Chapter 3

Rehearsal of Reform:
Re-imagining the State in the Rajiv Gandhi Era

The emergence of Rajiv Gandhi in the political scene of India was a dramatic event in the history of the Congress and also fulfilled the political vacuum created by the assassination of Indira Gandhi. The ascendancy of Rajiv Gandhi on 31 October, 1984 was significant in the sense that the Congress party came under the control of a new leadership which was distanced from their commitment to Nehruvian socialism. The first ever policy pronouncement of his government was through his nation-wide broadcast on 12 November, 1984 that his government was bound to implement the 20-point socio-economic programme launched by Indira Gandhi, 'faithfully and effectively'. He reaffirmed his government's adherence to socialism and planning by aiming at 'continuous modernization, higher productivity and rapid advance of social justice'.  

Subsequently, in December 1984 the party in its election manifesto declared that if elected to power, the party, with its revolutionary tradition of struggle for independence, of unceasing battle against imperialism and neo-colonialism and with its unsurpassed experience of launching and implementing a radical programme of socio-economic transformation, would be the only party capable of responding to the challenge. The party offered to the nation a broad platform for the defence of national independence, a continuation of the anti-imperialist tradition and a feasible programme of socio-economic development. It reiterated the party’s commitment to socialism and the planning process and proclaimed the following aims: speedy removal of poverty, development of agriculture and industry on scientific lines, expansion and modernization of the infrastructure for high rate of growth, productive employment for all citizens, and adequate provision of health and educational facilities.

The Congress party under the young and dynamic leadership of Rajiv Gandhi secured a massive majority following the sympathy wave that arose as a result of the

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2 see AICC (1984), *Election Manifesto 1984*, New Delhi: AICC.
death of Prime Minister Indira Gandhi. The party secured 414 seats out of 543 in the Lok Sabha; the highest ever electoral majority for the party in the House since independence. The astounding majority legitimised Rajiv Gandhi’s role both in the party and the government and it re-established the Congress party’s dominant role in the Indian political system. His political victory not only gave a new twist to political discourses in India but also altered the economic policy of India and even influenced the policies and strategies of the party. It is argued that the rise of Rajiv Gandhi indicates some basic changes in the political economy that have long been underway in Indian society and which moved closer than ever to fruition in the general election of 1984.3

**Reform without crisis!**

The ascendancy marked a new beginning in the political economy of India. The period saw the gradual wearing away of state centred development strategies developed by Nehru. Unlike Narasimha Rao government’s economic reforms, Rajiv Gandhi government never faced acute fiscal crisis. But, the government went ahead with the liberalisation policies of Indira Gandhi in her second term.

The three major reform initiatives of Rajiv Gandhi were: deregulation involving fiscal, monetary and regulatory policies, public sector reforms and privatisation. As a first step towards liberalization, the government removed 25 industries from its list of those that required a license prior to entry, decontrolled some prices and certain sectors previously reserved for state control were opened for competition. This was followed by trade liberalization the dismantling of the licensing system, import liberalization, and measures to liberalise foreign investment and technology. In December 1985 delicensing was extended to 22 out of the 27 Monopoly Restrictive and Trade Practices (MRTP) industries exempt under sections 21 and 22 of the MRTP Act provided that such undertakings were located in centrally declared backward areas.4 The government clarified that foreign investment was to be seen mainly as a means of access to sophisticated technology from abroad rather than as a

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vehicle for the inflow of foreign capital. The government’s view was that the increasing proportion of non-developmental expenditure was the reason for the galloping fiscal deficit. The government entered into a number of collaboration agreements involving Foreign Direct Investment (FDI) and opened up the domestic market to the Multinational Corporations (MNCs) for the investment of foreign capital. The period witnessed a new orientation towards liberalization of controls over investment, production, prices and imports and foreign capital as part of the massive effort at achieving a high rate of sustained economic growth. In his effort to liberalise and deregulate the overall economy, Rajiv Gandhi made changes in the Industrial Disputes Act (IDA) of 1957, MRTP Act of 1969 and Foreign Exchange Regulation Act (FERA) of 1973.

The reform measures of Rajiv Gandhi marked a shift in the Congress party’s earlier policies and strategies. Broadly, the reform process was intended to alter the relationship between the state and the market in economic development. From the existing system of controls, licences, regulations and high tariffs, a gradual but steady transformation to the policies of openness, deregulations, selective controls and delicensing were commenced. The effect of these policies was the dilution of the state domination in economic policy. Subsequently, one sees that the policy shift towards greater liberalisation and privatization intended to erode the authority of the developmental state and the strengthening of the market forces.

The major policy pronouncements of the government showed this rightward shift in economic policy. For example, the budget, the Export and Import Policy, the Industrial Policy and the Seventh Plan documents which manifested the government’s new approach. Finance Minister V. P. Singh presented the first budget of the Rajiv Gandhi Government on 24 March, 1985. It marked a radically new direction in economic policy. It is seen that the word ‘socialism’ was not mentioned even once in

As the budget indicated a rightward shift in the economic policy, it undermined the basic philosophy of the Indian political economy of development like democratic socialism, self-reliance, and the dominant position of the public sector in the economy. It was an attempt to move the state away from patronage politics and towards a more openly elitist one. Moreover, the budget was part of an attempt to reshape the relationship of the Indian state in relation to its economic interest. The urban proprietary class and the middle class were given more incentives while the lower and marginalised sections were excluded from state protection. It redefined the role of the state in various sectors of development and altered the role of the public and private sectors in the economy. The budget and the further reforms had an unabashed allegiance to a specific ideology, which had three strands: 'development is best left to private initiative, taxes are evil and the poor are dispensable'. The changes in the economic policy were manifested mainly in three areas—taxation, industrial licensing and trade policy. The measures were adopted to coax both the professional and business community by the reduction of corporate taxes. The concession to the private corporate sector was in the form of delicensing of industries, and the redefinition of MRTP companies. The allocation for rural employment and related poverty alleviation programmes were relatively reduced. Though the government's philosophy was 'growth' and 'efficiency,' it was really a bonanza for the corporate sector and a burden for the common man. Thus, the concessions announced in the budget accrued to hardly one percent of the population. Also, the budget was marked by a severe erosion of the budgetary resources for the Plan because of increasing non-plan expenditure. Investment was taken away from the public sector towards the private corporate sector and there was a cut in public investment.

While speaking on the discussions on general budget the Finance Minister attacked the past economic policies of the government and pleaded for more

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7 The Times of India, 21 March, 1985.
liberalization and privatization. He called for the phasing out of regulatory mechanism, the removal of all controls, and the license raj. The license-permit raj, according to him, was outdated and it was useful at a particular time in the initial growth of the economy. Now the economy had developed and there was no need for such controls and regulations. He stressed that 'it is time not for more control but exposure to competition and that can set the people right'.

The government in a shift to its earlier approach on the Nehruvian era liberalized norms and restrictions to attract foreign direct investment and technology. Hence, 'these changes marked a significant shift away from the isolationist politics of the late 1960s and early 1970s when self-reliance was a dominant theme'.

Recognising the role of the public sector in the economic development of India, the Finance Minister called for internal generation of resources for its future growth. He announced certain decisions to reduce rigidities and improve the environment for industrial growth. On the financial side, the government proposed to facilitate the mobilization of resources from the market by the corporate sector and to reduce its dependence on public financial institutions. The Finance Minister made it clear that 'the corporate sector should be permitted to play a legitimate role within defined norms in the functioning of democracy'. While the widespread perception was that the corporate sector has inflationary consequences for the economy and that it regressively affects the real income of the people, the government on its part claimed that it need not be inflationary.

The export-import policy (1985-1986) announced by the government on 12 April, 1985 also reflected the shift towards liberalization as explicated in the general economic policy. It allowed the import of 201 items; capital goods were to be imported under the Open General License (OGL). It made substantial liberalization in the existing regulations on import of technology, electronic goods and computers.

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13 Budget Speech of Finance Minister V. P. Singh.
14 see Economic and Political Weekly (1985), 'Import Policy', Vol. XX, No. 16, 20 April, pp. 665-666.
the exim policy and budget reflected the trend towards greater liberalisation and the
 easing out of existing restrictions on economic activities in the private sector. The
 underlying factor was the shifting of the government’s preferences from one social
group to another i.e. the shifting of its preferences was more upper-middle class
oriented than catering to the lower and the vulnerable sections. It has be seen that ‘the
new economic policy offered urban interest significant concessions that were intended
to generate enthusiasm for the new strategy before these groups began to feel the bite of
some of its less advantageous elements’.  

