INDIA POLITICAL ECONOMY PROGRAM ESSAY

THE PITFALLS OF EXPERT COMMUNICATION

A CASE STUDY OF THE DEVALUATION OF THE INDIAN RUPEE IN 1966

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SUMMARY

This essay examines the pitfalls of expert communication in policy-making, using the 1966 devaluation of the Indian rupee as a case study. It highlights the complexities and misunderstandings in communicating economic policies, particularly how expert advice can be distorted in political and public realms, leading to significant policy failures despite expert consensus on potential benefits.

Keywords: 1966 devaluation; policymaking; Indian rupee; economic reform; India political economy

JEL codes: N45, P11, B29, O53, E58, G15

On the cover: Pillar of Ashoka (detail) at Sanchi, Madhya Pradesh, India. The pillars of the emperor Ashoka the Great (268–232 B.C.), renowned for their polished sandstone and intricate carvings, were dispersed throughout the Indian subcontinent and carried imperial edicts promoting moral and ethical conduct. The Lion Capital of Ashoka, which tops the pillar at Sarnath, Uttar Pradesh, has been adopted as India's national emblem. Twenty of the pillars of Ashoka still survive.

Sometimes carrying out a policy change is like playing a game of telephone. A new policy idea travels across several realms from its point of conception, moving through academia to technocracy to legislation. In the process of mulling, tweaking, and articulating that it goes through, there is plenty of room for the idea to lose nuance. To understand how communicating change in policy making goes awry, we can draw on the stories of India's early experiments with economic reform. One of the clearest examples of such an experiment comes from several scholars' historical account of how the devaluation of the Indian rupee in 1966 fared as a policy measure. In January of that year, Indira Gandhi came to power for the first time, amid great (geo)political churn. Lal Bahadur Shastri, her predecessor, had just passed away in Tashkent, Uzbekistan, after signing a peace treaty that resolved the 1965 Indo-Pakistani War. An adverse economy was smoldering below this misfortune. Inflation had risen to double digits, and aid from international donors became contingent on one thing: India devaluing its currency.

To resolve this issue, Prime Minister Gandhi sought advice from India's top economists, chief among whom were two names: Jagdish Bhagwati and K. N. Raj. Since Shastri's tenure, both had been involved in the policy and academic discussion on the topic of devaluation. Both represented views that found sympathy in policy and political circles. Both agreed that the measure could help in principle, but whereas Bhagwati was more fully in support of it, Raj had serious reservations about its implementation. It is precisely on these points that communication failed once the ball was in the political court. As we shall see, the devil was not in the details. The pitfalls of communication in the policymaking process exist in rhetorical abstractions vulnerable to ideology. The 1966 devaluation was a case where a policy problem got hijacked by a rhetoric that suited both populist and elitist notions about the right thing to do, missing out along the way the nuances offered by experts on the issue. The details would have, in fact, helped to frame the problem better: not *whether* to devalue the rupee, but *how* to devalue the rupee.

AID WITH STRINGS ATTACHED

The devaluation was the first bold move toward the liberalization of the Indian economy following independence. It was the second time the value of the rupee was adjusted (the first was in 1949) since the country's independence. Ever since the Second Five Year Plan (1956–61), the Indian economy had struggled with a paucity of foreign exchange. The Second Five Year Plan was based on a model developed by P. C. Mahalanobis, which sought to funnel the state's resources into capital goods industries to potentially generate growth in the long term.[1] In 1961, after a series of Indian delegations to Washington met with the US government and World Bank elites, the Aid-India Consortium (AIC) was established as the prime channel for foreign aid to the country. But half a decade in, India was fast running out of foreign reserves to import the goods necessary to keep its installed capacity going. The events of 1965–67 aggravated the already risky balance of payments situation and led to immense political pressure on the government. Inflation swelled owing to numerous factors. India fought a war with neighboring Pakistan and had to contend with a prolonged wave of famine. The economy was already reeling under the effects of the 1962 Sino-Indian War. The nation's military expenditure during 1963–65 stayed at up to 4 percent of the GDP, and its annual production of food grains fell sharply. Unable to borrow, the government resorted to deficit financing by issuing bonds to the Reserve Bank of India (RBI).[2]

