IIMB Management Review (2015) 27, 141—143

available at www.sciencedirect.com

ScienceDirect

journal homepage: www.elsevier.com/locate/iimb

BOOK REVIEW

Rahul Mukherji, Globalization and Deregulation: Ideas, Interests and Institutional Change in India, OUP India, 2014, 280 pp., INR 550.

Most studies about country-specific experiences with economic liberalization and deregulation focus on concrete factors and events that lead countries to change their policy direction. The roles of specific triggers such as exogenous shocks and dramatic events, which are visible, are often given primacy as drivers of radical shifts in policy paradigm. However, the internal processes and dynamics and the gradual evolution and acceptance of ideas within the bureaucratic and political intelligentsia that enable and sustain such shifts in policy often get neglected. Rahul Mukherji's book titled, "Globalization and Deregulation: Ideas, Interests and Institutional Change in India" is a well-researched and insightful read that attempts to answer some of these questions that have not received enough attention in existing country studies on institutional change and economic reforms. It asks whether changes are driven by an assessment and critical evaluation of prevailing conditions or by the appeal of new ideas, whether they are driven by exogenous shocks or by the accumulation of endogenous processes or both. Mukherji stresses the importance of the internal dynamics of change and the interplay of various actors within nations in setting the stage for dramatic shifts in policy at some later date in the context of India's economic liberalization.

The central argument of this book is that India's adoption of a new economic policy in 1991 was driven by a longer process of home-grown, ideational change that had taken root during the late 1970s and through the 1980s. This was brought to a "tipping point" by the exogenous shock of the Gulf War and the resulting Balance of Payment (BoP) crisis in 1991. At the heart of this change was an acceptance of the failure of India's earlier inward looking policies of import substitution and state intervention to generate growth, and recognition of the need for a new outward oriented policy framework among all key actors. Mukherji highlights how endogenously driven changes in ideology among the technocracy through the 1980s and the support extended by the ruling polity to the technocrats during the crisis and in its immediate aftermath, made possible India's re-orientation to a path of industrial deregulation and reforms in 1991.

Mukherji presents a useful analytical framework for understanding India's economic liberalization in Chapter 1. He proposes two models for understanding institutional and social change processes; the "punctuated equilibrium model" where "change is characterized by critical junctures when an exogenous shock brings about a drastic change in continuous processes or institutional patterns" and the "tipping point model" where "endogenous and continuous processes, rather than external shocks, are important for understanding dramatic change" and where "the change can look quite drastic after an internally driven process has brought the system to the threshold of change". India, according to Mukherji fits the "tipping point" model because without underlying mental preparedness and the institutional adoption of an ideology that favoured industrial deregulation and opening up of the economy among key actors, economic liberalization could not have taken off or been sustained. The book notes that this transformation in mindset was aided by the visible failure of an import substitution-led development strategy and a growing fiscal deficit at home, and the decline of the Soviet model of development coupled with the demonstrated success of the export led growth strategy in East Asia.

To substantiate this point, in Chapters 2 and 3, respectively, the book compares India's BoP crisis of 1991 with that of 1966, and the differing reactions and policy responses under the two cases, based on accounts from internal reports and discussions during these events. The book argues that the key difference between these two relatively similar episodes is that the 1966 crisis did not lead to a change in policy paradigm because the underlying transformation in ideology and preparedness was missing. Mukherji highlights how despite two substantive reports in 1966 (one of these being the famous Bell Commission report) which criticized the government's industrial licensing policies and recommended switching from an import substituting industrialization strategy as well as devaluation of the rupee to promote exports, leading technocrats and politicians continued to support state intervention. Devaluation was internally opposed by eminent policy makers and by Indian industry on the grounds that India's exports faced inelastic demand and that it would only fuel inflation. The book narrates how Mrs. Gandhi wavered on the devaluation package and the secrecy with which negotiations took place between Mrs. Gandhi, the US government and the World Bank, without the knowledge of key functionaries like the Commerce and

Peer-review under responsibility of Indian Institute of Management Bangalore

http://dx.doi.org/10.1016/j.iimb.2015.04.009

Finance Ministers, to highlight how entrenched the views were on import substitution and industrial licensing among the ruling polity. Although devaluation was finally undertaken, this was done solely to secure foreign assistance and not driven by a strong conviction among the executive branch and the technocracy about the need to change policy direction. The experience with liberalization following the 1966 crisis was thus short lived as the government reverted to more stringent regulation of trade and industry in 1969. As the book argues, liberalization and deregulation did not take off in 1966 because the underlying ideational changes had not occurred to enable a tipping point to be reached.

The 1991 BoP crisis, in contrast, was preceded by a gradual change in ideas in the preceding decade, as reflected in several reports during the 1980s which recommended the removal of industrial and financial controls, prudent foreign exchange management, devaluation of the rupee, aggressive export promotion policies, and facilitation of foreign technical collaborations and FDI. These ideas, the book argues, helped inform the economic reforms that were initiated by Rajiv Gandhi, including the deregulation of domestic investment under the MRTP Act, de-licensing of many industrial products, efforts to improve the management of public sector entities, import liberalization, introduction of export promotion incentives, and reduction in personal and corporate income taxes. However, Mukherji points out that this period continued to be marked by political interference with reforms and internal deregulation took place without fiscal prudence, without the discipline of global competition and without sufficient focus on attracting foreign capital. The result was fiscal disarray, mounting commercial debt obligations and debt servicing costs, which when confronted with Iraq's invasion of Kuwait in 1990, the subsequent rise in oil prices and fall in remittances from the Gulf, and the fall of the Soviet Union, brought India to the brink of bankruptcy. But this is where, according to the book, the ideational framework that had taken root during the pre-crisis period helped become an agent of change and enabled the 1991 crisis to reach a tipping point.

