Chapter 6

Era of Introspection and Reiteration:
Reinventing the Congress in the Second Generation Reforms

The economic reforms process acquired a further boost in the Bharatiya Janata Party (BJP)-led National Democratic Alliance (NDA) government. In the first generation reforms, when the party was in opposition, it was critical of all kinds of externally driven liberalisation of the Indian economy. By emphasising *swadeshi*, it called for the protection of the Indian market and industry and the promotion of the domestic economic interests against the forces of economic globalisation. The party favoured internal economic liberalisation and the free play of market forces in India. While it did not altogether reject foreign investment, it refused to give foreign investors preferential treatment against Indian companies. *Swadeshi*, according to the party, was not viewed in isolation from world economy. But integration into a global economy should not mean the obliteration of national identity or subordination to external forces.1

The BJP, after coming into power, carried on the economic reforms initiated by the Congress. It is argued that the party had shifted from resisting globalisation to accommodating it through critical collaboration.2 The Vajpayee government’s commitment to economic reforms was more evident in the budget 2000-2001 which called for accelerating the ‘second generation economic reforms’. The reforms include: the rationalisation of indirect taxes, the reduction and eventual phasing out of fertiliser and food subsidies, the bringing down of the government’s share in equity to 26 per cent in most public sector enterprises and 33 per cent in public sector banks. It called for the opening up of the insurance sector, reforms in infrastructure and the restructuring of sectors like telecom, power, gas and oil, etc. Reforms were initiated in the external sector including the replacement of Foreign Exchange Regulation Act (FERA) by Foreign Exchange Management Act (FEMA) and the implementation with respect to

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various committees of the World Trade Organisation (WTO). By initiating these reforms, the BJP government countered the Congress who claimed to be the initiator of reform process in India. Further, it proved that there was not much distinction between the BJP’s governance of the economy and that of the previous Congress party government.³

The second-generation reforms saw the renewed effort of the Congress to regain the alienated sections into its fold. Such a political objective forced the party to differentiate the earlier reforms from the present ones. The budget 2000-2001 came under severe criticism from the Congress party. The party sharpened its pro-poor utterances and alleged that the government was not serious about the welfare of Dalits and Tribals as the public sector investments in critical areas of the rural sector were decelerating. It confronted the government for slashing the allocation for social assistance programmes and the Public Distribution System (PDS) for the rural poor. Mani Shankar Aiyar, in fact, alleged that ‘they (government) have time only for the rich - a government which rushes to the aid of the rich, but shuts ears to the wailing of the poor’.⁴

Taking the stock of the second generation reforms, the party expressed its concern over the adverse impact on the common people. It felt that the poor and vulnerable sections were the worst sufferers of the reform process. It saw the government as competing to change the names of existing programmes (which were initiated by the previous Congress governments under Nehru, Indira Gandhi and Rajiv Gandhi) and disrupting ongoing programmes rather than deal with the real concerns of the needy. The burden and pain caused by the changes necessitated by reforms must not and cannot be allowed to fall on the shoulders of the poor or the deprived only. This was emphasised in Sonia Gandhi’s accusation that ‘instead of launching an assault on poverty, the government has actually launched an assault on the poor’.⁵

⁵ Sonia Gandhi, Motion of Thanks on the President’s Address in Parliament see Lok Sabha Debates, Vol. VI, No. 23, 25 April, 2000, p. 363.
The Congress accused the BJP of 'hijacking' its economic agenda. The party feared that by pushing the reforms, the BJP was winning the confidence of the business groups and the urban middle class. From its accusation of the economic policies of the BJP government it was clear that the party which underwent a process of ideological disruption created by the tendencies of 1990s – mandal, mandir and market – was now reiterating its ideological planks for regaining its mass base. Introspection mainly touched on four basic issues – democracy, secularism, socialism and non-alignment – which had eroded in the political and economic crisis of 1990s. The leadership believes that these ideologies which were anathema for the party in the 1990s now have the potentiality to mobilise the alienated social constituencies and to broaden its social base. It had been under pressure for sometime now from its grass-root level workers and senior functionaries alike to restate the party's economic policy as 'pro-poor'.

A debate is currently raging in the party over the line it should take on economic reforms. A strong section within the party feels that it must rethink its stand on economic policy. They admit that the adoption of market-led reforms has eroded the party's image as a 'socially inclusive' party. It demanded for 'proper introspection' on economic liberalisation of the first generation reforms since 1991. Kapil Sibal, the party's spokesman, was of the view that the Congress was no longer espousing the concerns of the common people and this had gradually resulted in its marginalisation amongst the traditional social constituencies. This was especially evident in Uttar Pradesh and Bihar. According to him, 'the party is no more the umbrella organisation encompassing all sections of society ... the SCs and STs and backward castes have switched over to regional parties, the middle class stands alienated and the upper class has crossed over to the BJP'. Another Congress member in the Parliament said that even though the economic liberalisation ushered in 1991 had achieved a lot of foreign investment, the rate of unemployment had gone up.

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8 Speech delivered by Ramesh Chennithala on the special sitting of the Parliament to commemorate the 50th anniversary of India's independence in August 1997.
However, the Economic Introspection Group (EIG) headed by Pranab Mukerjee maintained that though Manmohanomics was still alive and kicking in the party’s economic agenda, the Nehruvian stamp was all the more evident in its economic doctrine for reform with a pronounced concern for the poor. The party, according to the Group, still saw the economic reforms as a continuation of the mixed economy model enunciated by Nehru though its ingredients had changed from time to time, reflecting contemporary needs, realities and challenges. It proclaimed that the policy measures that harm the interest and livelihood of the weaker sections of the population and the backward areas of the country should be avoided.

The EIG claimed that the party did detect drawbacks in the implementation of the reforms by the present ruling dispensation. It recommended, among other things, that to achieve sustained growth with social justice this higher equilibrium must persist with economic reforms while ensuring that the benefits of reform reach the poor and that the burden of reform falls least on the poor. It said that there must be substantial enhancement of central plan outlays for the social sectors, poverty alleviation programmes and physical infrastructure, including public investment in agriculture. The party also believed that an effective system of Panchayati Raj, in which devolution follows the principle of linking functions to functionaries and finances, was the fundamental pre-requisite for a meaningful direct assault on poverty. It reiterated the importance of supporting the poverty alleviation programmes with adequate funds in a more simplified and de-bureaucratised manner. On the issue of the flow of foreign investment, the party called for increased inflows of private foreign investment and official development assistance. But it also made it clear that the interest of the ‘domestic producers must be sensitively monitored and the sovereignty of the country zealously safeguarded.9

When the second generation reforms were moving fast under the BJP regimes the issues of economic policy continued to be a heated subject in the inner party debates and discussions within the Congress party. The party was contemplating over the stand on the

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economic management under the BJP government. The 81st plenary session of the party held at Bangalore on 17-18 March, 2001 deserves special attention not only in political terms – with its inclination to forge a coalition government at the centre – but also in its rethink of its economic policy. Sonia Gandhi’s inaugural address and the economic resolution adopted at the session can be seen as an outcome of the ongoing debate in the party over the line it should take on economic policy. Like in the findings of EIG, the session saw the party’s renewed attempt to differentiate between the Rao government’s economic policies and that of the BJP; to clarify its involvement in the signing of the WTO agreement; to specify its stand on disinvestment of Public Sector Units (PSUs), labour reforms especially Industrial Disputes Act (IDA) and its efforts to woo farmers, workers and other socially and economically marginalized section of the society. The two major contentious issues on which the party confronted the NDA government were in the areas of labour reforms and disinvestment.

The draft economic resolution moved by Pranab Mukherjee in the Subject Committee meeting on 17 March, 2001, before its final presentation in the plenary session by Manmohan Singh the next day, witnessed a heated debate on the party’s approach to economic reforms. The debate on economic resolution saw a strong opposition from a section of delegates at the session; it forced the leadership to modify some of the priorities of the economic resolution. The advocates of the left-of-centre approach in the party like Priyaranjan Dasmunshi, Vayalar Ravi, P. C. Chacko and K. Kesava Rao expressed reservations over the disinvestment policy, the labour reforms (especially the amendment to the IDA), the WTO agreement and privatisation. The primary argument forwarded by these leaders was that the party’s economic line must be distinct from that of the BJP and should ‘centre on serving the interest of the poor’. Dasmunshi, the party’s chief whip in the Lok Sabha, made a sharp attack on the party’s tilt towards liberalisation. Moving some amendments, he favoured the inclusion of provisions opposing the privatisation of banks and the amendment to the IDA and demanded that the Congress Working Committee (CWC) should come out with a white paper detailing the adverse impact of the WTO agreement on the country’s agrarian economy. These leaders also attacked the party for ‘diluting’ the policy of self-reliance as enshrined by the founding leaders and urged the party to restore its left-of-centre
Dasmunshi said that the party had committed a ‘historic blunder’ by accepting the 51 percent direct foreign investment in its economic resolution adopted at the Tirupati session in 1992. In his view ‘now by accepting that the government should maintain 51 per cent of the stake, the party has partially rectified the blunder committed earlier’.10