These unforgiving circumstances stressed India even more because of its attachment to a fixed exchange rate for its currency. The rupee was at the time pegged to the British pound, which was, in turn, pegged to the US dollar. Under this regime, as inflation increased, imports became cheaper and exports costlier. The resultant trade deficit had been rising gradually but was being managed through export subsidies and quantitative restrictions on imports. The World Bank had already offered conditional aid in 1964,[3] but the finance minister at the time, T. T. Krishnamachari, had been incensed with what he perceived as an arm-twisting tactic from the donors. Nothing transpired at that time. In 1965, US President Lyndon B. Johnson unilaterally cut the supply of food grains to India in its hour of need. The AIC, directly at the bureaucratic level and indirectly via

1. "Nikhil Menon on Planning Democracy," *Ideas of India* (podcast), Mercatus Center at George Mason University, Arlington, VA, February 2, 2023, https://www.mercatus.org/ideasofindia/nikhil-menon-planning-democracy.
2. World Bank, "Military Expenditure (% of GDP)," World Development Indicators (database), World Bank, Washington, DC, https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS.
3. Mercatus Center at George Mason University, "The 1966 Devaluation," 1991 Project website, https://the1991project.com/index.php/timeline/1966-devaluation.

the World Bank's Bell Mission Report, used this situation to stipulate economic policy and made the supply of aid contingent on the removal of protectionist measures and the devaluation of the rupee. While on the one hand, the need for exchange rate adjustment became difficult to avoid, on the other, the issue drew a rift through the political class. The same year, Krishnamachari was asked to step down from his role. Prime Minister Shastri expressed readiness to devalue the rupee, but the buildup of political will toward reforms received a severe blow with his sudden demise.

After the 1944 Bretton Woods Conference, the International Monetary Fund (IMF) had been designated to monitor the system of fixed exchange rates and lend money to countries that experienced a trade deficit. Early into 1966, following discussions with the IMF to secure further aid, the government agreed to devalue the rupee. Shastri was succeeded by Indira Gandhi, who, at that time, was a relatively new face at the helm of government and the ruling Congress Party.[4] She had the backing of a clique of powerful politicians within the party but was hardly recognized as a leader with clout. She also did not feel at ease in discussions with policy experts; some commentators even said that she did not possess sound knowledge of economics. For advice on economic policy issues, Prime Minister Gandhi relied on a group of top bureaucrats in the central government: L. K. Jha, secretary to the prime minister; I. G. Patel, chief economic adviser; P. C. Bhattacharya, governor of the RBI; and S. Bhoothalingam, secretary of the Department of Economic Affairs. From her cabinet, three ministers were actively involved in the decision-making process for the devaluation: Finance Minister Sachindra Chaudhuri (who replaced Krishnamachari), Planning Minister Ashok Mehta, and Food and Agriculture Minister C. Subramaniam. Given the charged sentiment around the topic, this group held its cards close to home despite the government's official commitment abroad. In March 1966, with the donors' concerns allayed, Prime Minister Gandhi made a successful visit to Washington to meet President Johnson.[5]

Prime Minister Gandhi's inner circle of advisers and ministers had been pro-devaluation from the start and had advocated the policy within their respective domains. In January, the advisers presented the government with two more alternatives: bringing in partial floating exchange rates or a de facto devaluation where part of the foreign exchange earnings would be reserved for core sectors

4. "Mrs Gandhi: India's Choice," video produced by British Pathé, 1966, https://www.youtube.com/watch?v=mXNhIhz0W-s.
5. "Mrs Gandhi in America," video produced by British Pathé, 1966, https://www.youtube.com/watch?v=rscSQhCoxIA.