The industrial policy of the government aimed to modernize industry, upgrade
technology, replace monopoly markets by competitive ones, ease out licensing
procedures to encourage investment, and the removal of restrictions imposed by the
MRTP Act. It was hastened with the delicensing of 25 priority industries and the
‘broad banding’ of 28 other important industries. The new fiscal policy announced in
November 1985 was another significant development in this direction. It replaced
import quotas with tariffs and laid out long-term patterns of taxation and concessions to
the corporate sector. By this policy the government opened the domestic market to
increased competition, welcomed the entry of MNCs, and the import of technology. It
altered the idea of self-reliance which was the cardinal principle of the Indian
development strategy since independence. On the government side, it maintained self-
reliance that still remained the basic tenant of India’s economic philosophy. According
to them, self-reliance never ever meant autarky. In the earlier stages of development
also, India had collaborated with the developed world- both western and socialist- and
established its industrial base. In the changing situation, India was looking, both within
and outside, for the qualitative betterment of the economy.

The economic reform based on market-directed development attempted to
denigrate the role of development planning in India. There were wider apprehensions

18, No. 4, pp. 39-44.
18 Rajiv Gandhi, interview with the Leaders Magazine, New York, 9 November, 1985. Quoted in
against the reform process on the planning mechanism as it eroded the latter. The role of the Planning Commission was decisively reduced by the creation of a new Ministry of Programme Implementation. But, Rajiv Gandhi made it clear that though the ideology and the basic policies of planning laid down in the 1950s were still relevant, the method of achieving these had changed with the development of technology.\textsuperscript{19}

The Seventh Five Year Plan (1985-1990) which was prepared during the Rajiv Gandhi regime also reflected the changing philosophy and objective of the government's economic policy. It was quite critical of the regulations and restrictions on the Indian economy as it reflected the Prime Minister's concern for efficiency, competition and modernisation. The wider perception was that the rules and regulations relevant to the nascent stage of development were not relevant in the way in which the economy had developed. The indication was quite obvious that the direction of the economic policy was more market-oriented. It is argued that in the earlier phase of development, public investment and physical control were greatly important; this was not relevant when the economy had developed in the later phase. It further added that, 'when economy developed and the industrial structure became more and more diversified and complicated, the licensing mechanism and other physical controls became more difficult to operate'.\textsuperscript{20} The quantitative import controls led to a high wall of protection and the creation of high costs industries. The manner of operation of industrial licensing created delays and led to wastage of opportunities. The Plan made an emphasis on efficiency of investment. This would be accompanied by a general move away from administrative to financial controls. Further, it was said that 'the apparatus of control originated during the Second World War and was adopted to fulfil the needs of a planned economy'.\textsuperscript{21} The Plan suggested the long-term strategy to reform and strengthen the tax structure and its enforcement. It suggested a sound fiscal policy comprised of four related strategies: (a) reforming and strengthening the tax

\textsuperscript{21} \textit{Ibid.}, p. 73.
structure and its enforcement, (b) the formulation of an adequate expenditure policy, (c) the maintenance of fiscal discipline which could be aided by the requirement to pursue a non—-inflationary fiscal policy, and (d) the formulation of policies for the public sector enterprises to improve their performance.\textsuperscript{22}

The Seventh Plan was concerned about the growing fiscal deficit, and non-plan expenditure and stressed the need for additional resources mobilization. But political compulsions forced the government to adopt certain developmental issues pertaining to the common people in the Seventh Five Year Plan. The government was aware that it could not go for a complete alteration of economic policy from a state-oriented to a market-oriented one. The document clearly stated that ‘state intervention in industry will undergo a quantitative change’ that will emphasise its development role. The indication was that the government would allow the market mechanism to play a greater role in resource allocation.

\textbf{Internal and external pressures}

The reform initiative and the subsequent shift in the policy matters were in fact the result of both internal and external pressures. The domestic pressure came from both the business lobby and the new breed of politicians and advisers, who pressurised the government to liberalise the economy and dismantle all regulative measures. For example, the Punjab Haryana Delhi Chamber of Commerce and Industry (PHDCCI) urged the Union Government to liberalise the industrial policy so that conditions conducive for an 8 per cent industrial growth rate essential to maintain a 5 per cent Gross Domestic Product (GDP) growth would be created. It was stated in a paper submitted to the government by the Chamber that legislations like IDA, MRTP Act and the FERA should be revised as it incurred a tremendous cost to the country.\textsuperscript{23} The advisers of Rajiv Gandhi like Arun Nehru, Montek Singh Ahluwalia, Abid Hussain, Bimal Jalan, Manmohan Singh and L. K. Jha who were identified with a technocratic and bureaucratic approach, also pressurised the government to adopt a more liberalised

\textsuperscript{22} Ibid., p. 69.
\textsuperscript{23} The Statesman, 12 November, 1984.
These groups of technocratically inclined leaders who had come to control the levers of India’s economic policy making pushed for liberalisation. This was in sharp contrast to Nehru and his brand of left leaning ideology and policy preferences.24 During the formative years of development, the vision of western educated Indian intelligentsia like Nehru and others were inspired by Fabian socialism and also the planned experiments in the Soviet Union under Communism. This reflected in the formulation of the economic policy of the country and the country was led towards state-directed and planned development. In the Rajiv Gandhi period the technocrats who trained in international financial institutions like World Bank and IMF pushed the liberalization and marketisation agenda to the forefront of the Indian development policy. Further, while Pandit Nehru and Indira Gandhi brought expert economic strategists to the centre-stage of the decision-making process which involved the role of the state economy, Rajiv Gandhi brought expert scientific and technological elite to provide ideas for implementation by the state functionaries.25

Along with the domestic compulsions, the economic policies and strategies of a government have global links and it often responds according to the changes in the global political economy. The external pressure also influenced the government to pursue market-oriented reforms. It was a period in which the external pressure in the form of Reaganomics in the US and Thatcherism in the UK exerted its pressure on third world countries’ economic policies for further liberalization.26 The pressure from the international financial institutions like IMF and World Bank forced the Rajiv Gandhi government for far reaching economic reforms. But, some others rejected this view and said that, on the contrary, there was ‘a convergence of Indian public opinion in favour of a decisive change in the direction of economic policy’.27 According to them the convergence of public opinion regarding India’s growth which was inefficient in

terms of return on investment and the ineffectiveness of anti poverty programmes was due to their politicisation. This forced Rajiv Gandhi to adopt the liberalization and privatisation policies. Moreover, it is observed that Rajiv Gandhi’s commitment to liberalization was neither personal nor ideological unlike that of Thatcher and Reagan, but was based on a pragmatic assessment that it would stimulate development and growth.

The global thinking of market centred development and the widespread resentment against the state-centred development evoked a mixed response in India on its regulative and licence-permit-raj economy. The discontent among certain sections of the economists on the performance of the economy in the mid 1980s encouraged the political leadership to move towards liberalization and pro-market reforms. The sluggish industrial growth, the slow growth of the agricultural sector and the slowdown in public investment in the 1980s compelled for economic reforms. There were three competing explanations for the deceleration of industrial growth in India- inefficiencies generated by a closed, state controlled economy (Bhagwati and Srinivasan, Ahluwalia), a sluggishness that led to low aggregate demand (Chakravarty) and the declining public investment and related infrastructural bottlenecks (Bardhan). But the government’s understanding was in tune with the first explanation. The government maintained that several decades of regulated economy hampered the growth of economy and could not obtain the objective of tackling grave problems faced by the country. This led to the belief that the policy of liberalization and the supremacy of market forces would lead to greater growth, savings and productivity. Meanwhile, the controversy over the foreign influence in the initiation of economic reforms was going on, the government on its

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part refuted all allegations levelled against the reforms. On 18 January, 1985 in the Lok Sabha, on a question by a member to the Finance Minister, V. P. Singh, said that ‘external loans have been undertaken for investment and productive purposes and have contributed to our development efforts according to plan priorities.31 Thus, for Rajiv Gandhi, liberalization policy is neither a sudden development nor a personal policy initiative. The rationale of the economic reforms went back to the pessimism aroused among certain economists on the sluggishness in industrial growth, the inefficiency of the public sector and the recommendations of the various committees appointed by the previous government.

Politically, Rajiv Gandhi’s economic reforms evoked mixed response from the various social constituencies of the Congress party. Unlike the Nehruvian and to a certain extent, Indira Gandhi’s economic policy which had the support of the all major social groups, only limited constituencies of high technocrats and the upper middle classes backed Rajiv Gandhi’s economic policy. The diverse social constituencies who supported previous policies expressed their discontent against Rajiv Gandhi’s economic policies. The business groups, the farmers’ lobby and the small-scale businesses, which were under the protective wings of the Congress turned against the reform process. Though the business community was initially enthusiastic about deregulation and decontrol of the economy. In practice, most businessmen have resisted it as they always want selective liberalisation.32 Thus, in the liberalisation era of Rajiv Gandhi, the confrontational character of business-government relations of the 1970s changed to accommodation, if not cooperation.33 The middle-class supported Rajiv Gandhi’s liberalisation because it offered concrete benefits by way of direct tax reduction and more consumer goods. While the urban middle class, who would be the supposed chief beneficiaries of liberalisation supported Rajiv Gandhi’s new mantras, the small-scale businesses that had been fostered and protected by the government over the years

through manifold incentives saw liberalisation as a threat.\textsuperscript{34} The rural community saw the economic policy as favouring only the rich and the elite sections of society and felt that their interests were no longer accommodated in the party and government.