The second type of criticism came from the Punjab Pradesh Congress Committee president Amarinder Singh. While moving an amendment motion, he said that disinvestment and privatisation would be carried out in accordance with clear policy priorities and transparent modalities, not as an assault on the public sector but in the interest of ensuring the Congress heritage of a mixed economy reflecting changing requirements and evolving priorities.11 Faced with acute criticism within the party over the economic policy reforms under the BJP government, Mukherjee in his final reply to the debate made it clear that it would not support Finance Minister Yashwant Sinha’s anti-labour legislation especially the IDA. But he reiterated the Party’s continued support to mixed economy.12 Moving the economic resolution at the plenary session of the Congress, the former Finance Minister and the chief architect of the economic reforms, Manmohan Singh reminded that the party was against reckless privatisation. To him, disinvestment was not a panacea for all the problems of PSUs. He said that, if in power, the Congress party would modify the WTO agreements if they were found to be hurting the interests of farmers, the workers and other economically weaker sections. He reminded the delegates that the Congress always favoured reforms, but ‘with a human face’ and that the party never proposed reform at the cost of the poor’. He also expressed surprise as to why there should be hunger or undernourishment of children when the FCI godowns were overflowing with food grains.13

The twenty-seven page Economic Resolution adopted in the plenary session reminded that the ‘Congress’s economic agenda has always revolved around one over-riding and over-arching objective - namely the abolition of poverty and the creation of

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adequate productive employment opportunities year after year to assure a minimum standard of living for all people'. However, the party recognised the resilience of the Indian economy that was a result of the policies adopted by the successive Congress governments, based on the principle of growth with social justice. Spelling out the party’s economic agenda, the resolution made it clear that it was against an ‘unbridled liberalisation and globalisation’ of the Indian economy. To differentiate the economic management of the BJP with it, the Congress found the distinguished feature of modernisation carried out by it in the post independent era. Since the BJP’s economic modernisation does not include its commitment to social modernisation, due to its social base and class character, the Congress found cynicism on its projected economic growth. Arguing that no economic policy could be seen in a social vacuum or as independent of its political context, the resolution said that economic growth in the absence of social harmony was not acceptable to the Congress. It said that the Congress had eschewed, and would continue to eschew, imported ideologies, economic fundamentalism and dogmas of all kinds.\textsuperscript{14}

In spite of the party’s commitment to mixed economy and Nehruvian socialism, the presidential address and the debates on economic and agriculture resolutions were a clear indication that the party did not want to dump economic liberalisation as such, but was in favour of mixing it with pro-poor programmes. At the outset, one has to evaluate the situation in which the resolutions were adopted. The crisis of the Vajpayee government in the wake of the Tehelka exposure, the criticism within the party that it lacked an alternative economic agenda from that of the NDA government, and the ensuing assembly elections have to be kept in mind. In the post-Rao period, especially after the ascendance of the BJP led government at the Centre, the party was trying to find out the distinction between their economic policy and that of the BJP especially after the latter’s hijacking of the reform package initiated by the former. Again, in the context of the forthcoming assembly election in West Bengal, Kerala, Tamil Nadu, Assam and Pondichery, the Congress had to lay an extra emphasis on ‘reaffirming its commitment to the poor and to the eradication of poverty’. By opposing the labour

\textsuperscript{14} AICC (2001), \textit{Resolution on Economic Policy} (Adopted at 81\textsuperscript{st} Plenary Session in Bangalore), New Delhi: AICC, p. 9.
reforms of the BJP government, it hoped to win back the support of labourers especially in the left ruled states like West Bengal and Kerala. Secondly, it was believed that the diluted version of economic reform adopted at the Bangalore plenary session created distrust among the Congress Chief Ministers especially S. M. Krishna of Karnataka, who was a strident proponent of liberalisation and globalisation. While admitting that the resolution was confusing, he said that the states (ruled by Congress) would have to re-look and fine-tune the policies to conform to the resolution.  

In the second generation reforms, the Congress is reinventing its arenas of patronage and thereby trying to re-mobilise its social constituencies to regain its public space in Indian politics. In this cause it is confronted with following issues of economic reforms and was trying to put an alternative fo the economic management of the BJP.

Subsidies: A renewed agenda

In the second generation-reforms, one witnessed the Congress party’s renewed effort to pledge its commitment to subsidies, especially on food and fertilisers. As it has been pointed earlier, reduction in subsidies was one of the main components of that reform process. For example, direct budgetary subsidies on food, fertilisers and exports, which accounted for 2.3 per cent of the Gross Domestic Product (GDP) in 1990-1991, fell to 1.3 per cent in 1996-1997. The Congress now felt that slashing of subsidies created discontent among the rural poor and the farming community and thereby alienated both these sections from the party. In fact, the wide ranging subsidies to PDS and the farming community was one of the important areas of support for the Congress party. By extending subsidies, the party kept both the farmers and the rural poor under the ambit of the party’s diverse platform for a long time. In fact, by providing subsidies and other economic opportunities the party averted a possible rift between diverse social groups.

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By extending the coverage of PDS in the rural areas, the Congress provided essential items such as rice, wheat, sugar, edible oils and kerosene at subsidised prices to the poorer sections. It reduced rural poverty considerably and helped to raise livelihoods among the rural poor. In the 1970s, it had become the major component of the ‘food for work’ poverty alleviation schemes. However, the subsidy on PDS helped the populist politicians to show their pro-poor credentials and thereby improve their electoral prospects.\(^{18}\) In the reform process, the PDS was blamed for its wastage and inadequacy to remove poverty and its curtailment was considered as a method for attaining fiscal discipline. For instance, in budgetary terms, the plan outlay reached a peak in 1991, reduced drastically until 1994 and recovered to an extent thereafter, though not back to its original level.\(^{19}\) The subsidy on PDS became a contentious political issue in the reform process. When the Congress government under Narasimha Rao slashed subsidies and increased the prices of external food grain, non-Congress governments at the state level especially the southern states like Andhra Pradesh, Tamil Nadu and Karnataka extended subsidies and regained the support of the rural poor.\(^{20}\)

In the context of the erosion of its electoral base, the Congress now realised that a renewed effort to endorse PDS and its commitment to rural poverty alleviation schemes was a way to win back the support of the rural poor. However, pro-reformists like Jairam Ramesh, still believe that food subsidies should be restricted only to agricultural labourers and workers in the unorganised sector.\(^{21}\) In the Bangalore plenary session, for instance, the party expressed its anguish over the increasing starvation deaths in the country. A party leader from Punjab (Amarinder Singh) expressed surprise as to why there should be hunger or under-nourishment of children when Food Corporation of India (FCI) godowns were overflowing with food grains.\(^{22}\) The party accused the BJP government at the Centre

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\(^{20}\) The TDP regime since 1983 onwards was popular in large part because of its subsidised Rs. 2 per kilo rice scheme. Similarly, the Congress Party lost election in the State in 1994 in partly because of it increased the price of subsidised rice to Rs. 3.50.


as being responsible for the inhuman plight of the rural poor. It argued that when the poor and the deprived are most in need of support from the government, for food security, the government was engaging in massively increasing the issue prices of PDS and thereby jeopardising the poor.\textsuperscript{23} While echoing same view, Mani Shankar Aiyar, asserted that the Congress party was not ashamed of subsidies but proud of it. He ridiculed the government’s argument that the country cannot subsidise the poor. In his view, when the finance minister can subsidise Rs. 15, 000 crores to the Union Trust of India (UTI) holders, why it cannot be spend the same amount to the poorest of the poor to earn a decent meal every day. The party supported reducing the entitlement of the rich and increasing the entitlement of the lower strata of the society.\textsuperscript{24} Vayalar Ravi while sharing the same sentiments argued that giving subsidy is not a crime and it should continue to attain food security for the poor. He did not find any rationale behind the classification of subsidies on food and agricultural sector as non-merit subsidies.\textsuperscript{25}

The Congress party believed that the slashing of governmental expenditure in agriculture sector and the cut in subsidies in fertilisers, power, etc. forced the farming community to distance itself from the party. The party now felt that the fertiliser subsidy should not be drastically cut when the stagnating agricultural sector desperately needed all the incentives. It also called for maintaining self-sufficiency in food and other agricultural commodities.\textsuperscript{26} The Bangalore plenary session saw the party’s attempt to address the plight of the farming community. The resolution on agriculture moved by the former agricultural Minister Balram Jhakar renewed the party’s century-old pledge to the farming community and blamed the BJP for the farmers’ problems. It demanded a massive increase in public and private investment in agriculture and in all varieties of irrigation and wasteland development. The resolution came at a time when both a national and an internal debate was going on in the party over the Rao government’s role in signing the WTO agreement which adversely affected the farming community and distanced these