(defense, food, etc.). Most of them recognized the necessity of a quid pro quo in economic policy vis-à-vis the loans from the IMF and the food aid in the wake of domestic calamities. Mehta, Jha, and Bhoothalingam later explicitly discussed receiving pressure from the World Bank and the US government at all levels, but they also noted that the central problem was the gross overvaluation of the rupee at a time when the economy was weak and depended on external support. And then it happened. In May, the nation's foreign exchange reserves declined steeply, going from INR 191.3 million to INR 72.9 million in a span of three weeks. Impetus also came from the World Bank's promise of nearly a billion dollars of non-project aid to India if it devalued its currency. At 2 a.m. on June 6, 1966, the government decided to bring down the value of the rupee by 36.5 percent with respect to gold and 57 percent with respect to the US dollar. The rupee-dollar exchange rate changed from INR 4.76 to INR 7.5 per USD 1.00. The measure would bring the currency to par with external prices and enhance the competitiveness of exports. It was accompanied by the abolition of several special export promotion schemes (tantamount to export subsidies) and tax credit certification schemes.

This move toward liberalization, however, was not destined to last. In no time, it was met with near-unanimous disdain in India's national politics. In public and political sentiment, it was perceived as coercive foreign intervention that contradicted the ideal of self-reliance. For several years, domestic politics had thrived on bashing liberalization. Government ministries had circulated concerted propaganda against measures like the devaluation. Many economists, too, had been ambiguous on the topic, at least publicly. Unsurprisingly, the move prompted a huge uproar from all political quarters, including the ruling party's ranks. In retrospect, it might also be said that a nation that had shunned colonial rule only a couple decades ago was bound to harbor a desire for self-sufficiency and a skepticism for the West. For Indira Gandhi to secure her dominance, it was essential that the political and policy elite, as well as the media, got behind the initiatives of her government. But because of the aforementioned lock-in of discourse, when the time came, the government failed to cultivate substantial support and was compelled to usher in the policy secretly. This secrecy inhibited a reasoned discussion on the degree and extent of reforms that would make the move successful. Tension ran high, even swallowing the nonpolitical, economic aspects of the problem presented by the academicians who had been consulted in advance. A key name among these advisers was K. N. Raj, and his subsequent disapproval particularly affected Prime Minister Gandhi.

PRIME MINISTER INDIRA GANDHI MEETING PRESIDENT LYNDON JOHNSON IN THE OVAL OFFICE, 1966.

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ACADEMIC ADVICE AMID POLARIZED POLITICS

K. N. Raj was one of the country's foremost economists. He was highly esteemed, not just as an economist who had written parts of the First Five Year Plan (1951–56) in his early career, but also as an institution builder. He advised several prime ministers, headed the economics department at Delhi University, and would go on to be its vice chancellor in 1969. In fact, he had been instrumental in bringing in the likes of Jagdish Bhagwati, Sukhamoy Chakravarty, and Amartya Sen at the Delhi School of Economics in the 1960s. Given his influence, Raj's role was crucial for manufacturing public and political consensus over the reform measures. Raj had always been critical of the Second Five Year Plan for its lack of focus on agriculture and wage goods. In 1966, he published an article titled "Food, Fertiliser and Foreign Aid" in the journal *Mainstream*.[6] There he argued that the devaluation might promote Indian exports if implemented at the right time, but coupled with import liberalization and increased aid, it would fail national interest in the long term. But Prime Minister Gandhi might have been too quick to interpret this view. Supposedly, she saw it as Raj's switching away from his original critical stance, and she remarked in Parliament that senior economists of the country who had earlier criticized the move had now come around. This statement was a simplification of Raj's views.

6. K. N. Raj, "Food, Fertiliser and Foreign Aid," *Mainstream*, April 30, 1966.

K.N. RAJ (LEFT) AND JAGDISH BHAGWATI (RIGHT).

Sources: Left: Fotokannan at Malayalam Wikipedia, public domain, via Wikimedia Commons. Right: Johannes Jansson /norden.org, distributed under a CC BY 2.5 DK Deed license, https://commons.wikimedia.org/wiki/File:Jagdish_N._Bhagwati_Professor_Jagdish_pa_Columbia_University_talar_vid_invigningen_av_Nordiskt_globaliseringsforum_i_Riksgransen_2008-04-02.jpg.