The economic reforms initiated by Rajiv Gandhi often reflect the liberalisation policies and programmes of Indira Gandhi in her last phase. She appointed various committees and its recommendations suggested drastic changes in all sectors and policies. In this sense it is argued that the economic policy contains the elements of both continuity and change.\textsuperscript{35} Some others contend that this continuity is not in terms of the macro-economic policy framework of Nehru or early Indira years, but that is a continuation of the policies enunciated in the mid seventies and during the second term of Indira Gandhi.\textsuperscript{36} Thus, it finds a continuity between the policies of the government of Indira Gandhi and that of Rajiv Gandhi on the issue of liberalization.\textsuperscript{37} But, the changes in the economic policy that she initiated were slow, halting and timid, but it picked up momentum during the Rajiv Gandhi era.\textsuperscript{38} Although, Rajiv Gandhi's reform process constitute a new momentum, reform measures like reduction in industrial licensing or import liberalization were in continuation with the measures adopted by Indira Gandhi during the last phase of her term. The recommendations of the various commissions and committees set up by Indira Gandhi urged the Rajiv government to further extend the liberalization agenda. The initiative, thus, was 'in response to the findings of many careful enquiries which have led to an explicit statement about the direction of policy in a variety of fields'.\textsuperscript{39} It can be said that the foundation of the policies had been laid in 1980 and what happened in 1985 was merely an acceleration of the process. Because, the new economic policy of Rajiv Gandhi was a continuation

\textsuperscript{35} Nayar, Baldev Raj (1990), \textit{The Political Economy of India's Public Sector: Policy and Performance}, Bombay: Popular Prakashan, p. 27.
\textsuperscript{36} Baru, \textit{op. cit.}, p. 703.
\textsuperscript{37} Kohli, \textit{op.cit.}, p. 308.
\textsuperscript{38} Patel, \textit{op.cit.}, p. 212.
\textsuperscript{39} Nayar, \textit{op.cit.}, p. 27.
\textsuperscript{39} Patel, \textit{op. cit.}, p. 213.
of the liberalization policies initiated in 1974 and it signalled a coherent economic design aimed at the restoration of market forces in determining economic activities.\textsuperscript{40}

**Politics of intra-party and inter-party conflict and confrontation**

The change in the economic policy and thereby the erosion of the developmental state triggered an era of conflict and confrontation. A section within the Congress party felt that reform measures like reducing the role of public sector, cut in subsidies and public expenditure, denigrating the role of planned development, etc. may affect its mass base because it alienates its social constituencies. The general feeling among the Congress leaders was that the party’s ground level workers, who were designated to meet the local people were finding it difficult to meet the growing criticism. This section felt that the party was deviating from its long-cherished ideology and commitment to rural people. The socialist group within the party cautioned that these economic reforms would lead the party to lose its support and that the curtailment of welfare programmes would shrink its contact with the masses. However, the Seventh Plan came under opposition from the ruling party. Several groups within the Congress approached Rajiv Gandhi to register their protests that the plan did not assign enough resources to anti-poverty programmes. A modification in the Plan was made to incorporate the demand from within the party for more anti-poverty allocation. The plan was changed to accommodate this political opposition, even though it was known that resources devoted to such programmes in the past were not used efficiently. The criticism that arose from within the rank and file of the Congress party forced the government to stress on the grave issues of the people. Thus, the development strategy of the Seventh Plan aimed at a direct attack on the problems of poverty, unemployment and regional imbalances. It was aimed at the generation of productive employment and an increase in food grain production.\textsuperscript{41} But it has to be understood that the socialist group within the party who criticized Rajiv Gandhi’s economic reforms was ‘socialist by convenience rather than by conviction’. To them, ‘socialism’ generally meant the


enlargement of the pool of state controlled resources, which they could distribute to build up networks of supporters.\textsuperscript{42}

Another source of criticism came from the advocates of swadeshi which held the Rajiv Gandhi government responsible for endangering Nehru’s concept of economic self-reliance and sovereignty. Responding to these criticisms Rajiv Gandhi made it clear that the government had not deviated from Nehru’s policies of self-reliance and had argued that liberalization of the import of technology will not throttle indigenous research.\textsuperscript{43}

The government dispelled all criticisms levelled against the Seventh Plan for its break with the previous plans especially the one in 1956. The Prime Minister reiterated that there was ‘no shift from socialism. The privatization of the public sector was not on the agendas, that the mixed economy model would stay’.\textsuperscript{44} When presenting the Seventh Plan to the National Development Council (NDC) in November 1985 however, the Prime Minister once again argued that the ‘industrial policy remains unchanged’.\textsuperscript{45} While replying to a motion relating to the Seventh Plan, in Lok Sabha, on 18 December, 1985, the Prime Minister reiterated that the goals in the Seventh Plan have not changed as in the past. The goal is to develop a socialist society which gives full equality of opportunity and removal of all societal disparities.\textsuperscript{46}

The economic reform not only created intra-party conflict but also augmented inter-party confrontation. The vehement opponents of Rajiv Gandhi’s economic policies were the left parties who accused the government of surrendering before the pressure exerted by multinational corporations and international financial institutions. According to them the budget 1985 was an official pronouncement in the demise of planning and to a formal inauguration of an era of unbridled capitalism. The liberal concession made in the budget and other official pronouncements were meant to push the Indian economy towards closer collaboration with multi-national foreign

\textsuperscript{42} Manor, \textit{op. cit.}, p. 41.
\textsuperscript{43} \textit{Financial Express}, 1 October, 1985.
\textsuperscript{44} \textit{The Economic Times}, 14 September, 1986.
\textsuperscript{45} \textit{The Statesman}, 10 November, 1985.
\textsuperscript{46} \textit{Lok Sabha Debates}, Vol. XII, No. 22, 18 December, 1985, p. 320.
monopolies. The left-leaning economic intellectuals and the working class criticized the policy as undermining the cherished goals of self-reliance and socialism. According to them, the new strategy (as explicated in the budget) was patently inegalitarian character and it strengthened the position of multinational corporations in the Indian economy and, above all, had serious socio-political consequences.

However, it is obvious that the new policy pronouncements and economic strategy of the government is an attempt to re-engineer the role of the state in development. The relative autonomy of the state was eroding vis-à-vis to national and international interests. The gradual withdrawal of the state was explicated in the decline in state investment and the denigrating role of the public sector.

Subsequently, the government tried to dislodge the criticism against reforms within the party. The All India Congress Committee (AICC) meeting held in May 1985 was the first ever after the assassination of Indira Gandhi and the ascendance of Rajiv Gandhi as the Prime Minister. The party claimed that it was 'unequivocally' committed to socialism which was the only conceivable way of solving the problems of the people, particularly poverty. Such a reiteration was necessitated by the apprehensions levelled against the new government's approach towards the private sector. By dispelling the doubt that the Congress government was moving towards liberalisation and privatisation, the Prime Minister reasserted that the government would do its best to maintain the dominance of the public sector and pursue the policies of self-reliance. While reaffirming the party's commitment to the upliftment of the poor and the down-trodden, he maintained that growth with social justice will continue to guide government policies and programmes. Earlier, the Congress Working Committee (CWC) meeting defended the public sector as 'the sheet anchor of India's progress... for the national instrument for rapid industrialisation and for the spread of modern technology into the remotest areas of the country.' It can be seen that such a reiteration

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49 Quoted in Swamy, op. cit., p. 195.
was due to the party’s reverses in the by-elections in 1985 and the growing public resentment over the rise in prices of essential commodities.

The unleashing of market reforms and the dilution of the Congress party’s ideological commitment further complicated the politics of intra-party competition. The party’s centenary meeting in Bombay in May 1985 saw a long tug of war between the party and the government over the economic policy. The economic resolution was presented by Rajiv Gandhi to the CWC, prior to presenting it to the AICC for ratification by the Finance Minister V. P. Singh. The resolution marked the shift in the strategy of the government, without mentioning the word ‘socialism’. It endorsed the new economic policies of liberalisation and the diminished role of the public sector. The resolution says:

The strengthening of the growth impulses of the economy, through absorption of modern technology and through appropriate fiscal and legislative changes, was imperative to sustain the tempo of industrial development, the policy instruments relevant to one stage cannot be treated as permanently sacrosanct nor are they ends in themselves.56

The senior leaders of the party felt that it was an attempt to shift the old development strategy of self-reliance and socialism. They argued that the government abandoned the party’s commitment to age old values and moved to the right of the political spectrum in the name of high technology and modernisation. They expressed serious concerns that the party would lose its mass base and support if it turned to pro-market and pro-rich policies. Despite a thundering majority in the 1984 election and the clout of celebrating the centenary of the formation of the party, doubts had been aroused over the wearing away of its public image due to its pro-market reforms. The economic resolution was rejected by the CWC and ratified only after it was revised, reaffirming ‘socialism as the central goal of the Congress’. The party’s opposition to the economic resolution of Rajiv Gandhi had three different motives: firstly, many congressmen feared the electoral and political ramifications of abandoning socialism; secondly, it was concerned with ideology than with electoral considerations; and thirdly


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it was based on the substance of the economic policy and also because of the general angst with Rajiv Gandhi and the search of an issue that could be used against him.\textsuperscript{51} However, despite the criticism by the party members on liberalising reforms and the party’s pressure on the government for the commitment to the socialism, the government succeeded in pushing through some important reforms.\textsuperscript{52} Rajiv Gandhi in his inaugural speech at the session reiterated the party’s century old commitment to various sections. He emphasised the struggle against poverty, the need for anti-poverty programmes, the implementation of the 20-point programme and the development of the public sector. The speech did not emphasize on the market-oriented reforms. On the contrary, it called for building an India which was strong and self-reliant in agriculture, industry and front-rank technology.\textsuperscript{53}

The party in its \textit{Centenary Resolve} called upon all Congress workers to strengthen the national consensus around the key elements (democracy, secularism, socialism and non-alignment) of the congress ideology. It made an attempt to highlight the government’s commitment to the welfare of farmers and workers and the upliftment of the socially marginalized sections like Scheduled Castes and Scheduled Tribes.