\textsuperscript{23} Sonia Gandhi, Motion of Thanks . . . \textit{op. cit.}, p. 364.
\textsuperscript{24} This view was also expressed by the Congress leader Girija Vyas see \textit{Lok Sabha Debates}, Vol, VI, No.25, 27 April, 2000, p. 323.
\textsuperscript{25} Interview with Mani Shankar Aiyar, 16 April, 2003.
\textsuperscript{26} Interview with Vayalar Ravi, 23 May, 2003.
\textsuperscript{26} Sonia Gandhi, Motion of Thanks, \textit{op.cit.}, p. 364.
sections from the party. It was clear that the WTO agreement was adverse in that it removed quantitative restrictions causing the dumping of foreign agricultural goods and cash crops in the Indian market, thereby hitting the domestic production. At the same time, the exports of goods and agricultural products from India was not getting access to the global markets due to restrictions like social and labour standards imposed by the developed countries. But the party now maintained that it was not the WTO agreement, which was signed by the Congress government under Narasimha Rao that led to the deteriorating conditions of the farmers. It accused the BJP government for its negligence in the implementation of the agreement.27 Sonia Gandhi, at a farmers’ rally held in Delhi on 25 February, 2001 also disclosed this. She said; ‘There is no anomaly in the agreement India signed with WTO, but the drawback is with its implementation’.28 Thus, it is clear that the party by finding fault with the succeeding governments tried to find good will in its previous policies and thereby attract the farming community.

Finding fault with the policies of the BJP government on agriculture sector and thereby renewing its commitment to the farming community, the economic resolution adopted at the Bangalore plenary session made it clear that the economic reforms must focus effectively and directly on promoting the welfare and well being of the kisan and khet mazdoor (farmer and agricultural labourer). It assured that if it came into power, it would adopt a policy favouring them first and would maintain and strengthen the systems of minimum support prices and guaranteed procurement prices. The party exhorted that it would be vigilant in the protection of their interest and persistent in promoting their cause in the future as in the past.29 It maintained that the farm sector faced a ‘desperate situation’ with farmers committing suicide, a decline in rural employment and an increase in social tension. Stressing the need for broad based economic reforms to achieve rural prosperity, the resolution said ‘For this, continued investment and policy neglect of agriculture has to end’. But, the resolution steered clear of making any promises on increasing food and fertiliser subsidies or of providing

27 see AICC (2001), Resolution on Agriculture (Adopted at the 81st Plenary Session in Bangalore), New Delhi: AICC.
free power and other inputs to the farmers. While commenting on the negotiations mandated by the Doha Ministerial Meeting of the WTO, the party called upon the Central and state governments to work in close cooperation to ensure that the interest of farmers were fully protected.

In an attempt to win back their support, the Congress levelled further criticism against the agricultural policy of the NDA government. The party maintained that the mounting credit burden, the debt traps, the financial non-viability and the inter-locked input-credit-product markets had emerged as major constraints to the growth of agriculture. The policies pursued by the NDA government were not conducive either to the welfare of farmers or to an increase in agricultural productivity. The party expressed scepticism about the falling share of public expenditure in agriculture which adversely affected agricultural growth and the interests of the overwhelming majority of farmers. It was felt that the richer sections grab the credit facilities provided by institutional sources and the poorer sections are thrown to the mercy of money lenders and traders. The import of agricultural crops and the threat of import due to the removal of Quantitative Restrictions were seen as the main causes for the steep fall in prices. The party accused the NDA government for the starved public investment in agriculture. Another instance of the party's changed attitude to subsidies was revealed in its criticism of the slashing of subsidies on fertilizers, especially urea, by the NDA government. In the budget 2003-2004, the government slashed the subsidies on urea on the pretext that it was benefiting only the big fertiliser industries and not the farmers. The Congress, on its part, criticised this decision and pressurised the government for its restoration. While increasing the fertiliser prices, in contrast, the prices of cars and refrigerators were made cheaper along with long-term capital gains for the rich and the upper rich. Manmohan Singh, while accepting the role for subsidies to help the disadvantaged sections of the community, argued that India couldn't subsidise all things endlessly. He was quite critical of the

32 Ibid.
perception that even the US was providing subsidies to its agricultural sector while insisting other developing countries to reduce the subsidies on the farm sector. In US, the agricultural population is around 2-3 per cent of the population and can subsidise that small segment. On the contrary, in India 70 per cent of the population are in agricultural sector and thus cannot subsidise fully. However, the unwanted subsidies should be scrapped in certain areas.\textsuperscript{34} From the above contemplation on the agricultural subsidies, one can find a visible form of conflict between economic discipline and political necessity under the democratic system based on competitive party politics.

\textbf{Poverty alleviation}

The emphasis on poverty alleviation programmes have been an important instrument of mobilisation for the Congress party since the Indira Gandhi period. Slogans like \textit{garibi hatao} was used by the party to consolidate its support base among the rural poor and to establish legitimacy in Indian politics for a long time. In the 1990s, during the Rao regime, the party was confronted with realism in economics and populism in politics. The fiscal austerity measures intended to attain the financial health of the country, forced the government to put its unviable programmes in the backburner. The party had to come to terms with the conventional wisdom regarding the politics of economic reforms in the democratic regimes that what is economically right may not be right in politics and the economic rationality may not complement political rationality. The fiscal austerity measures like decline in the social sector expenditure in areas of education, health and poverty alleviation schemes, reduction in productive employment and hampering food security, etc. became political questions for the Congress. This was because the party leadership at the local level acquired political support from the rural poor by using the poverty alleviation programmes and infrastructural developmental schemes. The political cost involved in the fiscal austerity measures was the erosion of the popular base of the Congress party at the grass-root level.

The reduction in governmental expenditure in the social sector and rural development and the rising poverty became one of the grave areas of concerns for the

\textsuperscript{34} Interview with \textit{Manmohan Singh}, 18 April, 2003.
party in the second-generation reforms period. Various studies show that since the initiation of the economic reforms in 1991 and the reduction in social expenditure, poverty had increased. For instance, in 1998, the rural poverty increased around 45 per cent as compared to 35.04 per cent of the pre-reform period in 1990-1991. Another study reveals that in 1990-1991, the states' share for the total social sector was around 85 per cent. With regard to rural development, the state's share was as high as 90 per cent. The share of the states declined for the most of the major heads, in the course of the 1990s. In 1998-1999, the total share of the social sector declined to 80 per cent. There was a very substantial decline in the share for rural development; at the end of the 1990s, this was only 64 per cent. Another study reveals that in 1992, rural poverty shot up to 44 per cent from 35 per cent in 1990-1991. In the post-reform period, in most of the states, the proportion of Gross State Domestic Product (GSDP) spent on social services (including health and education and rural development) declined.

The Congress, in this period, was trying to charge the NDA government for the increasing poverty and the deteriorating conditions of the poor. In contrast to the earlier reform process, where poverty reduction did not acquire an overriding goal of the economic policy, the party emphasised the need for mixing the reforms and the poverty alleviation agenda. Manmohan Singh argues that 'the historic mission of the Congress (on economic reforms) was not yet complete and that this commits the party to bring the benefits of the reform to the poor without any further delay'. The party is now trying the left-of-centre approach to regain the confidence of the poor. The political compulsion forced the party to put forward a new slogan, Congress ka hath, garibon ke sath, resembling the garibi hatao slogan of Indira Gandhi in the 1970s. The two-day national convention of block and district presidents on 28 and 29 March, 2003 at New

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38 Dev and Mooij, op. cit., p. 861.
Delhi, the party declared that the poor would always be at the core of its policies and promised that the party would stand by the poor. The thrust on the poor, the ‘lower castes’, women and minorities was best illustrated when Manmohan Singh desisted from extolling the virtues of the economic reforms he had initiated as Finance Minister and attacked the centre for thinking of ‘vested interests’ only.\(^{40}\) Mani Shankar Aiyar, in fact, believed that since poverty eradication was the direct assault on poverty, it should be made a central element of the economic policy. According to him, since a complete reversal to the Nehruvian model of development was neither possible nor desirable, the party was trying to imbibe the Nehruvian fundamental objectives of keeping poverty alleviation and the concerns of the poor at the priority.\(^{41}\)

**Panchayati Raj**

The Congress party used the institution of Panchayati Raj to strengthen its mass base. It was an arena through which the party made its rapport with the rural people. By championing decentralised development and popular participation, the party could find out the problems confronted by the local people. The presence of developmental state and the abundant resources controlled by the government at the Centre and the state level helped for party mobilisation via decentralisation. Whenever, the party’s policies and programmes got distanced from the interest of the local people, it tried to move towards decentralisation and tried to reconnect to the links at the grass-root level.

