percent of GDP in the nine years after the crisis (1992-2000). India's share in world exports improved from 0.42 percent in 1980 to 0.52 percent in 1990 to 0.67 percent in 2000. Yet, the 12th largest economy in the world was only the 27th largest trader.[91]

II

CONCLUSION: THE SIGNIFICANCE OF INDIA'S PATH

India's path to trade and investment liberalization demonstrates the importance of history and process in a political explanation.[92] To assert that the simultaneous presence of a pro-trade executive and a balance of payments crisis can lead to trade and investment liberalization, begs two important questions. First, why did the Indian executive become pro-trade in 1991? Second, was the balance of payments crisis of 1991 merely the result of an exogenous shock?

India's path suggests that the birth of a pro-trade executive can be traced to the executive's inability to deal with the budget deficits generated by ISI. Second, the

fiscal deficit was an important cause of the balance of payments crisis. My story avoids merely describing a conjuncture when the two policy-change variables executive orientation and the balance of payments crisis were present at the desired level in 1991. I am able to explain why the variables were present 1991.

The literature on path dependence asserts that the logic of increasing returns can lock an inefficient trajectory because any mode of organization involves high start-up costs, learning and network externalities, and, adaptive expectations.[93] ISI too involved huge doses of public and private investment for the setting up of a large government sector and for subsidizing domestic industry. Thereafter, rent-seeking opportunities for the industrialist, the politician and the bureaucrat, and job security to the worker, created vested interests. Consistent with the conventional wisdom on path dependence, every investment into ISI made it tough to reverse it.

This argument also poses a problem for path dependence. Path dependence suggests that it may be characterized by increasing returns and positive feedback, which may reinforce a certain direction.[94] Yet, my story highlights the problems that a path may create for its sustenance. For example, Indian ISI’s problem was the sustainability of budget deficits in the context of low levels of productivity. The budget deficit in my argument, a process driven variable, played an important role in generating my key policy-change variables, the pro-trade executive orientation, and the balance of payments crisis.[95]

The argument has implications for the debate on the salience of levels of analysis for explaining trade policy change. The interests of the actor (the executive) are independent of environmental constraints. But, environmental constraints play a role in translating actor's interests into policy outcomes.[96] The executive may have a pro-liberalization bent. But, this may produce either protection or liberalization

depending on the severity of the foreign exchange crisis. Second, the strategic situation between the domestic actors is important. If capital and organized labor are opposed to liberalization, the pro-trade executive may achieve very little.[97] Third, the simultaneous consideration of the international and domestic levels of analysis, through synergistic issue-linkage is important for explaining trade and investment liberalization in India. Showing the dynamics at the international level and then assessing its impact on the domestic level is not a fruitful strategy.[98]

Paths can generate contingent generalizations.[99] The choices at various choice points may have a lasting impact on the trajectory. For example, authoritarian Indonesia in 1966 had a pro-trade executive (President Soeharto) and a severe foreign exchange crisis, but synergistic issue-linkage were not important for policy change.[100] Similarly, Collor's Brazil transiting from authoritarian rule towards democracy, had no foreign exchange crisis when it liberalized its trade and investment policy.[101] These examples demonstrate that regime type may have an impact on the dynamics of policy change. If the path that democracies take differs from those of non-democracies, what explains this difference? This is a fascinating area for further research.

The Indian transition has lessons for the design of IMF conditionality. If IMF conditionalities are viewed by the debtor as being too intrusive, trade-led development requiring structural adjustment is not likely. India went for funds twice in 1966 and 1980, but the results of 1991 were far more impressive than the previous years.[102] What the IMF wanted India to do in 1991 was already a part of the Indian technocratic consensus by 1990. An effort on the part of the IMF to promote home grown programs based on country ownership of programs, is likely to increase the IMF's ability to get a country to move towards trade-led development.[103]

NOTES

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[1] C. Rangarajan 2001/02, 1.

[2] Trade-led growth (TLG) strategies, on the other hand, characterize a situation where the effective exchange rate for exports is not significantly different from the effective exchange rate for imports, see Bhagwati 1986.

[3] Stephan Haggard 1990, 26-30.