At the same time, Jagdish Bhagwati had emerged as an important scholar and one who was firmly in the pro-devaluation camp. As an adviser to the Ministry of Finance, he was not alone. The technocratic elite, comprising economists such as L. K. Jha and I. G. Patel, understood the need to devalue the rupee, and the internal discussion about the policy package had been in the works for more than a year in New Delhi before the policy package came out. Both Bhagwati and Raj had been consulted at separate times. The former, who was then teaching at the Delhi School of Economics, had examined the economic aspects of the devaluation in a 1965 report prepared for the ministry.[7] A detailed discussion of the topic came out in a 1966 volume called *Devaluation of the Rupee and Its Implications*.[8] Notwithstanding the element of coercion from the aid consortium, it was quite normal for a developing country such as India to manage its exchange rate and introduce changes to its payments regime from time to time. The new prime minister herself had no ideological bent. With consensus reached within this small elite, a delegation led by Ashoka Mehta was sent to Washington to hold

7. J. N. Bhagwati, K. Sundaram, and T. N. Srinivasan, “Political Response to the 1966 Devaluation-I,” *Economic and Political Weekly* 7, no. 36 (1972): 1835–36.
8. Institute of Constitutional and Parliamentary Studies, *Devaluation of the Rupee and Its Implications* (New Delhi: Institute of Constitutional and Parliamentary Studies, 1966).

talks with the IMF. And, as I. G. Patel put it in *Glimpses of Indian Economic Policy*, "The paramount consideration was to maintain secrecy in the closing stages."[9]

In the intellectual arena, the controversy began in 1962 when Jagdish Bhagwati submitted a forceful article in favor of the devaluation to *Economic Weekly* (now known as *Economic and Political Weekly*).[10] This put Sachin Chaudhuri, the founder an editor of the journal, in a dilemma. People in the Delhi policy establishment (even those who supported the journal), such as I. G. Patel, K. N. Raj, and L. K. Jha, were against extensive public discussion of the issue because it was politically sensitive. However, Chaudhuri chose not to bend to pressure from the policy establishment and went ahead with the publication, prompting a heated debate in academic circles. In his article, Bhagwati framed the problem as being constituted of the import control regime, the self-defeating export promotion measures, and the underestimation of the need for foreign exchange. He argued that (a) if the devaluation helped secure more foreign exchange to fuel domestic operations, it would also raise real income; (b) the level of money expenditure would not rise to match the costlier imported goods; (c) the planning regime was already inflationary because the government gave subsidies to exporters that exceeded the funds raised from importers; and (d) the devaluation could potentially have a deflationary effect given that, owing to foreign aid, imports were relatively greater than exports.

Bhagwati essentially drew a comparison between a potential devaluation (ceteris paribus) and contemporary policies that combined an inefficient export subsidies program with import controls. In a subsequent rejoinder, he defended his position that such a devaluation need not be inflationary, as was conventionally thought. He called for differentiating between the Keynesian and popular definitions of *inflation*. He clarified that the goal behind his article had been to make a theoretical contribution to the literature, not a political recommendation about implementing a specific form of devaluation. But in the context of the policy that he had laid out as desirable, it held the potential to open a range of exports. Moreover, the export subsidization policies of the government justified the fact that exports of nontraditional goods faced high enough elastic demand—a devaluation would help achieve the same goals, in a more efficient manner. Making exchange costlier for importers would help the policy of economizing on exchange that the licensing regime purported to give effect to. In another paper, Bhagwati had also proposed an exchange auction scheme alongside export

9. I. G. Patel, *Glimpses of Indian Economic Policy: An Insider's View* (Oxford, UK: Oxford University Press, 2002), 113.
10. J. N. Bhagwati, "The Case for Devaluation." *Economic Weekly* 14, no. 31 (1962): 1581–84.

subsidies.[11] Whereas the devaluation would be a one-time change in the fixed rate, an exchange auction scheme would operate like a floating exchange rate and also indicate over time the degree to which the rupee was overvalued.