In the reform period, decentralisation became one of the key agendas of the non-Congress governments at the state level. The state government under Telugu Desam Party (TDP) in Andhra Pradesh mixed both the economic reform and the decentralisation agenda to strengthen its mass base. These governments succeeded, to a certain extent, in implementing decentralised programmes and policies and thereby mobilised the discontented people against the economic reform process. Decentralisation gave a cushioning effect to the confrontation between the adverse impact of economic policies and the demands of the common people. By satisfying

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\(^{40}\) *The Times of India*, 29 March, 2003.
\(^{41}\) Interview with *Mani Shankar Aiyar*, 16 April, 2003.
people at the lower level and by injecting a feeling of participation in developmental
process, it enabled the state government to minimise the pressure from below on the
state level. Politically such an exercise helped the regional parties to win the support of
the poor and the socially and economically marginalized sections who left the Congress
party. By countering the claim of the non-Congress parties on decentralisation, the
Congress made a strong attempt to pronounce its commitment to Panchayati Raj. The
party tried to make Panchayati Raj an integral part of the reform process to alleviate
poverty among the rural poor. The Bangalore plenary session underlined the need of an
effective system of Panchayati Raj as a fundamental pre-requisite for the assault on
poverty and genuine rural development. The party was trying to make a nexus
between ‘3Fs’ - devolution of functions, devolution of functionaries and devolution of
finances for strengthening the grass root democracy. It believes that only when
function and functionaries were allied to finances at the service of the grass root level,
the effective devolution is possible. Though the effective nexus between the 3Fs, it
believed that could achieve ‘3Es’ – Empowerment, Entitlement and Enrichment of the
people. Through decentralisation, the party prioritises to increase the size of the
national cake and to ensure its due share to every segment of the society without
scaifying others’ share. Thus, by attaining empowerment through grass root democracy
and development the party hoped to combat the narrow based identity politics.

Re-mobilisation of social groups

The party, in the second-generation reforms, tried to bring back various discontented
sections into its fold and thereby strengthen its mass base. As already pointed out the
socially marginalized sections were one of the core political constituencies of the
Congress party who shifted their loyalty from it in the aftermath of the reform process.
They felt that reforms not only failed to provide adequate livelihood to the vulnerable
sections but also took away all the safety nets provided to them. The reduction in the
economic activity of the state, the curtailment of public expenditure and the
disinvestment of public sector units adversely affected them. When these sections were

42 AICC (2001), Resolution on Economic Policy, op. cit., p. 18
43 Interview with Mani Shankar Aiyar, 16 April, 2003.
see also AICC (2003), Shimla Declaration, New Delhi: AICC, p. 4.
desperately looking to the state for their empowerment, the liberalisation policies seemed to be disempowering them. The changing policy preferences and interests of the party and the government forced them to distance from it and move towards parties based on identities like caste. Thus, the emergence of identity politics in the midst of the reform process eroded the mass base of the Congress party.

The party, outset, argued that the loss of its mass base had nothing to do with economic reforms but more with the caste politics of the 1990s. However, leaders like Vayalar Ravi, agreed that ‘the social upsurge of the down-trodden sections for political power’ resulted havoc to the Congress. According to him, Manmohan Singh’s economic policy could not attract the poor partly because of the campaign by the left parties and partly by the economic policy itself. Whatever might be the long-term goal and achievements of the reform process, fiscal austerity measures like cutting subsidies, especially subsidy on PDS, the lone social security measures for the poor, alienated them from the party. Further, the party’s inability to integrate the poverty alleviation programmes in its economic agenda could not attract these sections.44

The party forums and policy debates saw renewed efforts to address the interests of the socially marginalized sections like Scheduled Castes and Scheduled Tribes. A resolution adopted in the Bangalore plenary session, for instance, assured the party’s commitment to ensure a special package of reforms for these sections through an ‘E4-Policy’- Education, Employment, Empowerment and Entrepreneurship. The party now believed that the central purpose of the reforms had to be the raising of the living standards of the most deprived sections of the people. It claims that it’s the ‘only party whose philosophy of governance combines economic growth with social cohesion, public investment with private initiative and meritocracy with equality of opportunity’.45 The Shimla Declaration in fact, called for ‘the launching of major programmes for the economic advancement, social empowerment, political

45 Sonia Gandhi, Presidential address in the opening day of Shimla conference on 7th July, 2003 see AICC (2003), Presidential Address, New Delhi: AICC, p.8.
representative and legal equality of Dalits, adivasis, OBCs and minorities'.\textsuperscript{46} In a bid to persuade these alienated sections, the party extended its support to formulate an agenda for the welfare and upliftment of the Dalits. The Bhopal Document and Bhopal Declaration brought out by the Congress ruled Madhya Pradesh government can be seen in this direction.\textsuperscript{47} Though, the party is still playing a ‘constructive’ role in Parliament, in helping out the government in the economic reform process, it publically dissociated itself from the privatisation process, terming it ‘anti-lower caste’ because of the loss of reserved jobs in the public sector.\textsuperscript{48} This stand was further elaborated in the Shimla Declaration of the party. It says; ‘the start of a purposeful dialogue with private industry on how best India’s social diversity could be reflected in the private sector in different ways like reservation and fiscal incentives, low privatisation were inevitable can protect the welfare of the weaker sections of society and how government procurement can promote entrepreneurship among dalits and adivasis’.\textsuperscript{49} Thus, the party attempted to counter the propaganda that it deviated from its commitment to these sections by implementing market-oriented economic reforms. The middle class constituted the backbone of the Congress party till the BJP came into power at the centre was the strong supporter of the modernisation process initiated by the Congress after independence. Being a part and parcel of modernisation process, the middle class helped to sustain the functioning of democracy smoothly compared to other third world countries. It acted not only as a modernising force but also as a moderating influence on the polity and thereby thwarted both extreme rightist and leftist tendencies in Indian politics. The state-centred development strategies – socialist pattern of development, the pivotal role of the state as a regulator, entrepreneur, the mammoth public sector,

\textsuperscript{46} AICC (2003), \textit{Shimla Declaration}, op. cit., p. 4.
\textsuperscript{47} On 12-13 January, 2002, under the aegis of the Congress ruled Madhya Pradesh Government, a Conference on charting a new course for Dalits in the 21\textsuperscript{st} Century were held at Bhopal. The Conference was a gathering of intellectuals, academicians, activists and political leaders. It discussed the issues concerning the welfare of and justice to the 250 million Dalits (Scheduled Caste and Scheduled Tribes), The Conference brought out ‘The Bhopal Declaration’ which demanded 21 point Action agenda for the Dalits.
\textsuperscript{48} The Times of India, 31 March, 2003.
\textsuperscript{49} AICC (2003), \textit{Shimla Declaration}, op. cit., p. 4.
rural development and poverty alleviation programmes and the network of public subsidies – were conducive to strengthen its role. In course of time, it was cynical to the performance of state-centred development. It had pressurised both the Congress and its government to adopt more market oriented liberalisation policies ever since the Indira Gandhi regime. The economic reforms under Rajiv Gandhi were a further boost to the interest of this class. During the Rao regime, the middle class, unlike the other social classes in Congress, supported the government’s new economic initiatives. The reform is helped to develop a ‘new middle class’ which was different from the earlier on its social practices, taste, life style and consumption. In contrast to the early middle class which showed restraint in consumption and exhibitionism and subsumed its material pursuits under the broader ethical and moral responsibility to the nation as a whole, the new middle class were more prone to consumerist ethos and non-committal to social responsibility. While the early middle class was the symbol of Indian modernity, new middle class became the carrier of a mistaken modernity. The opportunities provided by the economic reforms further helped them to portray their consumerist culture through print media and television. While the early middle class stood for the modernisation of Indian tradition, the new middle class was pushing for traditionalisation of Indian modernity. When critical enquiry, rational thinking and scientific temper was the hallmark of early middle class, the new middle class seemed to be losing its secular outlook and was enthusiastic about new forms of religiosity.

In the second generation-reforms, by accelerating more market-oriented measures, the BJP took the loyalty of the new middle class away from the Congress. The upsurge of Hindu nationalist politics enabled the middle class to choose the BJP. The BJP government on the other hand offered many incentives in the second generation reforms to this social class than any other. The Congress now had to entice the sections back into its fold. In its attempt to attract the urban middle class and the salaried sections of the society, who had expressed their resentment over certain policies of the ruling BJP, the Congress undertook propaganda on the inability of the present government to protect their savings. For instance, in the context of the Union Trust of
India (UTI) security scam, the party opined that the confidence of these financial institutions would be eroded if they failed to protect the savings of the middle classes, the salaried sections, etc. The party’s approach to the middle class was more evident in Shimla Declaration. It asserted that ‘the Indian National Congress is the only party that integrates pro-poor – policies, programmes and perspectives with the concerns and aspirations of the middle classes and entrepreneurial communities’.