[4] On the definition and significance of a tough case which is very similar to a "crucial experiment" in the philosophy of science, see Stinchcombe 1968, 25–28; and, Eckstein 1975, 119-120.

[5] On the problems of adjustment to TLG in a democracy see, Przeworski 1991, chap. 4; Pereira, Maravall and Przeworski 1993, 1-11; Haggard (fn. 3), chap. 10. On the interests of rent-seeking groups in perpetuating ISI see, Krueger June 1974. On why small interests groups might organize effectively against large ones see, Olson, 1971, chap. 1.

[6] For the role of the authoritarian state in facilitating economic reforms in Taiwan see, Amsden 1985; and, Haggard (fn. 3), chap. 4. For the relationship between authoritarianism and economic transition in Korea see, Haggard (fn. 3), chap. 3; and, Haggard and Chung-in Moon 1983. For East Asia as a whole see, Wade 1990.

[7] Nelson 1993, 433–442.

[8] On Rajiv Gandhi's halting reforms see, Kohli 1990, chap. 11; Bhagwati 1993, 73–74; and, Varshney 1999, 239–244.

[9] Mukherji 1966.

[10] Putnam 1988, 446-448; and, Moravcsik 1993, 25-26.

[11] George and McKeown 1985, 21-58.

[12] For an understanding of mechanisms see, Elster 1999, chap. 1.

[13] George and Mckeown, (fn. 11), 36.

[14] For a discussion on mechanisms see, Elster, (fn. 12), chap. 1.

[15] Inglehart 1997, 8.

[16] Berman 2001, 431-462.

[17] For the role of the state in late industrialization, see Gerschenkron 1962. For India's ISI, see Chakravarty 1987, chap. 2. For an argument that ISI in India was a strategy of modernization see, Nayyar April 1974, 361-363, and, Nayyar 1972. If India had gone the Gandhian way, emphasizing small and cottage industries, such a strategy may have been a departure from modernization.

[18] Huntington 1968, 5.

[19] Ibid., 39–49. Huntington and Nelson 1976, chap. 3.

[20] Huntington and Nelson, (fn. 19), chap. 1 and chap. 3.
[21] In 1997, 62 per cent of Indians were literate. See Government of India 1999, vi.
[22] United Nations Development Program 1997, 87.
[23] Farmer 2000, 266.
[24] Rudolph and Rudolph 1987, 227, 295.
[25] Nayyar 1975, 22–26. Rudolph and Rudolph, (fn. 24), 227.
[26] On the relationship between modernization and communal violence in India see, Kakar 1995, chap. 6. On the rural urban divide in communal riots see, Nandy 1999, 136–138. On the relatively low incidence of communal violence in rural India see, Varshney 2001, 371.
[27] Yadav 2000, 122–123.
[28] Kothari 1964, 1161-1173. Morris-Jones 1968, 196-232.
[29] Kothari updated of his analysis for the period up to 1967 in Rajni Kothari 1970, chap. 2. For a more recent analysis summarizing the trends in party competition see, Sridharan 2002), 481-485.
[30] For a description of the mobilizations that inspired Indira Gandhi to impose a "national emergency" see Frankel 1978, chap. 10, and, Rudolph and Rudolph 1997, 183.
[31] For an argument about the rise of the nationalist sentiment due the inability of institutions to keep pace with social mobilization see, Snyder 2000, chaps. 1, 2, & 6. See also, Mansfield and Snyder 1995, 5-38.
[32] Manor 2002, 446-460.
[33] Frankel 1997, 375-382. For an analysis of the entry of new groups into political competition in five districts of India, see Kohli, (fn. 8), chaps. 3-7. Kohli 1994, 93-94.
[34] For a review of the literature supporting ISI see, Krueger 1993, 44-45.
[35] Todaro 1981, 453–454.
[36] Krueger, (fn. 5); Bhagawti and Srinivasan (fn. 5). For a review of the literature on rent–seeking, see Krueger 1997, 22.
[37] Sarma 1995.
[38] Ahluwalia 1991, chap. 7. Although there is some controversy about the total factor productivity growth (includes labor and capital's contribution to productivity) in the 1980s, Ahluwalia's is the majority view. I am indebted to Biswanath Goldar for his insights.
[39] For the India and East Asia comparison see, Timmer and Szirmai 1999, 61-65. For the argument that there is no need to shift factors such as labor and capital to more productive uses for increasing the level of productivity, see Timmer and Szirmai, 371-392.
[40] See Kathuria 1995, 154.
[41] See Rudolph and Rudolph, (fn. 24), chaps. 7-13; and, Rudolph and Rudolph, (fn. 30), 177-186.
[42] See Gurr 1970; and, Davies 1970. On mobilization see, Huntington, (fn. 18), 53–55; and, Huntington and Nelson, (fn. 19), chap. 1 and chap. 3.
[43] Mitra 1991. On the impact of social mobilization on the Indian exchequer see, Bardhan 1984, chap. 5.
[44] Chackravarty, (fn. 17), 126–127. Varshney 1995, 169–172.
[45] Joshi and Little 1994, 65.
[46] Gang and Pandey 1996.
[47] Anant and Goswamy 1995, 273–274.