After the vehement criticisms in the centenary session, Rajiv Gandhi slightly emphasized the party’s old commitment to swadeshi in the changing situation. According to him, ‘the slogan of ‘swadeshi’ given by Mahatma Gandhi was relevant today except that in the modern context it did not mean obsolete technology. The more India went ‘swadeshi’, the stronger it would become.\textsuperscript{54}

In the subsequent months, the economic policy tilted towards greater liberalization and privatisation, followed by criticisms and then a reaffirmation of socialism. In fact, the period was a copybook example of the two steps forward and one step backward syndrome. The vehement criticism levelled against the first budget

\textsuperscript{52} Kohli (1989), \textit{op. cit.}, p. 313.
\textsuperscript{53} AICC (1985), \textit{Inaugural Speech by Congress President Shri. Rajiv Gandhi and the Centenary Resolve}, New Delhi: AICC.
and the subsequent manifestation of criticism within the party in the Congress centenary session forced the government to adopt a soft approach on the economic reforms. The soft stand on the economic reforms was manifest in the priorities of the second budget (1986-1987) of the government. It aimed to strengthen the public sector, to provide a further thrust to anti-poverty programmes and to provide relief to the common man. In an attempt to shed its 'pro-rich image' and to soothe the critics, especially the leftists within the party, the outlays for anti-poverty programmes were increased. For instance, the budget proposed an increase of nearly 65 per cent in the allocation for the major anti-poverty programmes like Integrated Rural Development Programme (IRDP), National Rural Employment Programme (NREP), and Rural Landless Employment Guarantee Programmes.\(^{55}\) Rajiv Gandhi was also forced to impose restrictions on the business and middle classes. For this he was described as the Indian version of Deng Xiaopeng.\(^{56}\)

**Public sector reforms**

The public sector was one of the main issue areas in the reform process of Rajiv Gandhi. This was because, the wide-ranging PSUs were considered as one of the arenas of support of the Congress party. Even before independence, one of the basic tenets of the Congress economic policy and strategy was the 'commanding heights of the economy'. The public sector units not only served a vital role in the economic development of the country in the formative years of development, but politically it was used for broadening the mass base of the Congress party.

The underlying rationale for public sector reform was its poor performance of bureaucratically managed economic activity. The economic reforms largely targeted the dominant role of the public sector in the economy. In fact, curtailing its budgetary allocation diminished its dominance. The share of public sector investment in total planned outlays declined from 53 per cent in the Sixth Plan to 48 per cent in the


Seventh Plan. Based on the report of the Arjun Sengupta Committee on Review Policy for Public Enterprises appointed by Indira Gandhi, the Rajiv Gandhi government initiated certain reform measures in the public sector. The report called for redefining the government public enterprises relations and identified certain core sectors like agriculture, irrigation, railways etc. in national planning. The government’s role was restricted as it was primarily concerned with overall strategic planning and policy, rather than with the day to-day functioning of public enterprises. The Prime Minister was critical of the inefficient public enterprises for gross overstaffing and low productivity, political interference, non-commercial styles of management and economic pricing policies. His objective has been to try to engender greater efficiency through free use of imported technology, especially advanced electronics, the removal of controls, increased competition and improved management in public sector. The government strategically denounced the idea of the public sector’s monopoly and opened up to high technology and foreign capital. With the entry of multinationals, the monopolies in spheres reserved for the public sector, began to vane and its superiority and hegemony in the political system declined.

The acute criticisms of the Union Minister and the Congress leader Vasanth Sathe’s criticism on the functioning of public sector roused confusion within the party about the public sector. Doubts were raised among the Members of Parliament that it was a deviation from the party’s economic policy. There were wider apprehensions about the total abandonment of the party’s longstanding policy towards the public sector which was vital for ‘the commanding heights of the economy’. On 22 August, 1986 Rajiv Gandhi said that the views expressed by Sathe on the public sector in particular and the government’s economic policy in general were ‘not those of the government’. The Prime Minister said that the success of the Seventh Five-year Plan depended on the satisfactory performance of the public sector undertakings. Therefore, every effort had to be made to streamline the working of these units. He asserted that

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57 Quoted from Swami, op. cit., p. 192.
‘there is no question of the party taking a “U-turn” on this issue’. Following the Prime Minister’s assurance the Industry Minister N. D. Tiwari categorically ruled out privatisation as a remedy for the problems facing the public sector enterprises in the country.  

In a further step towards public sector reforms, in April 1987 the government constituted a committee under V. Krishnamurthy to make suggestions for public sector. Based on this, the government issued a White Paper on Public Sector suggesting the privatisation or closure of public sector undertakings which were making losses recurrently. But the stiff criticism from both within the party and the opposition, the trade unions’ campaign to ‘save the public sector’ and the fading image of the government in the corruption scandals forced the government to not implement its recommendation. It was stated that the politically damaged Rajiv Gandhi was not eager to provide further ammunition to the opposition to attack him in this instance it was the alleged betrayal of socialism and the Nehruvian legacy.

In the midst of the augmenting criticism against the public sector reforms and the attempt to revive the party’s commitment to the public sector, a two-day seminar was organized by the Economic Advisory Cell of the AICC (I) on 24-25 April, 1986 in New Delhi on “Public Sector on Indian Economy: Problems and Prospects”. The Prime Minister Rajiv Gandhi in his capacity as the Congress president reiterated the party’s commitment to the public sector. He said:

"the growth and development of the public sector has been a cornerstone of the Congress party’s economic policy. The public sector has come to occupy a crucial position in the economy, and has played a vital role in the building up of the infrastructure and in the overall industrial development of various regions, particularly the backward areas. Our large and diversified industrial structure today bears a testimony to this fact".

Subsequently, more reiterations came from the government over its public sector policy. At various conferences, the Prime Minister time and again praised the role of the public sector in the economic development of the country. He said that

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60 Nayar (1992), *op. cit.*, p. 162.
'while public sector must be at the top, the commanding heights of our economy, they can be there only if they are efficient. If they are not efficient, if they are costing more and more money every year, then we are really spending money which should be used for anti-poverty programmes to boost the public sector'. In the Motion of Thanks to President’s address in Lok Sabha on 3 March, 1987 the Prime Minister justified reforms in the public sector as it was for improving productivity and efficiency in the functions of the public sector. He said that ‘our self-sufficiency lies in those very ideas that were laid at the foundations of our development. We do not wish to deviate from those ideas’. He also repudiated the allegation that the investment in the public sector was cut down. On his part, the Prime Minister claimed that the investments in the public sector was much more than the preceding two year period and that there was no intention of reducing its importance. He called for imbibing the Nehruvian heritage to enrich the public sector. On the questions of relaxing the industrial licenses and controls, allowing more imports and the opening up of areas for the private sector, the Prime Minister clarified that, ‘ ... it depends on specific areas. On strategic and core areas like energy, telecommunications, defence and transport to some degree, we do not want to ease up too much and it should remain largely in the public sector’.

During the last phase of his term, Rajiv Gandhi reiterated that the public sector must give the lead. While addressing the Chief Executives of Public Sector units in New Delhi on 14 January, 1988 the Prime Minister urged the public sector to give top priority to generating internal resources and not to expect any budgetary support. According to him, the public sector has had and must continue to have a strategic role in development. It had to improve its performance and act as the engine of our self-reliance and economic independence. Swamy (1994) aptly describes the changing role of the state in relation to the weakening role of the PSUs. According to him, ‘until

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1980, it pursued a set of policies that created a favourable environment for the expansion of public sector. Thereafter, it gradually detached public enterprises from budgetary support, leaving them to finance their expansion through funds raised from the capital market and also opening their 'reserved' sectors to private enterprises.  

