CHAPTER - III

LEADERSHIP OF THE CONGRESS AND ECONOMIC
POLICY ISSUES: A REVIEW

Political parties channelise and institutionalize the power
drives of the people. The political parties are the primary and
intermediary structures between society and government. They
connect bridges to create a two-way communication process
between them. Political parties are the life lines of modern
politics.¹

In a democratic system the ruling party has a vital role in
public policy making. The ruling party will influence through its
governmental wing and organizational wing. The organizational
wing of the ruling party has to work out broad policy guidelines
based on its electoral promises. It is the responsibility of the
governmental wing to formulate public policies in accordance
with the guidelines provided by the organizational wing. They
should not regard themselves as parallel but they are
independent. Each wing is vital in its own domain. The
organizational wing is a link between the government and society.

¹ Sigmund Newmann, Modern Political Parties, Chicago University Press,
Chicago, 1956, p. 1,
Party system in underdeveloped and developing nations is primarily a product of historical process. While western political parties emerged as 'internally created' phenomenon in response to growing democratization. Political parties in developing societies emerged as 'externally created' institutions for the primary purpose of fighting for national independence and subsequently enjoyed the responsibility of running the government.

What has really been peculiar about the Indian National Congress is, its distinct amorphous character. The Congress has been like an umbrella organisation, having men of all shades under its huge cover. In Indian party system the Congress was a party of consensus and the opposition parties were parties of pressure.\(^2\) The Congress occupied not only broad centre of the political spectrum but most of the Left and Right as well. This relegated the opposition parties not only to the margins of the Congress but to the margins of political and party system as well. To make matter worse these parties often found themselves on opposite sides of the Congress which killed any hope of their making common cause against it.\(^3\)

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In 1966 W.H. Morris-Jones wrote, "Like a Shakespeare in the Indian bazaar (the Congress) squats with its large flabby shape in the middle of its wares, the heart of a political market place in which bargaining and dissent are the language of the discourse."⁴ In 1986 Robert Hardgrave and Stanley Kochanck wrote, "The party (the Congress) is held together largely by opportunism – by the power, patronage and money that public office can command. No longer an organisation of continuous activity, it has become an electoral machine to be activated periodically for the campaign."⁵ And in 2000 A.K. Antony reported, "Till a few years ago critics of the Congress party would scoff that the Congress is not a political party but an election machine. Now the Congress seems to have ceased being even that."⁶ These statements indicate the changing dimensions of the role of the Congress in Indian political system. In view of this it is pertinent to understand how the Congress is responding to the changing situation and taking position on economic matters.

By and large the Indian political parties are identified by leaders. Some scholars argue that there is too much stress on leadership of political parties. Therefore, it is important to evaluate the significance of leadership of parties in the

⁴ Quoted in Harish Khare's Reading the Family Matrix, Seminar 526, June, 2003, p. 41.
⁵ Ibid.
⁶ Ibid.
formulation of economic policy. In this regard leadership of ruling party or parties determines changes to be introduced in the Indian economic policy. Here the vision of political leaders in terms of priorities play a vital role in the formulation of economic policy and introducing changes in it. This chapter mainly discusses the leadership of the Congress and economic policy issues.

The Role of Nehru in Determining Economic Policy

Mahatma Gandhi advised the Congress to disband itself after independence since by then it would have achieved its principal objective. Its continued presence would suffocate the healthy development of politics in post-colonial India.\(^7\) Mahatma Gandhi’s advice was rejected and the Congress organisation was converted into a political party. It was the clear indication of decline of Gandhian values and also it suggested the beginning of the Nehruvian model.