[48] Bardhan 1992, 324–325.
[49] Mundle and Rao 1992, 230–231.
[50] Government of India 1994/1995, 16.
[51] I associate low productivity rather than slow economic growth with the fiscal crisis because a fiscal crisis may be associated with a high growth but inflation generating expansionary policy. Krueger, (fn. 36), 16-17.
[52] Kuhn 1970, chaps 4-6. For "policy paradigm" and economic policy change, see Hall 1993, 277-287.
[53] See Kuhn, (fn.52), chaps. 9-10; and, Krasner, 1984, 240-244.
[54] See Hirschman 1989, and, Bierstaker 1992.
[55] Hall, (fn. 52), 286–287.
[56] For the East Asian and Chinese transitions see, Haggard, (fn. 3), chap. 3-4; and, Lardy 1992. For the fall of the Soviet system see, Goldman 1991; and, Kennedy 1988, 631–664.
[57] See Krueger 1998, 203.
[58] Interview with Arjun K. Sengupta, Member: Planning Commission, New Delhi, August 20 1997. Sengupta was an advisor to Prime Minister Indira Gandhi in the early 1980s. See also, Sengupta 2001, 44–65.
[59] See Shastri 1995, 165–171; and, Dhar 1988, 13-14.
[60] Gandhi 1985, 236.
[61] On the promise of Rajiv Gandhi's reforms in 1984 and 1985, see Rubin 1985. On his failure to adequately deal with politics see, Kohli, (fn. 8); Bhagwati, (fn. 8); and, Varshney (fn. 8).
[62] Shastri, (fn. 59), 223–226.
[63] For the published version of Singh's doctoral dissertation see, Singh 1964. See also, Sen 1998.
[64] For concluding that Singh was pro-trade in 1991, I rely on the following sources: Personal interviews with Jagdish Bhagwati, Arthur Lehman Professor of Economics, Columbia University, New York, November 14 1997; Manmohan Singh, Member of Parliament, Ministry of Parliamentary Affairs, New Delhi, August 8 1997; and, Montek Singh Ahluwalia, Member: Planning Commission, New Delhi, April 25, 2001. See also, Byres 1998, 87–88; and, Bhaduri and Nayyar 1996, 50.
[65] Joshi and Little, (fn. 45), 226. I have relied on these figures because Joshi and Little's figures have stood the test of time, as an authoritative account of the Indian crises. Their figures have not been seriously challenged, even though they tell a very important story. See also, Jalan 1991, 1–4, 100–117.
[66] For a commentary on this equation see, Krugman 1994, 50. The equation can be derived very easily from the basic national income accounts identity:
Y (national income) = C (consumption) + I (investment) + {G (government expenditure) – T (revenue)} + {X (exports) – M (imports)}
Or, $Y - C = I + (G - T) + (X - M)$
But, $Y - C = S$ (savings)
Substituting S for Y - C, $S = I + G - T + X - M$
Or, $(X - M) = (S - I) + (T - G)$
[67] Joshi and Little, (fn. 45), chapter 12.
[68] Ibid., 185.
[69] Ibid., 114, 149, 189.
[70] Sen 1994, 808. Bhaduri and Nayyar, (fn. 64), 27. Joshi and Little, (fn. 45), 67.