The patronage politics developed by the Congress party was a stumbling block in the public sector reforms. The fact that the bureaucracy and the workers in the PSUs constituted one of the major political constituencies of the Congress party prevented the government from taking radical public sector reforms and stringent labour legislation which would hurt their interests. A World Bank document on Indian economic reforms observes that ‘the political importance of SOE (State-Owned Enterprise) workers (in India in the 1980s) arises not because they are a major source for the Congress party (which is in fact heavily rural), but because they are swing votes whose continued support is necessary to maintain the Congress party in power’. Though Rajiv Gandhi could not succeed in his effort to restructure the public sector units because of his political compulsions, it gave a boost for the subsequent governments like the United Front, the Congress government under Narasimha Rao and the BJP governments for greater privatisation and disinvestment in this sector in later periods.

The economic reforms further accelerated the factional feud within the Congress. One of the vehement critics of Rajiv Gandhi's economic reforms was the Congress leader Pranab Mukherjee. He accused Rajiv Gandhi of having deviated from the economic and political policies followed by Nehru and Indira Gandhi. On 27 April, 1986 the Congress party expelled Pranab Mukherjee from the party for six years alleging that he was organizing dissident activity in the party. On 4 June, 1986

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66 Swamy, op. cit., p. 226.
67 Patronage politics here refers to the appointments or privileges that a political party/politician can give to loyal supporters for mustering their political support. The Congress party in early decades developed a kind of patronage politics through the strength of developmental state. By assigning job opportunities in the wide ranging public sector units and by extending public subsidies like fertilisers, seeds, power and irrigation to the farmers, food subsidies for the poor, it could garner their political support. The mobilisation of the party at the local level was through extending the patronage politics. The bureaucrats and the public servants holding key positions in the public sector units offered their political and monetary support to the party.
Mukherjee unleashed a bitter attack on the leadership of the party for “deviating from the path of the party”. He alleged that ‘Mrs. Gandhi was taking the nation towards the goal of self-reliance in every sphere. Today, her son liberalizing the import policy is actually selling the nation to foreign monopolists and very soon they will demand that the rupee be devalued…’ The government stand was that there was no going back on the policies of liberalisation and greater freedom of operation for the private sector. It called for a greater play of market forces leading to greater competition and more freedom of operation for the private sector. It invited criticism from the opposition parties and a section within the party. This forced Rajiv Gandhi to reaffirm the 20-point programme of Indira Gandhi which stressed the welfare of the poor. By the end of 1986 the government set up a committee on economic efficiency, productivity and exports under the chairmanship of L. K. Jha. The government assigned the commission ‘to suggest measures for improving capacity utilization, efficiency and productivity in industry both in the private and public sectors; to analyse the existing policies in the global perspective and suggest measures to be adopted for improving the performance of exports and the balance of payments position and to examine any allied issues in the field of economic policy that may be referred to it by the government’. 

The third year term of Rajiv Gandhi was turbulent and the year saw the strained relationship between the Prime Minister and the President, the Fairfax and Bofors issues, the expulsion of V. P. Singh, and the defeat of the party in assembly elections. All these affected the party’s credibility and also the government’s stability. A field-work for the poll carried out in mid April 1987 revealed that Rajiv Gandhi’s popularity fell by 12 points since mid February 1987 and it revealed that 73 per cent of the people believed that the government had something to hide. In order to pacify his detractors, Rajiv Gandhi reiterated the socialist measures subsequently. In his budget speech for 1987-88, the Prime Minister (also in the capacity of Finance Minister) made it clear that no public sector units have been privatised and that the government considered it

69 The Times of India, 5 June, 1986.  
71 Sunday Observer (New Delhi), 19 April, 1987.
as the core of the industrial economy. He further said, ‘I am committed to planning for socialism in India, socialism which fits in with our genius, but nevertheless socialism in its basic meaning of removing disparities and providing equality of opportunity’. He categorically made it clear that the principle objectives were the elimination of poverty and the building of a strong, modern, self-reliant, independent economy. At the micro level, the budget did not significantly advance the government’s commitment to economic liberalisation. The main tax rates remained unchanged. There were a few, small, populist gestures directed at the middle classes and luxury goods. The thrust of the budget was on the mobilisation of additional resources for the public sector. On the other hand, the budget made an emphasis on the development of science and technology. The import duty on electronic sub-assemblies was reduced from 308 per cent to 150 per cent.

The recurring elections in democratic regimes are a testing point for the government and the party in power to gauge the loyalty of its constituents to its policies and programmes. The assembly election results in 1987 were a test of Rajiv Gandhi’s new economic initiatives. The defeat of the party in the Haryana assembly election was a turning point in the course of Indian politics during the Rajiv Gandhi period. It challenged the authority of Rajiv Gandhi and delayed his agenda for the liberalization of the economy. The election result was a signal that the Congress was losing its traditional support base in the middle class and the rural rich, which was maintained under Indira Gandhi through her patronage policy. Further, it was considered as a sign of erosion of its peasant base in a largely agrarian state. A section within the party feared that it had lost power in Haryana due to the shedding of the party’s socialistic programmes and the liberalization policy’s pro-rich image. The Haryana election explicated the basic dynamics of the politics of economic reform in a democracy based on competitive party system. It was clear that when the economic policy gives incentives to one section or if it prefers the interest of a social group, the others shift their loyalty from the party. When the technocratic leaderships in alliance with

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business lobby pulled in the direction of liberalization, the poor and agrarian community reacted negatively.\textsuperscript{74} Rajiv Gandhi’s popularity showed a downward trend across the country - South, North and North East- and it was defeated in Andhra Pradesh, Karnataka and Kerala in the South, and West Bengal and Haryana in the North and Assam in the North East. The election results proved that the party’s consolidation in terms of electoral strength was concentrated in certain states rather than an all India presence. But, the Prime Minister asserted that the Congress was still a ‘national party’.\textsuperscript{75}

The Congress faced its worst crisis under the leadership of Rajiv Gandhi in 1987. Augmented by the electoral defeat in the assembly elections, the allegations of kickbacks from Swedish and West German defence deals saw the decline of the clean image of Rajiv Gandhi and thereby the emergence of crisis within the party. The shift in its economic policy and ideology and the electoral defeat accelerated dissident activities within the party. The Law Minister Ashok Sen, from West Bengal, resigned from the Cabinet and blamed the Prime Minister for the defeat in the assembly elections. But the severe blow to the government and the Congress party was the expulsion of the Defence Minister and the former Finance Minister V.P.Singh in July 1987. All these events adversely affected the pace of the economic reforms.

These events forced the party to convene the CWC meeting for reiterating its commitment to the long-cherished ideas of the Congress party. The resolution reaffirmed that the Congress had always been synonymous with the alleviation of the sufferings of the under-privileged and has consistently espoused the cause of social justice. The strength of the Indian National Congress (INC) had been the commitment of its workers to the high ideals of socialism, secularism and the national interest.\textsuperscript{76} The CWC demanded the government to re-orient its economic policy in a socialist direction. While endorsing the expulsion of Arun Nehru, V. C. Shukla, Arif Mohammad Khan and V. P. Singh, some of the CWC members urged the government

\textsuperscript{74} Kohli (1991), \textit{op.cit.}, p. 338.
\textsuperscript{75} \textit{The Times of India}, 28 March, 1987.
\textsuperscript{76} \textit{Indian Express}, 20 April, 1987.
to pursue the programme of upliftment of the poor and follow a left-of-centre pattern and the implementation of the 20-point programme.\textsuperscript{77}

The party saw a conspiracy theory in the happenings of 1987. The CWC resolution made it clear that the ‘external and internal forces of disruption, reactionary elements and multinationals’ masterminded “a grand design of destabilization”.\textsuperscript{78} But, in fact, the erosion of the party's socialist, pro-poor and rural-oriented image were the forces behind the cause of destabilization. The social groups who were with the party steadily lost their faith in the leadership of the party. The adoption of a market-centred economic policy and thereby the dilution of the developmental state forced the impoverished social groups to shift their loyalty. The socio-economic impact of the new policies like liberalization, market-competition and technological upgradation diminished the government’s image and the party’s pro-poor image. With the change in its economic policy, the government gave priority to the consumerist demands of the upper middle class and ignored the deprived sections' interest. The emergence of a new generation within the Congress - an elite drawn from the professional and managerial sections of the society who stood by modern technology - diverted the Congress economic policies. The net result of such a deviation of the economic policy was that the preferences of the common man were neglected and he was forced to distance himself from the party.

