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*Legacies of the Independence Movement to the
Political Economy of Independent India*

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India's Independence movement grew out of the process of the modernization of the Indian society, which began in the early 19th century. This process was set in motion by the growth of new metropolitan centres, which accompanied the consolidation of the British rule in India. The presidency cities of Calcutta, Madras and Bombay developed first. Subsequently, other urban centres came up to support the emerging system of administration and commerce. The administrative apparatus as well as the commercial organizations needed the services of local functionaries, who in turn required not only some knowledge of the English language, but also a degree of familiarity with the administrative and the legal system of the new rulers. This inevitably led to the emergence of English-educated elite groups in the metropolitan centres.

A remarkable achievement of these elite groups is that they promptly engaged in a creative interaction with the western invaders in diverse cultural spheres, such as literature, and religious, social and political values. They took initiatives in spreading western education and started various movements for social reform in the light of the values emanating from the European enlightenment.

Gradually, their aspirations grew. First, they wanted more jobs in the higher echelon of the administration, then, local self-government, and, finally, independence from foreign rule. However, the social values, which had earlier sustained the various movements for social reform, continued to be important motivating factors in the new movement for independence. The ideals of liberty and representative government became integral parts of the national movement for self- rule.

In fact, the independence movement carried within itself many of the items from the earlier agenda of social reform. For example, Gandhi, who later became the principal leader of the movement, often attached greater importance to social objectives, such as the removal of untouchability and the promotion of communal harmony than to the political goal of self-rule. Thus, as the struggle for independence grew in strength by inducting larger and larger segments of society into the movement, it also carried with it a deep commitment to the objective of social progress.

This legacy of the independence movement proved to be of crucial importance, when it came to the question of designing the basic framework of the political economy after independence. The British rule ended with the partition of the country amidst widespread communal violence. Hundreds of thousands of people died in communal riots and millions became homeless. Streams of refugees crossed the newly created border to find safety in faraway places. In this climate of murder and arson, the Constituent Assembly of free India met to deliberate upon the political framework of the newly independent country. It was no mean achievement for these political leaders that they could rise above the prevailing atmosphere of bigotry and hatred and establish a republic based on liberal values. The constitution gave the state the clear directive that its main function was to promote the well-being of all citizens. There were other legacies too. Those also influenced in important ways the evolution of the new order in independent India.

II

Some years ago, a distinguished American economist, who had been an admirer of Satyajit Ray, went to see Ray's latest film Home and The World. He came out of the movie theatre and exclaimed, "These Indians are incorrigible! They have not only ruined their economy by following the misguided strategy of import-substitution, they glorify it. Even their best film-maker makes a film about it". I tried in vain to give a sympathetic explanation of the political climate of the time, when the events described in the film took place.

A few years later, I myself encountered a similar situation, when I had gone to give a public lecture in a university in eastern India. My lecture was on trade and development, and I talked about the desirability of being in a position to take full advantage of favourable foreign trade opportunities. Immediately after my talk, an old gentleman got up and said that I should be ashamed of myself for propagating such ideas, particularly since my grandfather had gone to jail in 1905 after burning all his foreign-made clothes. He drew loud applause from the audience. I tried to tell him and the others in the audience that I was proud of my grandfather and that I shared his goal of making India economically prosperous and self-reliant. I went on to say that my grandfather was an

intelligent man. If he were alive, I could convince him that the time had come to move away from that old symbolism of economic nationalism, and adopt a newer and more effective strategy of development in today's world. There were not many takers for my argument.

In the early 20th century, economic nationalism was perhaps the most potent ideological banner, which was successfully used by the leaders of the nascent independence movement to mobilize public opinion in the country. Textiles produced in Lancashire were seen as the most visible symbol of foreign aggression. All Indians were asked by the nationalist leaders to identify themselves with the impoverished weavers, who were deprived of their livelihood by aggressive foreign producers, supported by the colonial state.

In the early 1950's, many development economists all over the world advocated import-substitution as a rational strategy for industrial progress in a backward economy, on the grounds of export-pessimism. On the evidence of the pattern of world-trade during the previous half century export-pessimism then was certainly a maintainable position. But the reasons for the uncritical acceptance of this strategy, as propounded in the Nehru-Mahalanobis model of development planning, by the political classes in India went beyond the stated assumptions of the model. It was seen more as the fulfilment of a promise made by the pioneers of the country's independence movement.

That is why India's development planners did not entertain any scepticism regarding the correctness of the chosen path and went ahead and built a rigid and inflexible policy framework for regulating foreign trade and industrial investments. This inflexibility of the policy regime made it extremely difficult for the Indian planners to change directions, even when it became clear that the pattern of world trade had changed dramatically in the 50's and 60's.