[71] Joshi and Little, (fn. 45), 67. Bhaduri and Nayyar, (fn. 64), 29.

[72] Robert D. Putnam, (fn. 10), 446-448; and, Andrew Moravscik, (fn. 10), 25-26.

[73] Milner 1997, chap. 2, 241-242.

[74] I am making the assumption that while the Stopler Samuelson Theorem may be good for explaining the long-term commonality or conflict of interests between the factors of production (land, labor and capital), in the short-term, sectors rather than factors of production organize themselves to express their preference for trade or protectionism. For the Stopler Samuelson view, see Stopler and Samuelson 1941; and, Rogowski 1989, chap. 1. For the Ricardo-Viner-Cairnes view that sectors rather than factors organize themselves more effectively, especially in the short-run, see Magee, Brock and Young 1989), chap. 7.

[75] Dash November/December 1999, 902-903; ASSOCHAM 1995, 213-253. Personal interview with ex - Prime Minster Rao at his residence in New Delhi, February 2, 2001. For the influence of different industry groups in 1991, see Kochanek winter 1995-1996, 534-550.

[76] See, Dash, (fn. 75), 902; CII September 1994.

[77] Interview with D. H. Pai Panandiker, New Delhi, September 1 1997. Panandiker was Secretary General of the FICCI up to 1992. See also, Das 1997, 104-113. Tarun Das is the Secretary General of CII. The Sri Ram Memorial Lecture was delivered at the PHD Chambers of Commerce in New Delhi on August 21, 1997.

[78] See Venkata Ratnam 1992, 378; and, Subrahmanya 1996, 59-63. On India's labor laws see, Zagha 1999, 161-166.

[79] Pandhe December 1991, 1-4.

[80] Pandhe July 1992, 4-8. See also, Sen 1997), chaps. 23-24.

[81] Hirschman 1970, chap. 3.

[82] Olson, (fn. 5), chap. 1 and especially p. 48.

[83] On the special advantages of the executive for crafting a unified government see, Milner, (fn. 73), 103-106, 109-112. For divided government see, chap. 4. On how unified government was achieved in India despite much opposition in 1966 see, Mukherji, (fn. 9), 382-885.

[84] Moravcsik, (fn. 10), 28; and, Evans 1993, 402-403.

[85] Interview with P. V. N. Rao at his residence in New Delhi on February 2, 2001.

[86] Government of India 1997, 5.

[87] *Business India* 24 February 1997, 68; and, *Business India* 15 February 1998, 57-58.

[88] *Lok Sabha Debates*, February 27 1992, 572-573.

[89] See Chopra, Collyns, Hemming, and Parker 1995, 1-3.

[90] See Ahluwalia Summer 2002.

[91] Virmani August 9 2003.

[92] See Pierson 2000, 252; and, Bates, Greif, Levi, Rosenthal and Weingast 1998, 3-18.

[93] Pierson, (fn. 92), 253-259.

[94] Ibid., 265-266.

[95] Readers may think that I am contradicting myself by saying that ISI perpetuates itself and its destruction. The literature describing the complexity of causal mechanisms shows that the same cause may have two different kinds of impact on the effect. What is therefore critical is the net impact on the effect. See, Elster, (fn. 12), chap. 1.

[96] See Frieden 1999.

[97] Milner Fall 1998, 772-786.
[98] Snyder 1993, 104-105.
[99] Pierson, (fn. 92), 264-265.
[100] See Hill 1996, 73-76; MacIntyre 1991, 11-14; Bresnan 1998, 17-18; and, Hediz 1997, 59-76.
[101] See R M Schneider 1996; 114-118; B R Schneider 1996, 227-228; Sola 1994; Payne 1994, chaps. 4-5; and, Cohen 1989, chap. 7.
[102] On India's response to the crisis in 1966, see Mukherji, (fn. 9); On India's response to the IMF program between 1981 and 1984 see, Boughton 2001).
[103] On the design of IMF programs emphasizing country ownership of programs, see Khan and Sharma 2001. See also Stiglitz 2002.

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