Bhagwati's work renewed the thrust toward the caution that liberal economists had been raising for a while regarding an impending economic crisis. On his second visit to India in 1963, Milton Friedman talked at length about India's fraught balance of payments and the pegged-but-adjustable currency rates of the Bretton Woods system. In a brief published in 1963, "Exchange Rate Policy," Friedman called the artificial exchange rate the "Achilles heel of the Indian economy."[12] In 1955, on his first visit to India, he criticized the Second Five Year Plan, devised under Mahalanobis's leadership, for its "socialist orientation."[13] His 11-page memorandum to the then–finance minister on India's developmental challenges, which became available to the public only in 1989, also included a section on foreign exchange controls. At the time, the official rupee-dollar exchange rate was 4.77 and would remain so until 1966. In his lectures in Mumbai during the second visit, Friedman urged the removal of import controls and export subsidies and of the system of pegged rates in favor of a free market for foreign exchange. Friedman believed that devaluing the rupee to a new exchange rate would not address India's external imbalance because the new rate would not be correct indefinitely, given the state of inflation. The pegged rates system did not enable a balance of payments equilibrium, and although alternatives such as auctioning off import licenses and foreign exchange freed up the market for imports, it did nothing to incentivize exports.

Among those who agreed with Friedman in India at the time was B. R. Shenoy, the nation's leading libertarian economist. Shenoy wrote that post–World War II inflation and a fixed exchange rate made production for the domestic market more profitable, thereby hurting exports.[14] Ostensibly to maintain a payment equilibrium in the face of low exports, the government, with the blessing

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11. J. N. Bhagwati, "Indian Balance of Payments Policy and Exchange Auctions," *Oxford Economic Papers* 14, no. 1 (1962): 51–68, https://doi.org/10.1093/oxfordjournals.oep.a040887.
12. M. Friedman, "Exchange Rate Policy," *Swarajya* (India), March 30, 1963, reprinted as "India Needs a Free Market Exchange Rate," in *The Economic Thinking of Professor Milton Friedman*, 2–6 (Bombay, India: M. R. Pai, Forum for Free Enterprise, 1977), https://miltonfriedman.hoover.org/internal/media/dispatcher/271058/full.
13. Mercatus Center at George Mason University, "In 1955, Milton Friedman Visits India and Critiques the Second Five-Year Plan," 1991 Project website, https://the1991project.com/scholarship/1955-milton-friedman-visits-india-and-critiques-second-five-year-plan.
14. B. R. Shenoy, *The Foreign Exchange Situation*. Bombay, India: Forum of Free Enterprise, 1958, https://indianliberals.in/forum-of-free-enterprise/the-foreign-exchange-situation-prof-b-r-shenoy-mar6-1958.pdf.

of many economists, had resorted to a haphazard import substitution regime. In general, the government had three main ways of meeting the balance of payments deficit: deploying its foreign exchange reserves, incurring loans from abroad, and controlling imports. As the exchange rate grew more and more unrealistic, a thriving black market for smuggled goods began to replace formal transactions. In Shenoy's view, what had put India in this situation in the first place was the misguided inflationary financing of development since the Second Five Year Plan. The solution lay in a substantial opening up of exports through a devaluation of the rupee, but to sustain its effects, the government must put a stop to its overinvestment and deficit financing. In a 1965 essay, Shenoy portrayed a grim picture of the economy.[15] According to advocates of the devaluation, who used the 1955 exchange rate as a base rate, by 1965 not only had the value of the rupee decreased by 80 percent, but both internal and external debt had more than doubled and the money supply had gone up by 87 percent.