\textbf{Congress Socialist Forum: A renewed socialist upsurge}

The disenchantment of its political constituencies from the Congress due to its new preferences in economic policy, the steadily declining image of Rajiv Gandhi and the crisis in the stability of the government forced Rajiv Gandhi and certain sections within the party to revert to its socialistic and left-of-centre policies and programmes. In July 1987 a few left minded Congressmen led by K. R. Ganesh and V. N. Gadgil revived the Congress Socialist Forum\textsuperscript{79} which was forcefully dismantled by Indira Gandhi in the

\textsuperscript{77} \textit{The Tribune} (Chandigarh), 23 July, 1987.  
\textsuperscript{78} \textit{The Times of India}, 19 March, 1987.  
\textsuperscript{79} The Forum was formed in an effort to give a leftward orientation to the Congress after the party's defeat in certain states in the second general election in 1957. It was formed during Nehru's time by Gulzarilal Nanda and Keshodev Malaviya. It was a pressure lobby to monitor the party's socialist and left-of-centre policies.
mid 1970s with a view to launch a movement within the Congress (I) party for introducing radical policies from within the government. A six-page statement issued by the Forum stressed the need to recapture the socio-economic policies and the vision of Mahatma Gandhi and Jawaharlal Nehru.\textsuperscript{80} It was used by Rajiv Gandhi to counter his detractors from within the party and in the opposition by confirming his government’s faith in socialist policies and also to distract the public attention from the corruption scandals levelled against his government.

The first budget of the Rajiv Gandhi government was considered as a motivating force behind the revival of the Socialist Forum. The Forum urged the government to reverse the government’s economic policies in the wake of serious political crisis caused by the dissidents and the need to counter the allegation of the expelled leader on the government’s economic reforms. The forum said that the policies pursued by those responsible for the management of the economy have been ‘instrumental in eroding the base of self-reliance for granting concession to multinationals, and big business and for weakening the strategy to reduce income disparities’.\textsuperscript{81} The Forum was revived to counter V. P. Singh’s allegations about the government’s economic policy and to expose V. P. Singh’s hollowness as the champion of left-of-centre or socialist politics. V. P. Singh, though, as the Finance Minister, was the main architect of the open-door economic policy.

Addressing the concluding section of the revived Congress Socialist Forum (CSF) on 28 August, 1987 Rajiv Gandhi rededicated the Congress (I) to the ideals of democratic socialism as enunciated by Jawaharlal Nehru.\textsuperscript{82} The Forum under the auspices of Rajiv Gandhi sought to meet challenges posed by the combined strength of the left parties, the right parties (BJP) and the dissidents and rebel congressmen led by V. P. Singh. According to V. N. Gadgil, the convener of the CSF, the objective of the revival of CSF was to introduce an element of debate and discussion which would help to re-examine certain government policies which had gone astray from the time tested

\textsuperscript{80} Indian Express, 23 July, 1987.
\textsuperscript{81} Patriot (New Delhi), 24 July, 1987.
\textsuperscript{82} Telegraph (Calcutta), 30 August, 1987.
congress line. It was an attempt to review certain government economic policies as required for the poor and the lower middle-class who were alienated from the Congress and thus to consolidate and strengthen the party. But it was a face saving attempt by the party from the criticism by the left, the right and the dissidents against Rajiv Gandhi's strategy towards the market reforms. It was only a left rhetoric not serious in its implementation. The Forum was strongly critical of the economic policies the government pursued in 1985-1987 when V.P. Singh was the Finance Minister. It was an attempt to blame V. P. Singh individually for the implementation of market reforms and to rescue the Prime Minister from criticism. Gadgil blamed the former Finance Minister, V. P. Singh for his pro-rich economic policy which led to the alienation of the Congress from its traditional constituency. He alleged that 'the abolition of export duty, the raising of the limit of MRTR (Monopoly Restrictive Trade Regime), the long-term fiscal policy, the one which Singh initiated as the Union Finance Minister, were all against the Nehru-Indira framework of development and economic growth'. But it is evident that no one can blame a minister alone for the policies and programmes of the government, it was based on the collective responsibility of the entire cabinet system. By reviving the CSF, the party turned back its century old commitment to the policies of agrarian reform, control over private investment and wealth, a strong public sector and national self-reliance. The revival of the CSF proved that whenever the party faced mass discontent, it tried to push for a left-leaning populism. Some argued that it was the 'Nixon effect' that run the government of Rajiv Gandhi. It was an attempt to regain the lost pro-poor image of the party. It was natural that the socialist moorings and socialist rhetoric acquired centre stage in the economic policy when the party began to lose its mass base due to the alienation of its social constituents.

The revival of the CSF was also criticized by another section within the party and they wanted to revive the Nehru Study Forum (NSF). It was formed to counter the

84 Ibid.

'Nixon Effect' – Whenever a leader is returned to power with a massive majority, he begins to operate carelessly, without due regard to scruples, with a touch of arrogance and he offends his supporters in the party.
Socialist Forum, asserting that the party line was ‘Nehruvian socialism’. The NSF emphasized the traditional moderate and centrist policies of the Congress.

The revival of CSF and the government’s socialist utterances did not pacify the dissident activities. The changes in the policies and strategies haunted the party for some time. In September 1987 party leader, Kamalapathi Tripathi accused that the Congress had become deviant in two ways: firstly, the party no longer emphasised its programme of *garibi hatao* nor was there an orientation towards the poor. Secondly, the Congress culture, ‘morality in public life enshrined by Gandhi and Nehru was replaced by a culture of sycophancy. According to him, the great deviation was with regard to the former rather than the latter. He appealed to the new leadership to return to the left-of-centre position, to reform itself and to look to its roots for inspiration. 86

This was followed by the statement of the newly inducted AICC(I) general secretary K. N. Singh (on 9 September, 1987) who said that those in the Congress (I) who do not believe in socialism would have to leave the party. He accepted that the Congress had ‘deviated from the socialist path’ but was ‘returning to it under pressures from its ranks and files’. 87

Rajiv Gandhi’s fourth year term saw the trends of both the pro-poor commitment and the market economic reform. But the pace of change, however, had slowed down by 1988. The budget of 1988-1989 was a prelude to the general election showed a sympathy to the issues of farming community. The Finance Minister N. D. Tiwari announced concessions and reductions in excise and custom duties aimed at stimulating the farm sector and promoting self-employment. The budget offered a series of fiscal relief aimed at helping the farmers by lowering interest rates and cost of inputs such as fertilizers. It made an emphasis on anti-poverty programmes, more investment in education and the public sector. 88 Even though liberalization continued

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87 *Telegraph* (Calcutta), 10 September, 1987.
88 The government increased the outlays of the Departments of Agriculture and Cooperation and Water Resources by 40 per cent compared to the previous year. It promised to allocate Rs. 671 crores for fertiliser projects in 1988-89. It provided Rs. 2, 200 crores for the Department of Rural Development, inclusive of Rs. 430 crores for rural water supply and sanitation.
see Government of India (1988), Budget Speech of Finance Minister (N.D.Tiwari), New Delhi: Ministry of Finance, p. 75.
with mild variations in some areas of the economy and the budget showed no radical change, it marked a substantial change in the economic policy as its provisions made an attempt to gain back the support of disenchanted sections. In short, the budget conveyed two-central messages: firstly, it was a determined effort of the government to gain back the electoral support of the middle peasantry who had emerged as a strong new political force in Uttar Pradesh and Maharashtra. Secondly, it was an attempt to wean away the support of the opposition-ruled state governments for the Lok Sabha elections. Overall, the budget showed how democratic politics and electoral compulsion forced the government to refrain from stringent fiscal austerity measures.

Amidst the criticism against Rajiv Gandhi for his economic policies, he made a message through the party official organ (Congress Varnika) that ‘while overall development of the economy will benefit all sections, the problems of the weakest sections cannot be solved through this process of percolation. There is need for direct programmes of poverty alleviation’. Subsequently, on realizing the growing discontent within the party over economic reforms, Rajiv Gandhi once again tried to switch over to socialistic orientation in economic policy. Delivering his inaugural address in the AICC (I) session on 23-24 April, 1988 Rajiv Gandhi said that the party upheld the all-important goal of bekari hatao (remove unemployment). The economic resolution moved by the former Gujarat Chief Minister Madhav Singh Solanki pledged its commitment to the ‘concept of socialism’ and reaffirmed its commitment to planning in a democratic set up. Rajiv Gandhi made it clear that concepts such as socialism and planned development were not dry or static. These were living ideas, rooted as they were in contemporary reality.

The editorial of a leading Indian daily commented on the resolution adopted at the session that ‘while the public sector’s crucial role is reiterated, it is also censured for not generating the requisite surpluses. While planning is held to be indispensable to development, the private sector’s importance is not diminished. While socialism is still...
the ideal, the importance of generating wealth before it can be distributed is emphasized’. Rajiv Gandhi in his inaugural address emphasized that the Avadi resolution of 1955 set the Congress party on the path to socialism and self-reliance is the direction of the government. It conferred on the public sector the central role in the development. In an indirect dig at the left-ruled state governments, Rajiv Gandhi criticized the “populist programmes” initiated by the state governments under the guise of socialism. He said that ‘socialism must mean that the government acts in the interest of the people, the poor and the backward, and every act of the government is for the people; no government which acts in a manner that damages investments in the long run can be a socialist government’. The Fourteen-Point Programme adopted by the AICC (I) reiterated the party’s commitment to religious and linguistic minorities, the Scheduled Castes, the Scheduled Tribes, the Backward Classes and all socially and economically disadvantaged sections, women, farmers and workers.