Burtrand Russell opines that human desire for power may be explicit or implicit, the power impulse has two forms: explicit in their leaders, implicit in their followers. When people follow a leader, they identify themselves with the acquisition of power by the leader. They feel that his success is their success. As

ordinary people are not competent to lead a group to success, they identify themselves with a leader who has courage and capacity to produce results.⁸ Nehru was the supreme leader of the independent India and the Congress party. According to W.H. Morris-Jones, "He wears many hats and sits in many seats, but whatever hat he wears or whatever seat he occupies, he is India's supreme decision-maker".⁹ The Congress under the leadership of Nehru sought to make India a prosperous self-reliant nation based on socialism, one which would play a major role in the world affairs. It is well-known that the commitment of the Congress to socialism, such as it is largely due to the enormous weight which Nehru's own views were carried on the decisions of the organisation. Nehru was interested in Fabianism when at Cambridge, and his studies of Marx and his trip to Europe — including Russia during 1926-27, had greatly influenced him.¹⁰

The socialist creed of the Indian National Congress has been adopted not only because of its wide electoral appeal but also because in the pre-independence period socialist trend was becoming increasingly articulate and effective and thinking of the

leaders was being more and more influenced by it. But it was very well-known to Nehru that real socialism does not suit India. “I must confess that I am a socialist and a republican... I recognize, however, that it may not be possible for a body constituted as is this national Congress, and in the present circumstances of the country, to adopt a full socialist programme. But we must realize that the philosophy of socialism gradually permitted the entire structure of the world over and India will have to go that way.” After 1954 the phrase ‘socialist pattern of society’ was brought into currency to make a distinction between socialism and social goals of India, though it became increasingly difficult to distinguish the latter from the former or treat socialism as an exotic approach and stress its incompatibility with Indian culture or the inner spirit of the historical experience of the people. For a long time the term centrist was used to describe the Congress and its policies. But after the mid-fifties when it became clear that economic growth alone was not enough and it needed politically purposive direction and with passing of Avadhi Resolution by the Congress party to create a ‘socialistic

13 Gyan Chand, supra, no. 11, p. 9.
pattern of society’. The ideological position shifted to what came to be called ‘left of centre’.14

The goal of the Congress was to construct socialist economy through democratic means. What Nehru envisaged was in essence of democratic socialism and he was quite aware of the challenge of combining true democracy with the planning and reduction of inequities among citizens. According to Acharya Narendra Dev, one of his colleagues, “Though Nehru was a professed socialist, his activities were largely guided by ideas of democracy and economic betterment of the mass”.15 Bertrand Russell holds “Temper required to make a success in this great undertaking has to be, a half way house between skepticism and dogmatism. Truth it holds is neither completely attainable nor completely unattainable. It is attainable to a certain degree and that only with difficulties.”16 It was very much clear to the Congress that the true socialism is impossible to attain in India, so that the party mixed it with democracy to make it ‘socialist democracy’. As is well-known the system that was sought to be established by the Congress under the leadership of Nehru which the market missionaries call the ‘Nehru Doctrine’ was not socialism but a

16 Bertrand Russell, Supra, No. 8, p. 313.
variant in which private ownership of property and private enterprises are to be limited but not excluded. It became evident from the fact that at the beginning of the Second Five Year Plan in 1956, the Congress government adopted a new Industrial Policy Resolution (October 30, 1956) reiterating its intention to give socialist direction to the economy. The industries were classified into three categories.

In the first category (Schedule A) is the industries. The future development of which will be exclusive responsibility of the state. The second category (Schedule B) consists of industries which will be progressively state owned and in which the state will, therefore, generally take initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the state. The third category (Schedule C) includes all the remaining industries and their further development will, in general, be left with the initiative and enterprise of the private sector. Share of the public sector in the GDP of different sectors of the economy is shown in Table 3.1

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### TABLE - 3.1
Share of the Public Sector in GDP of Different Sectors of the Economy
(Percentage at current prices)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Sectors</th>
<th>1960-61</th>
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<tbody>
<tr>
<td>1.</td>
<td>Administration and defence, railways and administration</td>
<td>100.00</td>
</tr>
<tr>
<td>2.</td>
<td>Other services, mainly health and education, mining and quarrying, manufacturing (reg.), electricity, gas, etc.</td>
<td>21.12</td>
</tr>
<tr>
<td>3.</td>
<td>Construction, banking and insurance</td>
<td>11.21</td>
</tr>
<tr>
<td>4.</td>
<td>All other sectors</td>
<td>01.41</td>
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**Intra-party Differences on Socialist Policies During the Post-Nehru Regime**