In the early 1990's, when the Government of India, confronted with a serious balance of payments crisis, announced the new policy of economic liberalization, they did it with a great deal of caution and hesitancy. Their caution was quite understandable. They did not know to what extent the various political constituencies would react to the change in the policy

regime. As it happened, the right-wing Bharatiya Janata Party, which in the past had been extremely critical of the Nehru-Mahalanobis model of development, suddenly rushed into the political arena with the flag of swadeshi, in order to occupy the turf they saw being vacated by the Congress and even by the main Communist Party.

However, the hopeful sign is that the larger Indian electorate seems to be learning (and unlearning) quite rapidly. Perhaps, India's career politicians will also soon learn that their extreme aversion to new ideas is quite needless now.

III

The particular manner in which the ideology of economic nationalism was formulated by its early theorists in India's independence movement created another important legacy, which was perhaps unintended. Two of the most important theorists of the movement were Dadabhai Nowrojee and Romesh Chandra Dutt, both of whom became Presidents of the Indian National Congress. They held the colonial state responsible for the deindustrialization of the Indian economy and for the drain of economic resources out of the country. According to this view, a liberal trade regime was deliberately established in conjunction with an economically passive colonial state, which was unwilling to build the infrastructures and the institutions necessary for industrial development. The trade regime was perceived to be one of unfair competition between the dynamic British economy after the Industrial Revolution and the traditional craftsmen and artisans of colonized India. It appeared to the Indian nationalists that in the absence of technological progress, Indian industries, based on the traditional techniques of production, could only be the helpless victims of these aggressive traders linked with the powerful industrial economy of Great Britain.

Moreover, Nowrojee argued that the fiscal policy of the colonial State was specially designed to bear the heavy burden of maintaining the military and the administrative apparatus of the expanding British empire. According to the Indian nationalists, this constituted a serious drain of India's economic resources. Furthermore, they could see

several conspicuous examples in England of former servants of the East India Company living in great opulence and displaying enormous wealth based on their loot from India.

There are now many respectable economic historians who believe that the magnitude of the drain was not significantly large. Others believe that it was unfair to blame the state in British India for any act of omission or commission in the field of industrial policy. They ask, "If the Industrial Revolution could take place in Britain without the state playing a significant role, why couldn't a similar phenomenon happen in India?" Whatever may be the truth regarding the magnitude of the drain of resources out of India or that regarding the appropriate role of the state in the process of industrial development, the fact remains that the political classes in India accepted Nowrojee's diagnosis and blamed the colonial state for India's poverty.

Nowrojee himself was liberal in his political beliefs. In fact, he successfully contested parliamentary elections in England on the basis of his liberal credentials. But his thesis on the causes of India's economic decline carried with it some logical implications, which did not remain unnoticed by the political classes in India: If an unsympathetic alien State could do so much damage to the economy mainly because of its passivity, then its replacement by a sympathetic government formed by the Indian people could surely reverse the process. In order to do that, the state in independent India would have to shake off the passivity of its predecessor and become active and purposive in promoting economic development and industrial progress.

This idea of the importance of an activist state for promoting economic development and social change was widely shared by the Indian intelligentsia. In the 1930's the Indian National Congress constituted a committee for economic planning under the chairmanship of Jawaharlal Nehru. The committee formulated a fairly comprehensive programme for economic development, with the hope that once India attained independence, the government of Free India would act along the suggested lines. A little later, a group of leading industrialists from Bombay produced a similar plan, known as the Bombay Plan. It is interesting to note that both the plans assigned a leading role to the state in the task of promoting economic development.

So, inevitably the state came to acquire an important role in the process of economic development after India attained independence. This faith in the importance of an activist state in economic management was, of course bolstered by several contemporary examples from the outside world. The success of the Keynesian remedies in fighting the Great Depression in the Industrialised West left profound impressions on the economic thinking in India as everywhere else. Similarly, the success of the Marshall Plan in reconstructing the war-damaged economies of western Europe as well as the visible success of the state-guided industrialisation drive in the Soviet Union in the 1930's, left deep impressions on the minds of thinking people in the country. However, it is important to remember that the main source of the faith in the need for an activist state was truly indigenous.

Whatever might have been the success of the state-led industrialisation in India in the early years after independence, over time, the classic syndrome of "government failures" appeared on the scene to generate inefficiencies and wastes in India's industrial organization. But the mind-set created by the ideological building-blocks of the independence movement stood in the way of any swift reform of the economic system.