Economic reforms and democratic politics

Democratic regimes are confronted with the course of economic reforms in the election time, as it has to satisfy its political constituents. The political parties who are competing to muster the support to the people often adopt a pro-poor image. The year 1989 saw a continuing battle by the Congress to shore up its legitimacy, and evolve a popular political platform that it believed would counter the image of its being pro-rich. In a face saving measure, the government launched new programmes for rural self-government institutions and programmes intended to empower women and weaker sections. The budget 1989-1990, which was designated as the ‘election year budget for the poor’, presented by the Finance Minister S.B. Chavan to the Parliament on 28 February promised the poor and the development schemes. It highlighted the government’s achievements in economic development. According to him, ‘... the movement towards self-reliance has been maintained by the sustained growth in exports. And most important of all, our commitment to the goals of social justice has

92 The Times of India, 26 April, 1988.
been demonstrated in the major initiatives that we have taken in anti-poverty and employment programmes and in the fulfilment of essential ‘needs’. The political compulsion to maintain support among the key groups forced the government to alter the image of being pro-rich, pro-private sector and pro-multinationals.

The government soon moved towards making massive investments in education, rural development and poverty alleviation programmes. It launched a Rs. 12 billion ‘anti-poverty’ programme providing food for work schemes and interest rate cuts for crop loans. The overall expenditure authorised for investment under the central government plan is slated to rise by 20 per cent from the sum initially estimated in 1989-1990 from Rs. 287 billion to Rs. 344 billion - and 14 per cent over the revised estate (Rs. 302 billion). However, he recognized that some changes were required to ensure a high level of performance, particularly with regard to resource generation. Other major proposals were promoting productive employment, protecting the consumption standards of the poor, providing some relief to middle income taxpayers, maintaining the tempo of industrial modernization and growth and containing the budget deficit for 1989-1990. The forth-coming election found the government to postpone matters relating the licensing regulations governing big India and foreign companies. A review of the FERA rules governing foreign participation has also been put off, though the Planning Commission openly advocated more foreign equity investment as part of the eighth plan strategy. The government stressed the commitment to the policy of supporting the growth of the public sector. It abandoned the proposal to sell off a loss making scooter plant to a private competitor, Bajaj Auto, in the face of hostility from the 3000 workers.

In spite of vehement criticism against his policies within the party and outside, Rajiv Gandhi did not want to dump the reform agenda. The policy of liberalisation was covertly continued in the agenda of decision-making and policy makers were committed to economic liberalisation. But it was mixed with socialist jargons in order

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to counter opponents. The mix of both the commitment to liberalisation and India's long cherished objectives in its economic policy was reflected in the election manifesto released by the Prime Minister on 6 November, 1989. The manifesto claimed that in the last five years, the country had achieved 'the highest long-term rates of growth in the economic history of independent India ...'. At the outset, it affirmed that the present thrust on liberalisation of economic and industrial policies would continue. The 'state control will be used strategically and selectively where it is most needed and the Indian industry would be exposed to foreign competition. The manifesto assured that the Congress government would continue with the policy of removing "bureaucratic control on the economy and industry". It also reminded that the Indian economy had the strength and maturity to absorb foreign investment and technology in the critical areas. At the same time, it would not compromise on the objectives of self-reliance. 98

In an attempt to muster support from different groups and to harp its pro-poor image, the sixty four page manifesto emphasised on socialism as the foundation of India's economic policy. It said that socialism pronounced by the Congress was neither dogmatic nor borrowed from abroad. It was an authentic Indian ideology derived from the experience of history and the realities of the society, characterised by priority being accorded to the poorest, the weakest, the neediest and the most deprived. The party while reaffirming its unflinching commitment to socialism, declared that the unrestricted play of market forces, of the freedom for private selfishness and private greed, was not the path for India. Allaying the allegation levelled against the economic reforms of Rajiv Gandhi that it withdrew the dominance of state for the sake of market, the manifesto asserted that the state in India would continue to intervene to enable those who were poor and have no access to productive assets to play a meaningful role in the national economy and that the poor cannot be left at the mercy of market forces. The party claimed that it was committed to strengthening the productive forces of the society and would continue its crusade against poverty and the drive for preferential

98 see AICC (1989), Election Manifesto 1989, New Delhi: AICC.
treatment for the Scheduled Castes, Scheduled Tribes, weaker sections, the Backward Classes and the minorities.

Dispelling the wider allegation that the party deviated from its commitment to public sector, the manifesto praised the role of the public sector in the economic development of the country by saying that it 'has captured the commanding heights of the economy, pioneered the entry into new areas of industrialisation, opened up backward region, provided the engine for technological development and generally set the tone for industrialisation of the country. While declaring that the public sector was an integral part of the socialist pattern of society visualised by Nehru, the party claimed that Indira Gandhi's policy of nationalisation of banks and the financial system of the country were also directly linked to Nehru's vision as it was linked to the national task of poverty alleviation. The manifesto further reiterated that the party would continue to rely upon the public sector as a major instrument of industrialisation, of technological modernisation and of broadening the base of knowledge and skills throughout the country. In an attempt to appease the disgruntled farming community due to cuts in fertiliser subsidies and the rise in the prices of fertilisers, the party asserted that the *kisan* and the *khet mazdoor* were the vanguard of the Congress Party's plans for the economic advancement of India.99

The economic policy of Rajiv Gandhi was one of the issues that figured in the election campaign of 1989. The unified opposition attacked the Rajiv Gandhi government for its pro-rich, pro-urban economic polices along with charges of corruption. The defeat in the successive state assembly elections, the defection of prominent leaders and groups from the party accelerated the internal strife within the party. The discontent of the social and interest groups over the new priority of the party and the crisis of the party's legitimacy over the social groups may be seen as the main reasons for its electoral setback. The party lost power at the centre in November 1989 and encountered humiliating defeat in Madhya Pradesh, Gujarat, Uttar Pradesh and Bihar. The discontented sections extended their loyalty to new parties- regional

parties and the parties based on ascriptive identities – caste, religion or the parties who were the new champions of social justice. After the defeat in the election, a section within the party accused Rajiv Gandhi for his economic policies and sought his resignation as the Congress President but he was later re-elected as the party-chief. Thus, the economic policy of Rajiv Gandhi government adversely effected the popularity of the Congress party and its image as pro-poor.

From the reform initiative of Rajiv Gandhi government it was clear that the Congress party was not prepared to whole-heartedly embrace the economic reforms. The party felt that any attempt to deviate from its socialistic and state-centred development strategies would invite severe consequences for the party’s mass base and electoral prospects. The social constituents of the party were not ready to shed the idea and policy of the developmental state for the sake of the new mantras of Rajiv Gandhi – ‘efficiency, productivity, competition and modernisation’. The party circles felt that the government’s new policy agenda was contrary to the set of policies of the Congress followed in the early decades of independence.

Rajiv Gandhi’s effort to implement economic liberalisation was half-hearted and piecemeal. The experiment of economic reforms during the Rajiv Gandhi period shows that in a democracy, though the government may be with a great majority, it is very difficult to implement the reform process that is not beneficial to all social groups because it is difficult to accommodate the divergent demands of different social groups. In other words, in a democracy the economic rationality often comes into conflict with the political rationality as it has to face the popular sentiment. Whenever a party attempts to implement economically rational measures, it comes into conflict with the rationality of building popular support. Various social groups and economic interest groups who benefited from the earlier development, will effectively veto the government’s shift in development strategy from a state-led to a market-oriented one. Thus, the pace of reforms would be slow, piecemeal and even hesitant. This implies that in a democracy, electoral politics constraints the government to go for any radical reform overtly.
The politics of economic reform initiated by Rajiv Gandhi had certain marked features. Firstly, the economic restructuring was hurting the interest of various social groups and excluded the dominant class. Secondly, there was no countervailing pro-reform coalition of even near equivalent strength. Thirdly, the reform process proved that consensus building within a party like Congress is difficult in economic restructuring. Finally, for effective implementation of a policy reform, determination, confrontation and even unpopularity are essential.\textsuperscript{100}

Thus, Rajiv Gandhi's economic reforms can be considered as both a continuity with change and also a departure from the past. It was, in fact, the logical continuation of the policies of Indira Gandhi in her second term with some changes and, in another sense, a clear departure from the Nehruvian model of development. The rightward shift in the economic policy from the state-oriented to a market-oriented one undermined the basic philosophy of Nehruvian development strategy like socialism and self-reliance. With the change in the orientation of the state, the basic tenants of the development strategy of the earlier period like social justice, participation and empowerment were replaced by new ideas like efficiency, competition, modernisation and productivity. The most manifest shift was seen in the policy towards the public sector. It altered the relative role of the public sector and private sector in the economy. This was evident from the statement of the Cabinet Minister K. K. Tewari who described the declining role of the public sector as the 'debunking of the Nehruvian Model'.\textsuperscript{101}


In a democratic polity based on competitive party system, a political party has a dual role — to play that of the ruling party and the opposition party. The approach to the policies and programmes adopted when it is in power, often change when it is in the opposition. On 2 December, 1989 Janata Dal leader V. P. Singh was sworn in as Prime Minister with the National Front and Left Front coalition. But within a short period of time, the government was dislodged and a splinter group headed by Chandrasekhar

\textsuperscript{100} Sridharan, \textit{op. cit.}, p. 19.
\textsuperscript{101} Quoted in Swamy, \textit{op. cit.}, p. 195.
with outside support came into power. The period saw a new shift in Indian politics towards social and political issues rather than economic ones. The V. P. Singh government’s decision to implement the Mandal Commission recommendations and the BJP’s rathyatra on Ayodhya issue in early 1990s undermined the debate on economic policy in a big way. The liberalisation policy was continued under the regimes of these two Prime Ministers. Even though, both Prime Ministers (V. P. Singh and Chandrasekhar) were ideologically critical of liberalization, other members of their cabinet pushed for greater liberalisation.  