Back in Delhi, extreme distrust severed the advisory relation between K. N. Raj and Indira Gandhi. A decade later, in 1976, Raj would recount his version of the event. At the outset, he expressed displeasure with the characterization of his views, especially in the political realm, as inconsistent. In 1965, he had authored a piece for the *Times*, explaining the negative impact of export subsidies and arguing for their timely removal by adjusting the exchange rate of the rupee. The article read as a pro-devaluation stance.[16] However, Raj was skeptical of tying this process (as the aid lobby had coaxed) to import liberalization and a massive influx of foreign aid and stated as much in a confidential paper prepared for the government. Given the terms of this report and his professional commitment, Raj had been unwilling to divulge these details earlier. Devaluation, for him, could potentially be a substitute for the distortionary and inefficient export promotion measures. However, the main problem of scarce foreign exchange being absorbed into low-priority consumer goods was a result of income distribution in the economy and had to be addressed by discouraging such a consumption pattern. Contrary to this thinking, the aid lobby had prescribed the concomitant relaxation of import controls, which Raj feared would only provide an impetus to such consumer goods industries. Having been part of the planning legacy since its inception, Raj was firmly grounded in the classical model of long-term economic development that emphasized investment in capital goods.

15. B. R. Shenoy, "Indian Economic Situation." *Il Politico* 30, no. 2 (1965): 240–55.
16. Raj discusses the article in a later work, "Growth and Stagnation in Indian Industrial Development," *Economic and Political Weekly*, 11, nos. 5–7 (1976): 223–36.

The devaluation was accompanied by an abolition of import entitlement schemes, cash subsidies, and tax credits that had been given out in the previous three years' budgets. Export duties to offset the effect of the devaluation were levied on traditional exports on the basis of an assumption that India had a trade monopoly over these goods. In their subsequent analysis of the 1966 liberalization package, Jagdish Bhagwati and T. N. Srinivasan estimated the total net devaluation on the (visible) trade account as approximately 21.6 percent for exports and 42.3 percent for imports, and on the current account (including invisibles), at 22.3 percent for receipts and 44.8 percent for payments.[17] Bhagwati recently described his visit to Prime Minister Gandhi's office in 1966 to Arvind Panagariya, who shared it on an episode of *Talking Trade*, a conversation series under the 1991 Project.[18] Bhagwati recollected that L. K. Jha cautioned against any form of media publicity of the meeting that would generate public speculation. In the meeting itself, Prime Minister Gandhi was trying to gauge the general academic sentiment and to discern whether the professor generally approved of the measure. (He did.) Communicating policy advice in the political realm meant that someone had to provide a clear-cut yes or no. The scope for nuance was limited. Thus, when the final policy package had import liberalization thrown in the mix with exchange rate adjustment, Raj was not for the package. This repudiation of a policy that he had appeared to support came as a surprise to the prime minister.

Prime Minister Gandhi's concerns were not limited to academic opinion, but the inability to navigate the complexity of economists' advice weakened her in the face of protests from political bigwigs such as K. Kamaraj and Morarji Desai, within and outside the Parliament. To add to the injury, international donors failed to deliver the promised aid. In the aftermath, following near-unanimous disapproval on all political fronts, the government adopted an opinion management strategy. It reiterated its socialist and democratic commitments and continued to show that the devaluation was simply part of a comprehensive development program that was to follow suit and hence would not reduce India to a puppet for external powers. At the core of the thumping opposition to the measure was anxiety about a loss of control—that the nation would no longer be

17. J. N. Bhagwati and T. N. Srinivasan, "Net vs. Gross Devaluation in June 1966," in *Foreign Trade Regimes and Economic Development: India*, 86–98 (Cambridge, MA: National Bureau of Economic Research, 1975). https://www.nber.org/books-and-chapters/foreign-trade-regimes-and-economic-development-india/net-vs-gross-devaluation-june-1966.

18. A. Panagariya and S. Raiagopalan, "India's Trade Policy (1965–90), Part 1," *Talking Trade*, episode 7, June 15, 2023, https://the1991project.com/lectures/episode-7-arvind-panagariya-and-shruti-rajagopalan-talking-trade.

the master of its own policy. In this manner, devaluation became more than just a policy change. In public discourse, it was seen as economically unsound and as being imposed on India for some larger, nefarious reason. Soon after, not just the measure but also the philosophy behind it ended in defeat. One man witnessed the unfolding chaos in his office as deputy high commissioner in London. That man had become close to Prime Minister Gandhi over the years, having assumed the role of local guardian for her sons, who studied there. He was P. N. Haksar, a devoted Marxist and former office-bearer of the undivided Communist Party of India. When Prime Minister Gandhi rearranged her close coterie after 1966, she brought in Haksar as a replacement for L. K. Jha. Haksar would come to symbolize the regression in the ideological bent of the prime minister and the government toward socialism.