If the party can assume the aura of legitimacy surrounding the charismatic leader, it can guide and direct support during his life and preserve and promulgate his ideas after his death. The death of Nehru in 1963, however, did not mean the end of the domination of his ideas over the Indian economy. Nehru remained steadfast in his loyalty to socialism since 1930 the Karachi resolution and at the end of his life conviction that without socialism there could be no future for this country. He did all that he could do, to make his conviction the working hypothesis of his policy.

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When Indira Gandhi came to power as the Prime Minister of India in 1966, she declared her policy in a broadcast over All India Radio on Republic Day. She pledged herself to follow the policies of her father – democracy and secularism, planned economic and social advance.\textsuperscript{20}

The Congress government in 1966 devalued the rupee by whopping 57 per cent. The devaluation raised a great controversy with economic experts divided into two camps, one supporting and the other condemning the government. Kamaraj, the then party President was very angry, and said that he had not been consulted beforehand. Morarji Desai also came out against it.\textsuperscript{21}

After passing away of Nehru there was a difference of opinion within the Congress party over the economic policy to be followed. Leaders like Morarji Desai and others were not in favour of socialistic policies. During Faridabad Congress session it was rather odd that while the Congress President Nijalingappa criticized the public sector industries, Indira Gandhi vigorously supported the socialist policies of the Congress and further All India Congress Committee felt that the slow and tardy progress towards the goal of socialism was the cause of setback which cost

\textsuperscript{21} Ibid., p. 65.
the defeat of Congress governments in a few states. The Congress was defeated in the states of Bihar, Kerala, Madras, Orissa, Punjab, Rajasthan, Uttar Pradesh and West Bengal.

The party is an integral whole, and its two wings, ruling and organizational are inseparable and interdependent. But this was not the case with the Congress party. The differences within the Congress came ahead over the economic policy issues in an AICC session held in Bangalore in 1969, when nationalization of banks was approved by the AICC. Morarji Desai, who was holding the Finance portfolio at that time resigned from the cabinet. Thus on November 16, 1969, the Congress divided into two parties, Congress (O) and Congress (R). The Congress (O) remained as an opposition party until it merged with other parties to become Janata Party. However, until 1975 Indira Gandhi followed her father's socialist policies. Indira Gandhi observed: "By socialism we do not mean any text book definition of socialism or any pre-convinced theory but what we should evolve a direction suited to the needs of the Indian people."
Atul Kohli opines that the trend towards liberalisation of the economy initiated by the Congress not under the leadership of Rajiv Gandhi but by his mother Indira Gandhi. Indira Gandhi who returned to power in 1980 after a brief Janata interlude of about three years, was not the firebrand Indira Gandhi of ‘garibi hatao’ vintage. Her anti-poverty rhetoric which seldom has been translated into real policy before or during the Emergency (1975-77) had been altered. Critical observers have suggested that after 1980, Indira Gandhi moved rightwards. It was clear that Indira Gandhi’s political and policy orientations during that phase, when compared with her pre-Emergency orientation, were different.

India’s low economic growth rate (the so-called Hindu rate of growth), of 3.5 per cent during 1965-80, was a result of the dirigiste development strategies and autarkic policies that it had persuaded since independence.

Jawaharlal Nehru, the country’s first Prime Minister, regarded the Soviet Union as the world’s best economic model for India and other developing countries. His view became predominant among the country’s senior administrators and


carried over through them into Indira’s regime. But by the 1980s the Soviet ‘model’ lost its following. A severe drought caused a 15 per cent drop in agricultural production and decline in hydroelectric power production, leading to severe energy shortages during 1979-80. Continuing agitation in the oil producing state of Assam disrupted oil production and supply. Further, the second oil crisis during the same year increased India’s oil import bill and contributed to a 20 per cent inflation rate, a sharp drop in the current account from $.800 in Mach 1979 to the negative $.3.3 billion in March 1981 and a substantial decline in foreign exchange reserves from a healthy position to the equivalent of 10.5 months imports in March 1979 to only 3 months imports in the mid-1980.