The government under V. P. Singh, who resigned from the Rajiv Gandhi government over its economic policy and with a critical view of the reform process, relaxed the import restriction and encouraged investment flows. Small amendments to foreign investment procedures were announced. Ajit Singh, the industries minister, even promised to continue liberalisation and speed up licensing procedures in limited areas. The government promised to protect the small-scale and handicraft sector from factory competition through more strictly enforced of production.

The Congress, which was in position of the main opposition party, was critical of the reform process under the coalition governments. On 27 December, 1987 the Congress leader P. V. Narasimha Rao criticized the government on various economic policy issues and the pathetic condition of the public sector. However, the economic reforms initiated by the Congress government under Rajiv Gandhi, did not diminish in its tone during the non-Congress regimes. The first budget (1990-1991) of the government presented in the Parliament by the Finance Minister Madhu Dandavate on 19 March 1990 pointed out that ‘restraint of expenditure requires careful consideration in the areas of public spending which involve implicit or explicit subsidies’. The budget evoked mixed response from various sections. Some argue that the winds of change in the economic policy were evident in the budget of the

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102 For example, Subramanyam Swamy, the Commerce Minister and Yashwant Sinha, the Finance Minister of the Chandrasekhar Government was pro-active to liberalisation.
104 Government of India (1990), Budget 1990-1991 (Budget Speech of Finance Minister Madhu Dandavate), New Delhi: Ministry of Finance, p. 3.
National Front and Left Front (NF-LF) government. Others interpreted that it focused on continuity (reflecting Rajiv Gandhi government’s economic liberalisation) rather than change. The Chandrasekhar government also followed the path of its predecessor in the economic policy front. Chandrasekhar was of the view that he would ‘welcome’ liberalization and foreign investment, and he accepted the terms set by the IMF for a major loan.

The Congress party underwent a process of introspection on its policies and programmes. It reflected on the factors that led to its electoral debacle. The two-day extended CWC meeting in March 1990 chaired by the then party president Rajiv Gandhi asserted that there would be no deviation from the principles and policies laid down by Gandhi, Nehru and Indira Gandhi. He reminded that ‘we are not going to deviate from our ideology and principles to accommodate ourselves into power’. The action programmes adopted in the meeting called for a struggle for justice and mass demonstrations against inflation. The action programme examined the performance of the Indian economy under Rajiv Gandhi. Massive anti-poverty programmes were undertaken, to reduce the percentage of the population below the poverty line. It claimed that economic growth with social justice was achieved without prices being allowed to get out of hand.

The Socialist Forum for Action, an independent group of more than 100 senior party leaders prepared a ten page document containing reasons for the defeat of Congress in the 1989 general election and suggested remedial measures for strengthening the party. Among other things, on the economic reform issue, the Forum asserted that the socialist programmes of the party had been diluted and this had damned it as a party of the affluent class. The document says:

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107 The Times of India, 9 March, 1990.
The working class has been alienated, as not even one percent of the candidates in the Loksabha and assembly elections belonged to that class. The labour wings of the party are slowly emerging as rivals to the INTUC, thereby denigrating the role-played by the INTUC in Congress politics. Earlier, the INTUC chief used to be the chief of the labour wing also and a regular invitee to the Working Committee’s meetings. Today, there are attempts to bypass it, much to the resentment of our traditional base among the working class. The party’s links with the mass organization have almost disappeared. The weaker sections of society, particularly the people belonging to the SC community, have started turning their face away from the Congress for a variety of reasons....

The introspection on the electoral debacle forced the party to sharpen its ideology and programmes in terms of a pro-poor direction. The economic resolution adopted in the AICC (I) session on 23-24 July, 1990 reaffirmed that ‘the Congress party’s commitment to socialism is not open to question. It is a commitment sanctified in the Constitution. However, our socialism is neither dogmatic nor imported. It is related to India’s realities and India’s imperative. Its essential thrust is in according the highest and overarching priority to the ending of poverty and elimination of social and economic injustice and inequalities’. The party reiterated its faith and commitment to planned economic development to create a just, egalitarian, modern, socialist society. The party accused the National Front Government of pursuing liberalisation and opening doors to the transnational companies. It urged the National Front Government to revise its anti-people economic policies and restore the nation’s faith and confidence in planning, self-reliance, poverty alleviation and employment generation.

Besides, harping on its socialistic jargon, the party levelled criticisms against the reform process under the coalition government. The party felt that in the New Industrial Policy, the government sketches a series of concessions to foreign capital and MNCs without spelling out a coherent national approach to technology and modernization. Earlier Rajiv Gandhi in his customary inaugural address at the session made a frontal attack on NF government’s policies. It charged the government for shambling the economy and said that the nation’s progress halted whenever a non-congress government replaced Congress at the centre. The party accused the government that it was surrendering to the pressure of external forces in formulating

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110 see Mukherjee, Pranab (1990), ‘Congress resolve to wipe out poverty’, National Herald, 27 July.
various economic policies. The Approach Paper to the Eighth Plan, the party claimed, instead of determining the size and target of the investment and development, had practically sounded a death knell to economic planning.\textsuperscript{113}

Meanwhile, the fall of the Chandrasekhar government necessitated fresh elections to the Parliament in 1991. The political issues that figured in the election campaign were the recurring political instability at the centre, the rise of Hindu nationalism, reservation and the inability of the non-Congress parties to provide an alternative stable government to the Congress party. On the economic front the Congress fought the general election by criticising the pro-market approach of the non-Congress government and the deteriorating condition of the economy. It affirmed its commitment to the poor sections and assured controlling the rising prices and making the public sector more efficient. The party in its manifesto suggested time bound solutions to the problems afflicting the country and its economy. It made a scathing attack on the economic policies and performance of the National Front government. The party said that the government utterly impoverished the common man in India. The manifesto says: 'the Congress will restore fiscal discipline in the budgetary system by drastically reducing wasteful expenditure, rationalising non-developmental expenditure and expanding the revenue base of the government particularly through a leaner, more dynamic and profit-oriented public sector. Deficit financing will be restricted to manageable limits'.\textsuperscript{114} The party also pledged its commitment to tackle the problem of foreign exchange crisis which was prevalent in the early 1990s by way of vigorous export promotion, effective import substitution, establishing an appropriate exchange rate mechanism and increased productivity and efficiency in the country. Another significant feature of the manifesto was the party's time bound (within first 100 days, 365 days, 730 days, 1000 days) offer to create solutions to the problems confronted by the people and the nation. It reiterated its firm resolve to bring down the prices of essential commodities and articles of common consumption to the levels of July 1990 within 100 days of coming to power. On the public sector front, the party

\textsuperscript{113} Mukherjee (1990), \textit{op. cit.}

\textsuperscript{114} AICC(1991), \textit{Election Manifesto 1991}, New Delhi: AICC.
stressed that it would continue to innovate and lead in strategic areas of national importance. But, the manifesto made it clear that the party would oversee the gradual withdrawal of the public sector from areas where the private and joint sectors had developed capabilities.\footnote{Ibid., p. 37.}

Thus, the politics of economic reforms during Rajiv Gandhi era had two phases: the Congress party in power and in opposition. When it was in power, despite all-round criticisms, the government went ahead with the reform programme; even though the pace of reform was slow and piecemeal. On the other hand, when it was out of power, it found fault with the opposition parties for their economic policies and reiterated its commitment to the left-of-centre policy. Unlike Rao government in 1991, Rajiv Gandhi’s economic reform process was not the result of a sudden and acute crisis that afflicted in the economy. But, it can be seen a drastic step to push for reforms which was attempting for quite some time. Overall, the Rajiv Gandhi government’s economic reforms had a tremendous influence in the further reform process in India. The government could initiate a new debate on the state-centred economy especially in the areas of unproductive public expenditure, moribund public sector, unnecessary public subsidies, etc. both at the party-level and among the public. Such an initiative helped the future governments to adopt more reforms in various sectors of the economy. However, at the political level the reform process conveyed a message to the Congress party that it could not completely adopt policies intended for economic growth, given the fact that democratic politics has a decisive role in it.