Commitment to mixed economy

The adoption of mixed economy constituted one of the cornerstones of Congress’ economic policies and strategies since its inception. By maintaining a balance between both public and private sectors, it gave a new direction to the basic tenets of the party like democracy, planning, socialist pattern of society, self-reliance, etc. Mixed economy sought to avoid the extremes of both capitalism and communism and imbibed the virtues of liberal democracy and the egalitarian principles and planned economy of the Soviet Union. It strived for a complementary relationship between both public and private sectors, not only emphasised for growth but also upheld the development path to achieve certain socio-economic goals. By combining both public and private interests, it was responsive to the needs and aspirations of divergent sections of groups, regions and classes. Thus, the configuration of public and private interests in the mixed economy helped the Congress to develop image of ‘catch all party’ and a ‘party of consensus’.

The adoption of market oriented economic policy as a viable solution to the crisis ridden centrally planned and state-centred development posed greater challenges to mixed economy. It even raised apprehensions among certain sections that the party was deviating from its commitment to mixed economy. In the political sphere, the social consensus developed by the Congress depleted when it preferred private and corporate interests. After its brief disassociation with the mixed economy since the 1990s, the party now cherished on its heritage and thereby tried to counter the

50 Ibid., p. 5.
unleashing of market reforms by the NDA government. Such a reaffirmation of mixed economy can also be seen in the context of the BJP’s attempt to delegitimise the role of the Nehruvian model of development. Manmohan Singh, in fact, asserted that in spite of reform measures, India would remain as a mixed economy with the collaboration of both public and private sectors. India’s public expenditure, according to him touched about 30-33 per cent of the GDP that could not be reduced. While reaffirming the party commitment to the broader framework of mixed economy, he argued that the state should get out of the areas where it was not efficient and more involved in areas where the state alone can deliver goods, infrastructure, education, health and environmental protection, agricultural research and development, etc. 52

In the Bangalore plenary session, the party asserted its ‘firm and unbending commitment to a mixed economy; an economy that involves mutually beneficial partnership between government and the private enterprise and civil society; an economy in which the skills and expertise of both the public and private sectors are leveraged effectively; an economy in which foreign investment has an important and critical role to play as a source of investment, technology, management and exports; an economy in which public expenditures are oriented primarily to protecting the poor, alleviating poverty, and expanding social and physical infrastructure in rural and urban India; an economy in which the ingredients of the mix of public and private are subject to constant review in response to the needs of the times; and an economy based on participative democracy and participatory development’.53 Reiterating its commitment to mixed economy, the resolution observed that India’s myriad social and economic problems had no single mantra as a solution. It demanded a constantly evolving mix of approaches that was envisaged by the Congress in its approach to mixed economy. It was basically ‘a mix that combines purpose and effective public investment with vibrant and vigorous private entrepreneurial endeavour, a mix that integrates faster growth with deeper social development, a mix that marries increasing globalisation with greater self-reliance and a mix that blends respect for tradition with an embrace of

52 Interview with Manmohan Singh, 18 April, 2003.
modernity, a mix of economic growth with social justice'.\textsuperscript{54} Such an approach, the party believed, was consistent with the basic spirit of democracy.

The Congress, in the second generation-reforms, differentiated its reform agenda from that of the BJP’s in order to convince the people that it had an alternative perspective. Such an exercise was necessitated due to the alleged ‘hijacking’ of Congress’ economic reforms by the BJP. The party ridiculed the BJP government’s economic policies as a parody of the Congress policies and believed that being the principal opposition party, it had the duty to highlight the anomalies, contradictions and lacunae in these policies. The party claimed that it was only the Congress that derived a liberal economic policy from a liberal social and political philosophy. The BJP may well claim to be a party that is implementing policies of economic liberalisation but its social outlook and mindset is completely non-liberal.\textsuperscript{55} The Congress rejected the argument that it was acting as a ‘B-team’ of the BJP government either in policy formulation or economic management. Manmohan Singh even objected to the economic reforms of the BJP government as the ‘second generation reforms’. He, however, saw that political motive of the government to differentiate their activities from the Congress. Since, the reform process initiated by the Rao government was a comprehensive agenda – management of fiscal infrastructure, social safety measures, etc. – yet to be achieved.\textsuperscript{56} Sonia Gandhi, in fact, also drew a distinction between the Congress and the BJP on economic policies by pointing out that the latter’s policies were anti-poor and anti-farmer. She said that ‘... the Congress government led by Shri. P.V. Narasimha Rao in the 1990s has rescued India from its gravest economic and political crisis into which a mere eighteen months of non-Congress governance had plunged the nation’.\textsuperscript{57} Differentiating the Congress economic policy under the Rao regime and the BJP regimes, Vayalar Ravi found two dimensions. Firstly, the BJP’s policy was more of a kind of Thatcherism and hoped that it would not last long in

\textsuperscript{54} Ibid., p. 27.
\textsuperscript{55} Ibid., p. 11.
\textsuperscript{56} Interview with Manmohan Singh, 18 April, 2003.
\textsuperscript{57} Presidential Address of Sonia Gandhi at 81st Plenary Session in Bangalore. see AICC (2001), Congress Sandesh, (Plenary Special) April, pp. 8-12.
Indian economic management. Secondly, its economic policies were in complete obedience to American interests.\(^{58}\)

The party in its economic resolution, which was adopted after a debate at the one-day AICC session on 24 May, 2002 at New Delhi painted a gloomy picture of the country’s economy and squarely blamed the BJP-led government at the centre. It found fault with the economic management under the BJP government. The economic performance was dreadful and the government’s priorities were wrong. The economic resolution outlines the party’s five-point economic agenda to revitalize the sagging economy. They were: strengthening of the foundations of agriculture, focussing on accelerating the creation of new productive employment opportunities on a sustainable basis, and revising the investment momentum, particularly in manufacturing industry and in physical and social infrastructure with special attention to education.\(^{59}\) A motion moved by Madhya Pradesh Chief Minister Digvijay Singh in the session on the debate on the economic solution asserted that economic reforms were the brainchild of Rajiv Gandhi who started it in 1985 and were continued with since 1991. He was supported by Prithivraj Chavan who traced the origin of the Congress’ new economic record to the era of Rajiv Gandhi. It is clear that the party leadership was attempting to find the genesis of the economic reform during the Rajiv Gandhi regime in order to evade the acute crisis in the party. Further, the second-generation reform saw the Congress’ attempt to link its secular image with the economic management. It viewed that the BJP government’s economic policy did not have a social dimension and did never reflect the aspirations of all sections of the society. In the shadow of the Gujarat communal killings, Sonia Gandhi reminded that ‘economic reforms in a framework of religious fanaticism and social bigotry is neither acceptable nor sustainable’.\(^{60}\)

Re-orienting the W.T.O. agreement

The provisions regarding WTO and the lifting of Quantitative Restrictions (QRs), were one of the areas of confrontation between the Congress party and the BJP in the second

\(^{58}\) Interview with Vayalar Ravi, 23 May, 2003.


\(^{60}\) National Herald, 25 May, 2002.
generation reforms. Though the WTO agreement was signed by the Congress government under the Rao regime, it was quite sceptical about the way in which its provisions were being implemented by the BJP government. In March 2001 there was a further boost to the globalisation and liberalisation of the Indian economy, when the NDA government lifted QRs on the imports of 1,429 items under pressure from the WTO. The lifting of QRs was considered to be a major shift from the BJP’s earlier position of protecting the consumer-goods sector from imports. The Congress felt that at a time when the domestic industry required a transition period to adjust to global competition, the government was engaged ‘hurriedly’ and ‘secretly’ in advancing the date of removal of controls on imports by two years under external pressure, primarily from Washington.\(^6\) Sonia Gandhi, in the Bangalore plenary session, obfuscated the Congress’ involvement in the signing of the WTO pact by accusing the BJP of using it as an alibi for its ‘incompetence and inability’ to deal with the flood of imports.\(^6\)

However, even when the Congress was finding fault with the BJP government on various issues related to WTO agreement, there was a consensus between it and the government. The party, for instance, endorsed the government’s stand on the WTO ministerial meeting on trade negotiations at Qatar in 2001. But, it cautioned against the enormous opening up of Indian economy to the world when protectionism still prevailed in the developed countries. The party was critical of the developed countries, as they were not implementing the promises on agriculture, trade and service as mentioned in the Uruguay Round. It expressed concern that non-trade issues were increasingly getting intertwined with trade negotiations. The party reminded that the NDA government that India should firmly be opposed to the social clause in global trade negotiations and that it should be resisted not because it had something to hide or feel defensive about simply because it made for bad economics, bad commerce and bad politics.\(^6\)

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\(^6\) Sonia Gandhi, Motion of Thanks, *op.cit.*, p. 364.

\(^6\) Presidential Address of Sonia Gandhi at 81\(^{st}\) Plenary Session in Bangalore.

see AICC (2001), *Congress Sandesh*, *op. cit.*, pp. 8-12.