IV

Another important ideological strand in India's independence movement came from Gandhi, who came to acquire a position of paramount importance in the movement in its later phase. Gandhi influenced the movement in several ways. Before him, the movement was largely confined to the activities of elite groups in metropolitan cities and provincial towns. Gandhi converted it into a mass movement by arousing popular enthusiasm in rural India. He also stressed the importance of maintaining high ethical norms in resolving political conflicts. However, his vision of a desirable economic system was based on his strong distrust of large-scale industries and large commercial organizations which operated through the impersonal market mechanism of the vast national or international economy. Gandhi forcefully projected the vision of an Indian economy consisting of self-sufficient village communities with artisans and craftsmen producing almost everything that is needed for austere living. He made the spinning wheel the ultimate symbol of the liberation of the common man.

Gandhi was not only a social thinker, but also an energetic man of action. He persuaded his followers to wear exclusively home-spun and hand-woven clothes. He also created a country-wide network of marketing organizations for popularizing and selling the products of cottage industries. After independence, the Indian state took up his programme and channelled state-funds and subsidies to these organizations for protecting and promoting traditional village industries.

This introduced a peculiar tension in the planning and policy framework of India's ambitious industrialization strategy. On one side, the Indian planners promoted sophisticated modern technology and on the other, they tried to prevent any ancient technique of production from dying out. It was like constructing and managing a highway where all kinds of vehicles, from camel-carts to high-speed automobiles, could move simultaneously and smoothly.

Joseph Schumpeter has taught professional economists to see the process of economic development as one of "creative destruction". Schumpeter argued that in the process of economic development newer techniques of production relentlessly go on replacing older techniques, in the perpetual search for greater efficiency in the use of scarce resources. The Gandhian legacy in the Indian economic thinking totally rejects this logic. Therefore, the policy-makers in India's economic administration introduced, as they had to, an elaborate system of reservations and quantitative controls in the processes of commodity production and exchange. In other words, they fragmented the markets into several exclusive compartments, with all the unavoidable consequences for efficiency in the use of resources. One does not have to be a Schumpeter to predict the outcome.

A good illustration is the condition of India's textile industry today. Fifty years ago, it was one of the most efficient in the world. Today, a large part of it is sick, but surviving with the help of substantial state subsidies. It is truly ironic that all this happened during a period when millions of households in East Asia vastly improved their levels of living by producing and selling textiles and garments to the rest of the world.

The history of India's movement for Independence left another important legacy which has seriously affected the pace and the pattern of industrial development in the country during the last fifty years. This relates to the question of inter-regional equity in the development process of this geographically dispersed and culturally heterogeneous country. Unfortunately, this issue has not been adequately analysed and discussed in the various debates in the country on the choice of appropriate development strategies. Moreover, this set of issues, it seems, will continue to bedevil the economic development of the country in the future, even if the process of economic liberalisation goes on gathering momentum.

An important legacy of the national movement, which became strengthened after independence was the preoccupation with equity often at the cost of efficiency. Of course, regions can be incorporated in the planning process in the interest of both efficiency and equity. In India the stress has been on equity. This can be seen clearly if we examine the Tribal Sub-Plans and Special Component plans for the Scheduled Castes that have entered into the planning process in later years. Here I shall confine myself solely to the issue of regions.

The political history of India can be seen as a long scenario, where kingdoms and principalities kept on appearing and then disintegrating in different places and at different times. Occasionally, larger empires came into existence for brief periods. But none of these empires ever extended its control over the entire sub-continent although some even extended to parts of Afghanistan. The Indian independence movement was a movement of the peoples living within the territory of the British empire in the sub-continent. The leaders of the movement knew that, given the history of the centrifugal forces operating on the heterogeneous and fragmented society, the task of nation-building was going to be enormously difficult. Keeping the country together was a matter of overriding concern for them, as it has been for their successors in the post-independence period. Inevitably, they needed to make compromises and grant concessions to ethnic and religious groups, in the course of their mobilization efforts.

For example, when the Ottoman empire collapsed after the First World War, the conservative Muslim clergy and their followers were deeply hurt, although the modernizing elite of India, cutting across the religious divide, welcomed Kamal Ataturk. But the principal leader of the Indian National Congress, Mahatma Gandhi, joined hands with the maulavi's of northern India to start an agitation for the restoration of the caliphate in Turkey in order to maintain Hindu-Muslim solidarity in the movement. Later on, when it came to the question of linguistic minorities, the congress declared that after independence Indian provinces would be reorganized along linguistic lines, so that each linguistic group could pursue autonomous development within a quasi-federal framework of the nation-state.

After independence, the Indian government adopted investment planning as the principal instrument for guiding the economic development of the country. In their planning strategy, "balanced regional development" was declared to be one of the most important objectives of development. However, a major problem with investment planning is that it can be applied to industries but not to peasant agriculture and other rural activities, such as fisheries and animal husbandry. Therefore, the scope of investment planning remained largely confined to the industrial sectors, where the government tried to regulate investments either through direct public sector investments or through a system of licensing applicable to the private sector. In the case of agriculture, major instruments of regulatory policy were the fixation of the prices of farm outputs and of the industrial inputs into agriculture.