The business community’s support for Indira Gandhi’s socialist policies during 1970s was weak. The lack of business community support was one of the factors for the defeat of the Congress party in 1977 general elections. The tremendous support that the business communities had given to Morarji Desai’s government must have left Indira Gandhi feeling peculiarly vulnerable especially in regard to future electoral

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32 Kishor C. Dash, Supra, No. 29, pp.890-91.
financing.\textsuperscript{33} It must have been clear to the Congress government by then that its socialism was not working. The anti-poverty programme had not been notably successful.\textsuperscript{34} The Congress government made two important decisions in response to this economic situation: to pursue a policy of selective liberalisation and obtain a substantial IMF loan, thinking that the IMF loan would enable Indira Gandhi to reduce India's dependence on domestic resources of financial support, giving her a breather to build up and strengthen the Congress party's business support base in North India, which it lost during the time of Emergency Rule and the elections of 1977.\textsuperscript{35}

India's loan request of $5.8 billion was the largest so far in the lending history of the IMF. It amounted to 290 per cent of India's quota and represented 30 per cent of the IMF's total resources. Not surprisingly, the IMF was initially reluctant to grant such a huge loan.\textsuperscript{36} But the strong support came from World Bank. On the advice of its then President Robert McNamara, who was deeply appreciative of Indira Gandhi's leadership and her economic development goals, the World Bank effectively

\begin{enumerate}
\item Atul Kohli, supra, no. 27, p. 311.
\item Kishor C. Dash, Supra, No. 29, p. 891.
\end{enumerate}
mediated between and provided constant advice to the IMF and Indian government on the nature of the loan agreement during the negotiation process.\textsuperscript{37} The IMF not only decided to grant this massive loan but also waived the 200 per cent quota limitation of the IMF Articles of Agreement despite opposition from the United states.\textsuperscript{38}

After completing the loan agreement with the IMF, Indira Gandhi made some important economic policy decisions during 1981-82. During the debate in parliament she said since ours was a mixed economy, we should also continue to encourage the private sector and it has legitimate and active role to play.\textsuperscript{39} Steel and cement prices were decontrolled, restrictions on manufactured imports were liberalized and controls on both entry and expansion by national firms relaxed. During 1981, the government approved four times as many applications for expansion and new undertakings as in any of the five preceding years.\textsuperscript{40} Over the next two years as the perspective on India's seventh economic plan developed, it became clear that the new emphasis would be on "efficiency of investment" to be

\begin{footnotesize}
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\item \textsuperscript{38} Kishor C. Dash, Supra, No. 29, p. 894.
\item \textsuperscript{39} Intervention in the debate on IMF loan, in Rajya Sabha, on December 3, 1981, in \textit{Indira Gandhi Selected Speeches and writings 1980-81}, Publication Division, Ministry of Information and Broadcasting, Government of India, New Delhi, 1985, p. 279
\item \textsuperscript{40} \textit{The Time of India}, April 19, 1982.
\end{itemize}
\end{footnotesize}
accompanied by a general move "away from administrative and financial controls". Following the recommendations of the L.K. Jha Commission on economic and administrative reforms, the government placed 20 important industries under automatic licensing. In practice it meant that the Congress government under the leadership of Indira Gandhi virtually decontrolled expansion and new production in those industries.