The emergence of a critical mass of reformist technocrats with liberal economic ideologies, who understood international best practices, recognized India's economic problems, and could engage with the World Bank and the IMF along with their empowerment by the political elite, made possible the adoption of an economic liberalization and deregulation programme in 1991. The book provides numerous examples of key actors (Manmohan Singh, P Chidambaram, Montek Ahluwalia, Shankar Acharya, C. Rangarajan, Gopi Arora), during and prior to the crisis and the critical support extended by the PMO's office under the stewardship of P. V. Narasimha Rao, to illustrate convincingly how embedded the conviction was about reforms and liberalization among the technocratic and political elite. The events of 1990—91 were thus only a proximate cause. Mukherji further stresses the endogenous and home-grown nature of this change by highlighting how the reform agenda deviated in many respects from the Washington consensus. While there was broad acceptance of the need for fiscal prudence, a competitive exchange rate, trade liberalization and privatization, and articulation of this philosophy in the budget of July 1991, Indian policy makers were not aligned with the international institutions on issues such as disinvestment of public sector enterprises, social expenditures and labour reforms. Hence, reforms were not imposed by outsiders but were "tempered with the imperatives of an open democratic society".

The discussion of the contrasting experiences during the 1966 and 1991 crises from an ideational change perspective is followed by an interesting account of the successful deregulation experience in India's telecom sector in Chapter 4 and the unsuccessful experience with power sector reforms in Andhra Pradesh, in Chapter 5. The chapter on telecommunications highlights how the confluence of new ideas regarding the role of telecommunications in development, the extension of political support to technocrats to implement telecom reforms, and the institution of new regulatory structures enabled the successful liberalization of India's telecommunications sector. In particular, it notes how a layered approach to institution building with the creation of the Telecom Regulatory Authority of India (TRAI) and the gradual expansion and strengthening of the latter's mandate on the edges of the incumbent regulator and service provider, the Department of Telecommunications, played an important role. In stark contrast, the discussion on the power sector highlights how despite commitment by a pro-reform Chief Minister to promoting private sector investment and competition in the power sector and despite available technocratic capacity, economics was trumped by the mass politics of populist promises of free electricity to the agricultural lobby. As Mukherji points out, it was easier to find political support for free electricity than for progressive subsidization of electricity by deregulating tariffs.

The discussion of these two very different sectorial experiences with deregulation illustrates effectively, the context-dependence of any reform process and the importance of creating strong and independent institutions to manage conflicts of interest and incumbency challenges. Further, it highlights how in a democratic polity such as India, where centre-state relations are complex, and interests across different sections of society are widely divergent, political support and will is critical to not only implement but also sustain reforms. At the sectorial level, a tipping point may or may not be reached depending on the confluence of conditions and interests. Ideational change is necessary but may not be sufficient in such political systems.

Overall, this book provides an analytical framework for understanding how ideas and interests work together to cause economic change and how such ideas gradually get embedded in policies and institutional frameworks. The book argues convincingly that reforms in India are path-dependent and not a sudden disruptive process that took place due to the 1991 BoP crisis. Changes within India's executive-technocratic team which led to gradual policy shifts during the 1980s, prepared the country for subsequent deregulation and globalization in 1991.

There are, however, two issues the book could have delved into further. One of these is the role of industry chambers and leading business houses in enabling or thwarting deregulation and liberalization. Although the reactions of FICCI, ASSOCHAM and certain business interests are highlighted in the context of both the 1966 and 1991 crises, the reasons underlying their policy stance are addressed rather cursorily. It would have been interesting to see whether there were differences of opinion across industries depending on their sectorial advantages and disadvantages, how labour versus capital-intensive industries responded to the calls for devaluation and delicensing, and also how the thinking and articulation of positions changed between the two crises due to the advent of globalization and the transformation of the East Asian economies during the 1980s.

A second issue which the book could have explored further is whether the tipping model works similarly for central versus state level reform processes. While the case of telecom deregulation was an example of a central policy change, the case of the power sector was an example of a state level policy change. The question that arises is whether the proximity of the agents of change to the mass electoral base at the state level makes deregulation more susceptible to the problems of vested interests and conflicts than deregulation that is centrally driven. To what extent are the two differing sectorial experiences discussed in this book a result of the central versus state dimension of the deregulation experience as opposed to specific characteristics and conditions defining these two sectors? The latter question is pertinent in the current policy environment where reforms in areas such as labour laws, education, land, and taxes which have ramifications for centre-state relations and powers, are exactly those areas where reforms have been the slowest and most ridden with conflict. Perhaps the author could draw upon his concept of ideational change and suggest when a tipping point might be reached to enable the much-awaited reforms in these latter areas.

Rupa Chanda
Indian Institute of Management Bangalore, Bangalore, India
E-mail address: rupa@iimb.ernet.in