This particular asymmetry between the policy-regimes governing agriculture and industries created some additional difficulties for meeting the objective of "balanced regional development". A very large section of India's population live on agriculture and allied activities. If the disparities among the states, with respect to the living standards of the people residing in those states, are to be reduced, then some balance ought to be achieved among the different States, with respect of the pace of their agricultural development. But the price-guided system of development policy in agriculture could mainly affect the farmers in those regions where the preconditions for technical progress, such as assured irrigation and favourable agrarian system, existed. Hence, the development policy in agriculture resulted in a further worsening of the inter regional disparities in the levels of living, atleast in the short-run.

Thus, the sphere of industrial development came to bear the main burden of fulfilling the objective of "balanced regional development". Policy instruments available for the geographical dispersal of industrial activities are notoriously weak. This has been amply demonstrated by the experiences of several countries during the last fifty years. But given their political compulsions, the Indian policy-makers not only continued to pursue such policies, they even invented some new policy-measures to achieve their objective. This inevitably generated considerable wastes and inefficiencies in the induced structure of industrial production in the country.

In the 1950's, the Government of India introduced a strange policy-package to promote balanced regional development. The package was designed to make the delivery prices of major industrial raw materials, such as coal, steel and cement, more or less equal at different regional centres. It was done by fixing, on the one hand, the pit-head or the ex-factory prices of these goods, and on the other hand, by drastically telescoping the freight rates for these commodities on the state-run railways. This, of course, generated considerable rents for the traders and the transporters of these goods, because freight rates, however low, could not come down to zero. Moreover, the costs of investment goods is not an important determinant of industrial location, although these prices do influence the choice of technique in production as well as in construction.

For example, the Freight Equalisation Policy led to the transportation of coal over long distances from the Bengal-Bihar coal-fields to industrial locations in western India to serve as a source of industrial energy. Moreover, open-cast collieries with locational advantages did not have any incentive for introducing deep mining. In the regions around the western Himalayas, houses were built with cement and steel transported from faraway places, instead of using forestry products, which could have induced a healthy development of forestry and forestry-based industries in those areas.

In addition to the policy of freight equalization, the Government of India used a policy-mix of industrial licensing and fiscal incentives to induce private sector investments to go to non-industrialised regions. They also built a large number of industrial estates in different parts of the country to attract small and medium industries. However, not much of private

investments went to the backward areas, and the Industrial Estates in those areas remained largely unoccupied. These outcomes were predictable: The economies of agglomeration are so powerful that industries do not move to new "growth poles" till the diseconomies of scale become operative in the existing ones.

Meanwhile, the location of public-sector industries came to be determined by a different logic. Since the public sector did not function on the basis of any profitability calculus, political bargaining, often accompanied by violent agitations, determined the location of many industrial units. Petroleum refineries, steel mills, locomotive factories and many such industrial enterprises in the public sector came to be set up in uneconomic locations. These choices were sustained by channelling enormous resources to the railways for meeting the demands for additional commodity movements. Given their uneconomic locations, these public sector units also could not act as magnets for attracting other industries to those places.

Of course, the correct course of action for the planners would have been to carry out planning exercises, spelling out the economic logic of resource allocation in geographical space, and thereby offering desirable development programmes for the different states. In such a context, the development programme for a state would consist of an appropriate mixture of agricultural and industrial activities, supported by feasible policies for implementing these programmes. Such an exercise would have revealed that an efficient programme of industrial development in a multi-regional economy cannot guarantee interregional equity in the investment allocation at every period. Any balance in the development performances of the different regions can only be achieved over time. This, of course, implies that a state may have to wait for its turn to advance industrial development. Meanwhile, it will need to spend resources for infrastructural and social development, without which industrialisation cannot be initiated.

As it happened, the planners did not embark on any exercise of this kind. Perhaps the overriding obstacle came from the political system, which did not have the confidence in its ability to manage open discussions on this tricky and potentially explosive question of societal choice. Deep-rooted anxieties of the early nation-builders continued to haunt the politicians of independent India.

Now the Government of India does not have the resources to continue with any ambitious programme of public sector expansion. Hence, the states will have to compete with one another to attract private investments in industries. They will have to compete by offering attractive infrastructural facilities and selective fiscal incentives. This is altogether a different game and the rules of this game are also different. To be successful in this game, a player will need to be not only alert and resourceful but also patient. The manner in which the centre-state and the inter-state relations have been conducted in the past has not prepared the political system for this new mechanism of resource allocation. The system in the past could not even build workable institutions for resolving inter-state disputes concerning such relatively simple problems as the sharing of water from a river. Managing the inter-state competition for developmental resources is going to be very difficult.

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