\(^6\) *The Financial Express*, 20 July, 2001
Disinvestment: A bone of contention

The second-generation reforms saw three prolonged measures in the public sector policy- limiting the size of the public sector in future, closure of unviable PSUs, carrying out disinvestment up to 26 per cent or even lower in all non-strategic PSUs.64 But, the sale of public sector acquired a more political dimension than the economic process in the second-generation reforms. Disinvestment policy constituted an important arena in the ideological introspection of the Congress party and its direct confrontation with the BJP government. Though the party was the initiator of the process of public sector restructuring, which was one of the main components of the economic reforms in the 1990s, it was quite critical of the disinvestment policy of the NDA government. The rationale behind the policy was that money raised from the sale of government equity could be used for social security measures like health care, education, rural development, poverty alleviation or even repaying the public debts.

The BJP government in a further boost to the process, set up a new department for disinvestment to establish a systematic policy approach to disinvestment and privatisation. The government’s direction in this approach was evident from the Presidential address to the Parliament in the budget session in February 2001. It was evident that the government’s approach to PSUs had a three-fold objective: restructuring assistance to PSUs, safety-net to workers, reduction of debt burden, and additional budgetary support for the plan, primarily in the social and infrastructural sectors.65 But, in the initial phase of disinvestment, the government concentrated on the disinvestment of loss making PSUs. In the course of time, it turned towards the profit making PSUs on the ground that private buyers will not be interested in picking up loss-making units. The great causality involved in this process was the retrenchment of the workers of the disinvested PSUs and thereby the loss of their job security. In the political dimension, through the process of disinvestment, the BJP could destroy the

support of the Congress among the public sector workers, professionals, etc. The
government, on the other hand, created its own patronage by extending benefits to the
higher echelons of bureaucracy.

The Congress tried to evolve a consensus within the party over the issue of the
disinvestment of PSUs. The pro-reform and the advocates of the left-of-centre
approach feel that the disinvestment policy, which was initiated by the Congress, was
aptly used by the BJP government for political gains rather than economic progress.
Such an argument can be seen in the contest of the BJP government's attempt to
develop a network of 'new patronage' in the emerging private sector. The private
sector provides enough opportunities and incentives to the urban middle class who
shifted their loyalty from the Congress to the BJP in the process of second generation
reforms. As it has been pointed out that the wide ranging public sectors were
considered to be a 'holy cow' by the party for expanding its support base. The party
could muster the support of the employees and professionals by expanding job
opportunities in the PSUs. Moreover, the affirmative action programmes implemented
by the government helped the socially marginalized sections like Scheduled Castes and
Scheduled Tribes to acquire jobs and thereby strengthened their economic
empowerment. Politically, to certain extent, these policies helped the Congress to gain
their electoral support.

By following an aggressive disinvestment policy, the BJP government not only
shrunk the support base of the Congress but also created its own loyalties in the private
sector. While depoliticising and de-ideologising the working class in the PSUs through
stringent laws and the menace of job insecurity, it is trying to build social category in
allegiance to its ideology. Moreover, it seems that by delimiting the authority of the
public sector through disinvestment policy, it not only preferred the interest of certain
social groups but also dwindled the public place for the vulnerable sections. Thus, the
policy can be viewed as an approach prone to the social policy of the BJP in contrast to
the 'inclusive' agenda of the Congress practiced under the strength of a developmental
state.
On realising the menace posed by the disinvestment policy that not only kills PSUs but also loosing its mass base among its traditional social groups and mass organisations and thereby limiting its space in Indian politics, the Congress party found fault with the disinvestment policy of the BJP government. The party believed that there should be more competition between the public and private sectors on an equal footing. It did not believe that all public sector enterprises have to be necessarily privatised. If a public enterprise can make reasonable profit under competitive condition, it need not be privatised.66

The government, on its part, argued that the disinvestment policy was in the same language in which Manmohan Singh had enshrined it in the budget 1990-1991. It also pointed out that it was similar to the Congress policy especially the industrial policy statement.67 Through strategic sale – by handing over government equity to the private enterprises – it hoped that strategic partnerships would bring technology and managerial skill to upgrade the moribund PSUs. The Congress charged the NDA government for distorting the economic policies carried out by the Rao government. The Congress leader P. R. Dasmunshi drew a distinction between the disinvestment policy of the previous Congress government and that of the BJP by arguing that the former’s approach to the disinvestment policy was consistent with its ideology.68 It was reiterated that the party regarded disinvestment as part of the economic reform process but certainly not as the heart of the matter. According to the party, it had been distinguishing itself by the BJP’s policy by saying that the party was not ideologically committed to disinvestment as the centrepiece of their economic reforms. Alleging that the government was adopting a fascist approach in disinvestment policy and acting in a dictatorial manner, it called for a disinvestment process which should be transparent and in consultation with the standing committee and with the approval of the Parliament. Disinvestment was to take place only in the context of a strategic redefinition of the role and scope of the public sector. For the BJP and the NDA,

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66 Interview with Manmohan Singh, 18 April, 2003.
67 Speech delivered by Arun Jaitley in Parliament.
however, it had emerged as the central plank of the platform of reforms. By countering the government’s claim that its disinvestment policy resembles the policies of Manmohan Singh, the party argued that the Rao government had a clear-cut stand on this issue that not more than 20 per cent of the equity be disinvested. Further, there was no question of relinquishing either managerial control or the targets set by the government and which aimed at raising budgetary resources.69

The Economic Introspection Group (EIG) and the Bangalore Plenary Session proclaimed that the party was committed to the strengthening of the PSUs and the crusade against the disinvestment policy of the government. The EIG emphasised that the party had ‘objected to the present ideological assault on the public sector’.70 It did not see privatisation as a panacea for the crisis in the PSUs and pronounced that the disinvestment policy must be put in place with the approval of Parliament before pursuing the kind of massive, across-the-board operations as posed by the present government. The party claimed that the public sector that had built up India’s industrial and technological muscle, developed the backward areas, promoted social justice, and made available job reservations for the disadvantaged communities, was being subjected to an ideological assault. While opposing the government’s approach to disinvestment of the profit making PSUs, the party viewed that public enterprises that were making healthy profits on a continuous basis in a competitive environment should be provided opportunities for further growth. On the other hand, it favoured the closing down of chronic, non-profit making PSUs in a humane manner by protecting the interests of workers.71

Vayalar Ravi, while echoing the same sentiment, argued that the party was in favour of encouraging private sector investment but not killing the public sector. Since the basic philosophy behind the strong public sector was social objective, employment to the socially deprived sections and the attainment of more regional balance in

71 Ibid., p. 20.
development, it should not be disinvested. Making a clear distinction between the public sector restructuring under Rao regime and the BJP government, he asserted that, the Congress neither went for aggressive disinvestment of PSUs and nor had a Ministry of disinvestment. Jairam Ramesh further clarified that the party was opposed to arbitrary disinvestment, especially to meet the fiscal deficit. It opposed the same criterion for disinvestment being applied to both profit and loss making PSUs. The Navratnas, which later became Dashavat - Indian Oil Corporation (IOC), Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL), Oil and Natural Gas Commission (ONGC), Gas Authority of India Limited (GAIL), Mahanagar Telephone Nigam Limited (MTNL), Videsh Sanchar Nigam Limited (VSNL), Bharat Heavy Electricals Limited (BHEL), National Thermal Power Corporation (NTPC) and Steel Authority of India Limited (SAIL) – should not be disinvested.

The major instances of confrontation between the BJP government and the Congress party over disinvestment policy in the second generation reforms were the controversial disinvestment of Modern Foods, Bharat Aluminum Company Limited (BALCO) and the oil companies like HPCL and BPCL. These instances forced the party to reaffirm its commitment to PSUs and thereby differentiate its approach from that of the BJP government. In a further boost to the disinvestment process, the government sold off 74 per cent equity in Modern Foods. The Congress blamed the government for its cavalier and non-transparent action by alleging that the value of the land assets of the company far exceeded the amount for which it had been sold to the multinational company.

The disinvestment of BALCO also created a strong confrontation between the Congress and the BJP government over the policy of disinvestment. The Centre sold 51 per cent of equity BALCO for Rs. 551 crore to Sterlite Industries, an Indian private company. It flagged off a controversy between the Congress ruled state of Chattisgarh and the BJP ruled Centre. Ajit Jogi, the Chief Minister of the State told Sterlite that it

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72 Interview with Vayalar Ravi, 23 May, 2003.
73 Excerpts from interview with Jairam Ramesh. see http://www.jairam-ramesh.com/interview/html.
74 Sonia Gandhi, Motion of Thanks, op. cit., p. 364.
must agree to operate with 49 per cent equity. The Congress argued that the
government stakes in the PSUs that have a consistent record of making profits should
not be reduced below 51 per cent. They also confronted the government on the
disinvestment of two profit-making public sector companies – the HPCL and the
BPCL. The government assured that about 80 per cent of the retail trade of oil would
remain with the government even after the privatisation of these companies.
Manmohan Singh, on the other hand, expressed concern that it would lead to ‘crony
capitalism’. 76

A micro analysis of the debates and discussions in the party forums and the
divergent views expressed by the party leadership show that the Congress is
contemplating the merits and demerits of the disinvestment policy. Even though
resolutions after resolutions reiterated that the profit-making PSUs should not be
privatised and the equity for disinvestment in the loss making PSUs should be below 50
per cent, pro-reformists sceptical about this view. Just as the opinions of Vajpayee,
Arun Shourie and Arun Jaitley can be contrasted with those of Murali Manohar Joshi,
Ram Naik and Uma Bharati in the BJP together with George Fernandes and Sukhdev
Singh Dhindsa, the views of Jairam Ramesh and Mani Shankar Aiyar, Vayalar Ravi
and Pranab Mukherjee represent diametrically opposite poles within the Congress. For
instance, Jairam Ramesh viewed, ‘as far as privatisation is concerned, A. B. Vajpayee
government has taken bold steps although only one deal relating to the sale of Modern
Foods to Hindustan Lever has been consummated so far’. 77 Thus, it can be seen that the
Congress’ criticisms on disinvestment of PSUs are not coming out of any ideological
backing but political objective –to project its image that it still stands for controlling the
commanding heights of the public sectors in the Indian economy.

