

Background Note

No. 3

How India's Economy Changed Track: A Retrospective of Politics and Public Policy

Jairam Ramesh, MP, former Union Minister

Senior Visiting Fellow, The Hindu Centre for Politics and Public Policy

in conversation with

Mukund Padmanabhan

Editor, *The Hindu*



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Public Discussion on

25th Year of Reforms: A Retrospective of What Happened in June-July 1991

Friday, July 29, 2016

Programme Schedule

Session	Programme
5:30 pm	Introductory remarks by N. Ravi , Director, Kasturi & Sons and former Editor-in-Chief, <i>The Hindu</i>
5:40 pm	Jairam Ramesh , MP and former Union Minister, in conversation with Mukund Padmanabhan , Editor, <i>The Hindu</i>
6:10 pm	Interaction with the audience moderated by Mukund Padmanabhan
7:00 pm	Concluding remarks by Mukund Padmanabhan

How India's Economy Changed Track: A Retrospective of Politics and Public Policy

A distinguished economist, Kaushik Basu, once observed that the Indian economy “is in an age of the present continuous”¹. The immediate context of Basu’s remark was the mood among economists and commentators in the year 2008, close to two decades after India’s economic policy decisively changed track in 1991. As Basu pointed out, annual growth rates which were “around one per cent from 1900 to 1950; and at a sluggish 3.5 per cent through the 1950s and 1960s, ... suddenly picked up in the late 1970s. From 1993 the economy was growing even faster.”² Basu’s observation sets the context to discuss the manner in which India’s economy has evolved over the past 25 years, and the significance of the events that shaped the economic reforms of 1991. It also points out that the growth of an economy is a dynamic process.

Rather than see the 1991 reforms as a starting point, Jairam Ramesh, author of *To the Brink and Back: India's 1991 Story* (2015), presents it as part of a continuum of India’s economic policies and the nation’s political process. The policies of 1991 were preceded by calibrated changes spread over decades, raising conflicting claims as to when the reforms started. These include successive Industrial Policy Resolutions³, the Long Term Fiscal Policy of 1985,⁴ when the Union Government presented for “the first time a long-term perspective for fiscal policy”⁵, and other related policy decisions, all of which flowed into the formulation of the reforms presented to the nation in the months of June–August, 1991.

The book is an important contribution to contemporary economic and political history as it gives an insider’s account on key developments during the formulation of the current economic policy. It is also significant as it puts in perspective the urgency of the reforms that took place and the manner in which new thinking went on to reconceptualise the role of the state in running the economic affairs of a large democracy.

The manner in which the key *dramatis personae* of the reforms are presented in the narrative—be it political leaders, civil service officers, or technocrats—provides insights into procedures and

¹ Basu, K., 2008. India's Dilemmas: The Political Economy of Policymaking in a Globalised World. *Economic and Political Weekly*, 43(5), pp. 53-62.

² Ibid. p53.

³ Government of India, n.d. [Highlights of Industrial Policy Resolutions](#) [Last accessed: July 28, 2016].

⁴ Dubey, S. & Mathai, P. G., 1986. [Fiscal policy: Easing the burden](#). *India Today*, 15 January, p. 1986. [Last accessed: July 28, 2016].

⁵ Singh, N. T., 2013. [Fiscal Reforms in India](#). *IOSR Journal Of Humanities And Social Science*, 7(2), pp. 52-63.

processes, both formal and informal, related to the policy-making process. India's 1991 economic transformation was charted against the twin backdrop of a domestic political tragedy, the assassination of former Prime Minister, Rajiv Gandhi, who was leading the election campaign of the Indian National Congress (INC), which pitchforked Narasimha Rao to the Prime Ministerial chair, and an economy that was on a downward spiral which required immediate assistance from multilateral agencies, but was falling short on credibility.

An insider's account is bound to throw light on the nuances involved in convincing stakeholders, both national and international, and India's political and administrative classes in particular. Also at play is floor management in Parliament and backroom operations that keep the process on track. Jairam Ramesh shares his experiences of events that spanned 90-odd days when he worked in closely with Prime Minister Narasimha Rao, Finance Minister Manmohan Singh, and others.

To The Brink and Back includes extensive excerpts that are relevant to tell the story of India's period of economic change. These are from Parliament Debates, internal notes, accounts by other prominent persons—the late P.C. Alexander, for instance—and news reports, to convey the essence of the happenings between June 1991 and July 1991. Narrated in the first person, Jairam Ramesh's retelling of events is not a linear chronicling of events, but a neatly-scripted reminiscence of views shared by the proponents and critics of the transformation process. While doing so, he also points out the importance of following procedures and processes.

One example narrated in *To the Brink and Back* is illustrative: the story of the joint press statement by a quartet of economists, which was a prelude to the reforms package. This was not only released utilising the good offices of the Observer Research Foundation (p. 53), but was also placed in a set of Parliamentary papers distributed in the Lok Sabha and the Rajya Sabha. This created a furore in both Houses, criticised as a biased move by opponents in Parliament, and resulted in a letter of apology from the Finance Minister (pp 53-59). Jairam Ramesh's admission that the mistake made in this backroom exercise—the non-inclusion of a statement issued by “35 leading ‘leftist’ economists of the country on July 8,” which included former members of the Planning Commission, a former West Bengal Finance Minister, and others in the Parliamentary papers—also brings out the importance of addressing the concerns of critics to ensure policy-making with minimal friction.