In late 1984, economic liberalisation was very much the new policy trend. An editorial, in the Economic and Political Weekly, written around the time of her assassination summed up the changing situation: "Liberalisation of industrial licensing, easing of access to imports coupled with lowering of import duties and promotion of foreign technical collaboration have become the key aspects of the government's industrial policies." But the shift in the economic policy from socialism to liberalisation went relatively unnoticed. The policy trend towards liberalisation of the economy never became a political liability for Indira Gandhi's government. According to Atul Kohli, the changes were not drastic as to raise many political eyebrows. Being benefited from India's politico-economic circumstances and the effective stage management, Indira Gandhi

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provided to accompany her policy changes. India's political attention was increasingly devoted to the issues like Assam and Punjab, rather than economic policies. When the attention did turn to the economy, the picture presented for the popular consumption was more of continuity than of change. The rhetoric of socialism, though tuned down, was maintained. And Atul Kohli argues that Left-of-Centre economic advisors like K.N.Raj and Sukhamoy Chakravarty were kept on visible, but largely ceremonial positions in the Economic Advisory Council, but the policy changes were being implemented by advisors behind the scenes, such as K.C. Alexander, L.K.Jha, Arjun Sengupta. Atul Kohli notes that the changes themselves appeared largely technical - the lowering of limit here an expansion of restriction there and so forth.44

According to Lloyd Rudolph and Susanne Rudolph, although labour unions opposed the liberalisation policies of Congress government their opposition did not translate into an unmanageable labour strike for three reasons. First, during her previous tenure as Prime Minister from 1967 to 1977, Indira Gandhi fully established her credential as a socialist and pro-labour leader. Second, the Congress supported the Indian

44 Atul Kohli, Supra, No. 27, pp.314-315.
National Trade Union Congress (INTUC) although concerned about the negative implications of the IMF loan and economic liberalisation policies on labour, paid only lip service to the nationwide strike as called by the Left parties. Third the CPI infighting between its influential leader S.A. Dange who supported Indira Gandhi's Congress party after the 1980 elections and the CPI's national council contributed to an ambivalent stance by the CPI - supported All India Trade Union Congress (AITUC) to the nationwide strike call.45

On October 31, 1984, Indira Gandhi was assassinated and Rajiv Gandhi became the next Prime Minister. The elections for the 8th Lok Sabha held in December, and it gained 415 seats out of 522 seats.46 The early record set by the Congress in the second General Elections of 1957 under the leadership of Nehru was broken this time under the leadership of young Prime Minister, Rajiv Gandhi, his grandson.47

James Manor identifies five factors which helped in the manner in which Rajiv Gandhi and his party won the elections of 1984. First, there was, of course, a sympathy factor after the assassination of Indira Gandhi, but its impact had probably been

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45 Lloyd I. Rudolph and Susanne H. Rudolph, supra, no. 37, pp. 252-289.
47 J. C. Johari, supra, no. 9, pp. 337-338.
overestimated. It was a 'factor' rather than a wave. Another obvious element was the abject failure of most opposition parties, especially the so-called national parties to provide a credible alternative to the Congress (I). Yet both of these seem to have been less important than three other things. First, Rajiv Gandhi's youth, his freshness and his apparent lack of political push helped him to represent himself both as figure of stability and continuity, on the one hand and as a figure of renewal and change on the other. This was an unbeatable combination.\(^4\) Second crucial factor was widespread perception that national unity was in danger. Finally, there was a related Hindu backlash that was encouraged by the Prime Minister and his party.

After 1980, Indira Gandhi took some implicit initiatives to open the country's closed economy. When Rajiv Gandhi came to power the trend continued more openly than during his mother Indira Gandhi's period. Atul Kohli argues that during Rajiv Gandhi's term, India's economic policy went through three phases. During the first six months of his rule, there was a genuine attempt at a new beginning, an attempt to make a decisive shift from the state controlled, import-substitution model to a liberal model of development so that attempt ran into

political obstacles. The pace of the change slowed down. The next two years are best characterized; two steps forward and one step back in relation to the defined agenda. With Rajiv Gandhi’s political popularity continuing to decline, loss of the State elections in Haryana in May, 1987 marked the beginning of the third phase, which lasted until he lost the elections in 1989.49

Shortly after winning the elections by a large margin, Rajiv summed up his government’s economy approach as involving a ‘judicious combination of deregulation, import liberalisation and easier access to foreign technology.’50 As if to underline his break with the past, Rajiv Gandhi surrounded himself with a new breed of politicians and advisors. To consider some of those who appeared influential at least in 1985-86: confidents like Arun Nehru and Arun Singh had backgrounds as executives of multi-national corporations. His economic advisors included Montek Singh Ahluwalia, Abid Hussain, Bimal Jalan and Manmohan Singh and individuals like L.K.Jha were considered to have direct access to the Prime Minister.51