National opposition and state-level accommodation

In contrast to the first generation reforms in the early 1990s, the second-generation
reforms saw an emerging consensus at the state level on economic reforms irrespective
of parties’ ideologies. States, thus, have emerged as independent economic actors and

75 see AICC ( 2001), Resolution on Economic Policy, op. cit.
the Chief Ministers compete for inviting foreign direct investment and technology and external financial assistance for the development of their own states. The politics of economic reforms in this era reveals that the approach of the political parties depends on a fundamental maxim of parliamentary democracy that 'where you stand depends on where you sit'. If the party is in opposition, its strategy is obstructionist and if it is in power; it will be more pragmatic and constructive. While endorsing this phenomenon, Manmohan Singh even admitted that once a party was in power, it had the responsibility to 'deliver' to the people and to look after their welfare. The ruling party had to make the living condition better rather than worsen and it had to experiment with things which were workable. But, when it was in opposition, it could simply oppose the government policies.\textsuperscript{78}

The Congress party was confronted with a dilemma over the economic management of the BJP government. Though, the party was critical of the reforms of BJP government at the Centre, in the states the governments run by the party vigorously followed the economic reforms. This was clearly evident in the Bangalore plenary session of the party especially the discussion on economic policy resolution. While the national leadership of the party criticised the BJP-led government's economic policy, the Congress Chief Ministers found rationality in pursuing the economic reform process. Again, at the state level also, where the party was in opposition, it intensely criticised the reform process of the non-Congress state governments. For example, the party was quiet critical about the reform process, particularly the power sector reform process of the Andhra Pradesh Chief Minister Chandrababu Naidu, where the party was in opposition. Jairam Ramesh, Secretary in charge of the Economic Affairs of the Congress party admitted that criticisms levelled against the reforms are due to the political parties position whether it is in government or in opposition. The Congress governments in the states are, in fact, implementing so many of the policies that the Congress opposes at the central level.\textsuperscript{79} Among the Congress ruled states, the reform process is changing according to the nature of the

\textsuperscript{78} Interview with \textit{Manmohan Singh}, 18 April, 2003.
\textsuperscript{79} Excerpts from interview with Jairam Ramesh. see http://www.jairam-ramesh.com/interview/html.
opposition party in their respective states. For example, the Congress party in Kerala is not so much for market reforms as its counterparts in Karnataka and Rajasthan are and where the main opposition parties are Janata Dal and BJP respectively. Manmohan Singh, however, endorsing the reforms by the Congress ruled state governments inspite of the party's criticisms at the central level. In his opinion the state governments were in fiscal constraints and there was no option before but to accept the ongoing for reforms. Since central government can create money though deficit financing, the state government cannot and thereby financial bankruptcy forced them to adopt reforms.80

It is true that the party could not abandon the economic reforms as such because the state governments had already endorsed it. This dilemma faced by the party once again showed its lack of initiative in providing an alternative policy to the BJP-led government at the Centre. It can be said that without a long term and clear-cut policy towards economic liberalisation, the party's efforts to rejuvenate it proved to be in vain. Thus, the post-Rao economic reforms, as far as the Congress party was concerned was a tendency towards 'national opposition, state-level accommodation'81. The friction within the party over economic reform which was once again unveiled in the Bangalore session proved that there was no clear-cut approach on economic reforms. The advocates of left-of-centre approach like Priyaranjan Dasmunshi, Vayalar Ravi, P. C. Chacko and K. Kesava Rao vehemently opposed the market oriented reforms and urged the party to revert to its left-of-centre approach. The Congress Chief Ministers expressed their resentment against any change in the economic policy. S. M. Krishna, the Karnataka Chief Minister, an ardent proponent of liberalisation, made it clear that he did not wish to deviate from the present stance. While the Chief Ministers of Maharashtra, Delhi and Rajasthan have been pro-active in the area of power sector reforms, their Madhya Pradesh counterpart recommended the depoliticisation of economic decision-making. The Congress government under Ashok Gehlot in Rajasthan imposed a 15 per cent increase in power tariff; which was a marked deviation

80 Interview with Manmohan Singh, 18 April, 2003.
from the Congress’ declared economic agenda. Also, the Congress government under A. K. Antony in Kerala vigorously followed economic reforms to tide over the fiscal crisis of the state. Moreover, the Congress ruled states like Karnataka, Maharashtra and Punjab introduced the Fiscal Responsibility Act and Budget Management Bill in their state legislatures. These legislations aimed at providing a statutory backing to the fiscal reform process initiated by the state governments.

Moreover, the assistance announced by the World Bank in mid-June 2001 indicated that Congress ruled states like Madhya Pradesh, Rajasthan and Karnataka bagged a substantial chunk. Karnataka has been the biggest beneficiary with about $250 million coming into its coffers from the Bank. No BJP ruled state figured in the Bank’s list. The World Bank approved two loans and credits for Karnataka Watershed Development Project ($100.4 million) and Karnataka Restructuring Project ($150 million). Besides, the Karnataka Restructuring project reinforced economic reforms at the state level. The Bank also approved the Rajasthan District Primary Project ($74.4 million) for the expansion of a nationwide District Primary education for the poor, particularly, girls.82 The Asian Development Bank (ADB) decided to provide a mega loan of $ 500 million (about Rs. 2,400 crores) to the Congress ruled state government in Kerala. It is believed to be a part of the government’s fiscal reforms intended to restructure the public sector units which indirectly means the privatisation or closure of public sector units and cuts in governmental expenditure on welfare policies and also the plan outlay which are the basic ingredients of Kerala’s high social development. Even, the ADB itself was impressed by the way the Government of Kerala was carrying out the reform process and recognised that the state had a deeper and wider plan for reform when compared to that of Madhya Pradesh (another Congress ruled state) and the BJP ruled Gujarat.83

In the second-generation reforms, the disinvestment process was taken up by the state governments, irrespective of party differences and ideological stubbornness. Most of the Congress ruled state governments adopted the disinvestment policy to energise

83 *The Hindu*, 30 April, 2002.
the moribund public sector units irrespective of its opposition to the process at the Central level. In the economic policy resolution adopted at the one-day AICC (I) session on 24 May, 2002 at New Delhi, the party, while criticising the reform process of the Centre, endorsed the efforts of various Congress state governments in carrying out the restructuring of PSUs along with tax reforms, fiscal discipline, etc.\textsuperscript{84} Mani Shankar Aiyar, in fact, endorsed the approach of the Congress ruled state governments by saying that it was not abstract principles that the Congress party running the management of the economic policy but in terms of the objective of economic reality. The objective of economic reality at the state level involved extremely precarious finances. Since no state government were virtually financially healthy, the worsening fiscal situation compels them to go for disinvestment to raise additional finances. He even cautioned that if the central government could not come to the rescue of the state, the state governments were compelled to sell national assets in order to eat tomorrow. If the centre was following an intelligent disinvestment policy – profit making public sector should not be sold - the state governments would come that way. On the contrary, when the centre was flushing every profit making PSU, the state governments found it easy way.\textsuperscript{85}

Thus, it can be seen that whether under the condition of the states or for the benefit of the people, as claimed by the party, the Congress ruled state governments were pursuing vigorously the economic reforms. In such a situation the party could not distance from the economic reforms as such. Further, the intrinsic dimension of the politics of economic reforms in India is that those in power tend to embrace economic reforms vigorously and those outside fight it tooth and nail. In fact, the electoral compulsions forces every ruling party either at the Centre or at the state level to take a double stand on the reform process.