Referring to those critical of the reforms from within, and the inevitability of working with them, he writes:

“I could see that Manmohan Singh was distinctly uncomfortable with this pair, but he was always proper, dignified and correct in his dealings with them—as they were with him. It was an

extraordinary situation—the entire reforms programme was conceived and executed without the full and active participation of the finance secretary and the chief economic adviser. As for myself, like the finance minister, I had excellent personal relations with both these gentlemen but knew that they were not entirely supportive of what we had embarked upon. They, along with the foreign secretary, Muchkund Dubey, shared greater intellectual sympathy with statement of the thirty-five economists than with the note issued by the quartet.” (p105).

India's move towards the market was a “leap of faith”, which was also “inevitable”.

“There is a Tolstoyan perspective of history which holds that individuals are irrelevant and circumstances create events. Another view is that individuals matter and do decisively shape the course of history. My own feeling is that what got accomplished in June-July 1991 was inevitable, if our goal was to avoid the opprobrium of default.

The Rao-Singh duo happened to be at the right place at the right time. They had neither bargained nor lobbied for the responsibility they found themselves with; but they were, saddled with onerous tasks.

‘*Carpe diem*,’ wrote Horace in his immortal *Odes*. This is exactly what the Rao-Singh jugalbandi did—they seized the day. There was no guarantee of success, and certainly no likelihood of quick positive outcomes; indeed, the results of the reforms started becoming evident only after 1993. Consequently, theirs was a huge leap of faith. It was, in fact, a gamble of sorts. The most risk-averse of gentlemen took this wager only because the alternative—namely a default—was an anathema to both. Besides, they were men intent on carving a distinctive niche for themselves in India's political and economic history. And let there be no mistake about it—they definitely did.

To borrow an analogy from Isaiah Berlin, if Manmohan Singh was the hedgehog who knew only one big thing and that is economic reforms, Rao was the fox who knew many things. It is this fox-hedgehog combine that rescued India in perhaps its darkest moment.” (pp147-148).

Though the reforms process saved India from default, there is still no definite answer in the positive to one core question: that of the impact of reforms on equity. India has moved from what was described by Joshi and Little⁶ as “the most autarkic non-communist country in the world” to becoming the “fastest growing economy”⁷, but it still remains a laggard on critical development indicators. The test of the success of the reforms will remain, undoubtedly, on how effectively the nation's economic decision-makers will be able to step up the low levels of public investment in sectors such as health and education. The evidence that the economy is on track to pass this critical test is not very compelling.

In the *In Conversation* programme organised by The Hindu Centre for Politics and Public Policy, Jairam Ramesh, Member of the Rajya Sabha, places in perspective the policy manoeuvres that resulted in economic policies which continue to be at play now. Jairam Ramesh is also a Senior Visiting Fellow at The Hindu Centre for Politics and Public Policy.

Background note prepared by: V.S. Sambandan.

⁶ Cited in Baldev Raj Nayar, Political Structure and India's Economic Reforms of the 1990s, *Pacific Affairs*, Vol 71, No 3 pp 335-358.

⁷ Pandey, V., 2016. [India still fastest-growing economy in world gripped by uncertainty: IMF](#). *The Economic Times*, 13 April. [Last accessed: July 27, 2016].

Jairam Ramesh is Member of the Rajya Sabha, the Upper House of India's Parliament, representing the State of Karnataka. A former Union Minister, Jairam Ramesh has held several portfolios in the Union Government, including Rural Development (2011-2014), Drinking Water and Sanitation (2011-2013), Environment and Forests (2009-2011), Commerce and Power (2008-09), and Commerce (2006-2009). He is Senior Visiting Fellow, The Hindu Centre for Politics and Public Policy.

Before taking up public office, he has been a technocrat carrying out a number of administrative assignments. He was the Advisor to the Finance Minister (1996-98), Officer on Special Duty to the Deputy Chairman of the Planning Commission (1991-94), to the Prime Minister (June-September 1991) and in the Planning Commission (1986-89). He has also been an Additional Economic Advisor in the Ministry of Industry (1985-86) and a Consultant in the Advisory Board on Energy, Cabinet Secretariat (1983-85).

After graduating with a B. Tech degree in Mechanical Engineering from IIT-Mumbai in 1975, Jairam Ramesh did his M.S. in Public Policy from Carnegie-Melon University (1977) and attended a Graduate Programme in Technology Policy from MIT (1977-78).

He has written regular columns in *The Telegraph*, *The Times of India*, *Business Standard* and *India Today* and has also been part of TV shows on business and current affairs in Doordarshan. He has also written for *The Hindu*. Some of his published works include *Indo-US Relations* (2000), *Globalising India* (2003), *Making Sense of Chindia* (2005), *Green Signals: Ecology, Growth and Democracy in India* (2015), *To the Brink and Back: India's 1991 Story* (2015) and *Old History, New Geography: Bifurcating Andhra Pradesh* (2016). He is currently working on an environmental biography of Indira Gandhi and an economic history of contemporary India.

His major achievements include the design and implementation of special development strategies for nine Maoist-affected States in India. He played a key role in the design of legislation such as the Right to Information Act (2005), the Mahatma Gandhi National Rural Employment Guarantee Act, 2006, the Forest Rights Act, 2006, the National Food Security Act, 2013 and the Land Acquisition Act, 2013. He also played a crucial role in placing environmental, sustainable development and forest conservation issues on the national agenda. Internationally, he played a key leadership role in the UN Convention on Biological Diversity (2009-10) and climate change summits in Copenhagen (2009) and Cancun (2010), which was acknowledged by world leaders such as U.S. President Barack Obama and German Chancellor Angela Merkel.



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