THE PITFALLS OF EXPERT COMMUNICATION

Economic liberalization in India has always been politically fraught. A comprehensive three-part analysis of the political response to the 1966 devaluation, prepared by Jagdish Bhagwati, K. Sundaram, and T. N. Srinivasan, stated that academics who opposed it were chiefly influenced by either an incomplete understanding of the problem or their ideological preconceptions. Notably, the response in academia and the media "was more evenly spread among the critics and the supporters" than the political response.[19] I. G. Patel's account attests to this,[20] as numerous economists were consulted by the government before the move. The overwhelming factor behind the failure of the policy was the political perception that foreign powers had established their influence on the nation's economy. That perception was based on false propaganda, however, as the state's shift to heavy protectionism right after the temporary experiment with reforms testifies. In the words of Arvind Panagariya, socialism struck back "with a vengeance."[21] However, it was by no means an implausible occurrence. According to Rahul Mukherji, liberalization could not be sustained because it had no buy-in from the executive in the government.[22] This class was sold on the ideology of import-substitution industrialization. The Congress suffered a setback in

19. K. Sundaram, "Political Response to the 1966 Devaluation—III: The Press, Business Groups and Economists," *Economic and Political Weekly* 7, no. 38 (1972): 1933.
20. I. G. Patel, *Glimpses of Indian Economic Policy*.
21. A. Panagariya, *India: The Emerging Giant* (New York: Oxford University Press, 2010).
22. R. Mukherji, "India's Aborted Liberalization—1966." *Pacific Affairs* 73, no. 3 (2000): 375–92. https://doi.org/10.2307/2672025.

the 1967 general elections, causing the government to recoil from reforms and go back to its protectionist policies.

Within the political layers of the incident is embedded another lesson, however: the burden of expert advice in framing policy. Whereas the contributions of Bhagwati and Raj in the academic sphere are accounted for and well recognized, their contributions to policy are more obscure. This obscurity occurs because the process of policy formulation brings in political agents who may or may not comprehend an issue in its entirety. Experts speak to each other, as do politicians, but communication between the two groups bears the risk of reaching an impasse because the former's actions are not tied to political incentives. Because the costs of taking action are higher for the latter, they have a reason to play down the nuances of any problem. The neat abstraction of political rhetoric is at odds with the complexity of economic policy research. This observation points to the necessity for technocrats who can translate ideas from one sphere to the other. Finally, another reason for this obscurity is the cloak-and-dagger approach taken by bureaucrats. Even if this rung of governance is the most attuned to policy problems and their potential solutions, it is not specifically responsible for enabling large-scale, democratic discussion of those problems. Moreover, such discussions are costly for the intended participants themselves, who are much more likely to get behind simplified political causes.

The story of the devaluation thus leads us to three key postulates. First, policy ideas are bound to be politicized, which makes communication among differing parties sensitive. Second, the recommendations of experts are bound to reflect their respective theories of change, mental models, and tacit presuppositions of political economy. Third, politicians and technocrats and other experts operate under separate sets of incentives, which may or may not overlap. Finally, and as an aside, the degree of organizational cohesion among policymaking experts affects how far a policy will go. These factors combined shape perceptions of ideas among people, which in turn shape the trajectory of change. Contemporary scholarship agrees that for a nation like India, mere dependence on entities such as the World Bank and IMF does not imply a transition from its protectionist policies. The dovetailing nature of the sociopolitical and economic crises faced by India around 1966 caused a short-lived retreat into economic reform, but the political class lacked the capacity to digest and stick with expert advice and to follow through. In this sense, it was a mirror opposite of the success of the 1991 reforms, where an entrenched technocratic elite had been gradually building up the reform process from within. Supported by the political capability to make the core ideas credible to detractors, those actors were able to break with the past and set the economy on a new path.

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