At the state level, while pursuing economic reforms, it also mixes the agenda with pro-poor measures both to avoid further alienation of various sections from the party and to bring back the alienated social groups to its fold. The Congress-ruled state of Madhya Pradesh is the best example of the combination of these two divergences –

\textsuperscript{85} Interview with \textit{Mani Shankar Aiyar}, 16 April, 2003.
economic reforms and welfare programmes. By strengthening the decentralised local institutions and empowering the people and ensuring their active participation in the developmental activities, the government seeks to avert a further alienation of these groups while initiating the reform process. The party is now trying to bring back the traditional support base of the party which was alienated in the 1990s by its new policies and preferences. The Bhopal Convention of Dalits under the aegis of the Madhya Pradesh government is a step in this direction. Thus, the party has now realised that it cannot follow an economic model or policy reform that benefits only a minority. Vayalar Ravi, while endorsing such an approach argued that the Congress governments at the state level was adopting ‘reforms with human face’ in contrast to the mindless liberalisation of the central government. Jairam Ramesh found that the Congress ruled state governments running the reform process in the mixed economic framework with emphasis on abolition of poverty and further social development were ‘not wedded to a doctrine, but a vision’. Thus, one can see that it tries to combine both reform and welfare policies.

While the socialist group plumping for the Madhya Pradesh model - reforms with decentralisation programme - to be the major approach of the Congress party in future, other sections within the party were quite sceptical about such a move. For instance, according to Manmohan Singh, since India is a big country, adoption of a single model at the all India level is neither feasible nor desirable. Since, there was no single solution which would apply to all over India, there was no central policy which would apply to all states and it should adopt different approaches according to the peculiar conditions. However, he believed that since a large chunk of the population is living in rural areas, their improvement could be only possible through grass root democracy. According to him, whatever may be the approaches of the state government, the basic thrust of economic policy of the Congress would be reforms plus decentralisation and according to the recommendations of the EIG.

In spite of the commitment to poor and vulnerable sections, in the second-generation reforms, the party waved over its stand on economic policy. In fact, the

party could not dump economic reforms as such even though it had wrecked its
electoral prospects. One of the members of the EIG claimed that the reforms were
good for the poor but the misconception created among the people adversely affected
the electoral prospects of the Congress in the general election in 1996. Now it had to
tackle the BJP on the economic reforms as it was vigorously following it. Here and
there the pro-reformists found goodwill in the reforms initiated by the Rao government
de spite the dominant anti-reform sentiment. Manmohan Singh, for instance, viewed
that the process of globalisation initiated by the Congress government in 1991 had to
stay and that it could not be reversed. Delivering his key-note address at the
concluding session of the month-long Global Investors’ Meet (GIM), at Bangalore, he
said that ‘globalisation was not invented by us, it is a fact of life. It is a global
phenomenon by itself’. Further, according to him, not only the Congress but also
all major political parties were in the process of introspection since the world was
undergoing changes. The stubbornness in their ideologies was fastly diminishing.
When there was criticism at the outside, an arena of consensus was developing among
the political parties on economic reforms. Both the Congress and the BJP were
converging to pragmatism. Swadeshi Jagram Manch and the CPI (M) were diluting its
stand on reforms. Even, the socialist lobby with the Congress was plumping for
liberalisation under the state supervision and by providing social safety measures.
Vayalar Ravi gave a pragmatic approach to the party’s liberalisation policy. While
endorsing the basic tenets of the Nehruvian model of development, he clarified that the
party was not the utopians of the 1950s. In his view India need a liberalised economy
based on controls, because controls that were essential for the development of the
economy at one stage was not good for another stage.

Domestic Compulsion and global conviction

Internally, when the party was confronting the BJP government, globally it was trying
to convince the world community that there was a consensus between the government

88 Ashwanikumar (2000), ‘Reforms are not anti-poor’, Indian Express, 4 September.
90 Interview with Mannmohan Singh, 18 April, 2003.
and the main opposition party on economic reforms. Sonia Gandhi’s visit to the U.S. along with party leaders like Manmohan Singh and Jairam Ramesh should be seen as an initiative by the party to show the world community that it still upheld the reform agenda. In fact, Jairam Ramesh claimed that one of the major objectives of the U.S. visit was to counter the propaganda that the Congress was anti-reform.\textsuperscript{92} Sonia Gandhi, while speaking at a meeting held by Confederation of Indian Industry (CII) in Washington on 28 June, 2001 expressed a different tone vis-à-vis economic reforms and policy. She said that there was a broad consensus on the direction of economic reforms among the 28 Chief Ministers the majority of who were from the Congress. According to her, India’s age old problems cannot be addressed in the absence of an annual 7-8 per cent rate of growth and this growth had to take place in an environment of fiscal discipline. India had to improve governance and substantial public expenditure was to be initiated on anti-poverty, employment guarantee and social welfare programmes. The Congress president stressed that compulsion might have triggered economic reforms, but it was the party’s conviction that sustained economic reforms were still needed for improved governance. In a significant retract from the earlier approach she emphasised the role of the state in the socio-economic reforms. While following economic reforms, it had to strengthen the capacity of the state to spur social change, provide better health and education and protect the interest of the most vulnerable sections of the society. At the same time, the pace of change had to commensurate with its ability to manage the risks of the transition. 'In the Indian context, there is still a crucial role for government investment in physical and social infrastructure and in the development of backward regions of the country. Our myriad problems can be addressed only in the framework of a mixed economy, with the ingredients of the mix reflecting changing imperatives'.\textsuperscript{93}

On another occasion, the former Finance Minister, Manmohan Singh, while evaluating the one-decade of economic reform, admitted that it so far had been a story of limited success and many partially addressed issues. He claimed that when the

\textsuperscript{92} Excerpts from interview with Jairam Ramesh. see http://www.jairam-ramesh.com/interview/html.
Congress was in office they had managed to reduce the fiscal deficit from 8.5 to 9 per cent of GDP to about 5 per cent but non-congress governments' tenures saw a reversal of direction. The fiscal adjustment was far from complete. He said that it should be ensured that development was not promoted at the cost of the poorest people. He felt that adequate social safety nets need to be provided to ensure that too much of a burden is not imposed on the weakest sections while pursuing reforms. He was of the view that India should create an environment that encouraged sustainable growth and poverty eradication. He even reformulated the concept of economic self-reliance. According to him, India could not isolate itself from the rest of the world in the changed global context. He clarified that ‘if the proponents of self-reliance want India to cut off from the rest of the world, that is just impossible. The best possible mantra for self-reliance in today’s context is to avoid international aid from the multilateral corporations’.

According to Manmohan Singh there were two crucial aspects for achieving self-sufficiency - reforming the public sector and increasing tax revenues. ‘For an economic growth of 7-8 per cent, we need to invest at least 30 per cent of the gross domestic product in development expenditure. For that, the saving rate has to be pushed up to from the current level of 23 per cent’. He said that such a high saving rate would only be possible if the public sector, which has practically no savings, is better managed so that it is able to achieve its earlier savings level of 4 per cent’. The second aspect underlined by him was a better tax-to-GDP ratio. He said the presumptive taxation scheme launched by him in the early 1990s should be cleaned up. Also, the Congress leader Pranab Mukherjee criticised the NDA government’s budget for 2002-03 as it had only diagnosed the ills of the economy properly but it had failed to come out with the ‘right prescription’. He felt that the government should have “taken some risk” with the fiscal deficit by enhancing budgetary support for a larger plan outlay to revive the economy and expand employment, taking advantage of positive features of

the economy in terms of indicators like prices, current account deficit and food grain stocks. He states that, ‘reform for the sake of reform has no meaning. The purpose of economic reform is to accelerate economic growth, expand employment and achieve over all prosperity’.\(^\text{96}\) He said that the Congress was opposed to both the proposed amendment to Industrial Disputes Act, raising the threshold for official permission for lay offs, closure etc. and the bill for reducing the government equity in public sector banks to below 51 per cent and upto 33 per cent. In vehement criticism of the banking reforms of the NDA government, he said that ‘it was the policy of the Congress that public sector banks should remain in the public sector but should be encouraged to compete with private sector banks to improve their efficiency. Neither public sector banks nor those in the private sector should be given any privileges. Lowering government equity in public sector banks merely to transfer control to private investors was against the Congress party’.\(^\text{97}\)

To conclude, the Congress party’s approach in the second generation reforms was to reinvent its past legacy and thereby strengthening its mass base. By criticising the government’s reform process, it was trying to mobilise the alienated sections to it. However, one can see that the debate in the party over the economic policies was as a result of the unease among the various sections. The criticism of the Congress, in fact can be seen as it was arising out of compulsion rather than conviction. It is not trying to project itself as an anti-labour, pro-business, pro-private sector and so on. While at the state level, the Congress ruled state governments are not inclined to move away from the path of economic reforms, at the central level, the party is trying to project an alternative approach to the BJP. The party is now rethinking on various issues on economic reforms ranging from subsidies, public sector, poverty alleviation programmes, panchayati raj and the empowerment of socially deprived section like dalits and tribals. In short, policies and strategies of the Congress in the second generation reforms can be seen as achieving a new image of a genuine ‘national party of opposition’, by redrawing with its age old image as a ‘natural party of governance’.

\(^\text{96}\) The Hindu, 5 March, 2002.
\(^\text{97}\) Ibid.