Although in the beginning of eighties the opening of certain public sector was undertaken, but the government was still

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49 Atul Kohli, Supra, No. 27, p. 315.
50 The Times of India, January 6, 1986.
51 Atul Kohli, Supra, No. 27, p. 316.
hesitant to make a clear statement. The first clear pronouncement on the public sector outlining the change in policy was made by Rajiv Gandhi in his first broadcast to the nation in 1984, when he said: “The public sector has spread into too many areas where it should not be. We will be developing our public sector to undertake jobs that the private sector cannot do. But we will be opening up more to the private sector so that it can expand and the economy can grow more freely”.

The Budget of 1985-86, the first major product of the new government - the word ‘socialism’ was not mentioned even once in the Budget speech. The focus of the new economic policy according to K.N. Raj was as follows, “There has been, however, a general agreement that a very distinctive feature of these policy changes taken as a whole is the greater scope for unfettered expansion they offer to the private sector, particularly in the corporate segment of manufacturing industry and the opportunities opened up to multi-national enterprises”.


The Congress government under the new economic policy initiated a number of measures in this regard and they are as follows:

(i) Cement was decontrolled and number of units were sanctioned additional licensed capacities in the private sector.

(ii) In sugar, the share of free sale sugar was enlarged,

(iii) The ceiling asset limit of big business houses was raised from 20 crore to 200 crore.

(iv) A scheme of ‘broad-banding’ of licences was introduced on January 11, 1985 for manufacturer of two wheelers up to 350 cc engine capacity – scooters, motor cycles, mopeds, etc., and it was further extended to 25 categories of industries which included four wheelers, chemicals, pharmaceuticals, petro-chemicals and fertilizer machinery industries and all types of knitters.

(v) 94 drugs were delicensed and 27 industries virtually placed outside MRTP Act.

(vi) New Textile Policy (1985) virtually abolished the distinction between the mill, powerloom and handloom sector.

(vii) The electronics industry was free from MRTP Act restrictions. The entry of FERA companies was also welcomed in this area.
(viii) Export-Import Policy (1985) was announced whose basic aims were (a) to facilitate production through easier and quicker access to imports, (b) to bring about import continuity and stability to Exim policy, (c) to strengthen export production base and (d) to facilitate technological upgradation.55

The reaction in the business community and between upper and middle classes was euphoric. Even India's leading news magazine, 'India Today' ran such cover captions as - The Economy: "Buoyant Mood and we are gearing for "take off".56 (The remarkable feature of take off is that it represents the beginning of a period of economic development in which growth rates are markedly higher than before. When an economy has begun to grow at something like 15 per cent per decade in product per capita, we shall define it as having entered the "take off" stage.)57

Rajiv Gandhi always dreamt of taking India into 21st century as one of the few highly modernized and industrialized countries in the world. During the early years of his term Rajiv Gandhi had been selling his programme of ultra-modernisation where high emphasis was laid on latest technology and over-

55 Ruddar Dutt and KPM Sundaram, Supra, No. 52, 1999, p. 229.
liberalization of import policies to allow foreign technocrats and their technologies to have an easy access into the country.\textsuperscript{58} As a result of this, in case of the branches of multi-national corporations, the increase in their assets in India raised from Rs.164.5 crore in 1973-74 to Rs.6,332 crore in 1987. In the case of Indian subsidiaries of the foreign companies, the value of assets rose from Rs.1,358 crore in 1973-74 to Rs.2,893 crore in 1988. Their turnover was Rs.2,013 crore in 1973 and Rs.3,606 crore in 1988.\textsuperscript{59}

The Hussain Committee appointed by the Ministry of Commerce (MOC) suggested an import and export policies which reiterated the need for trade policy reforms for achieving both improved trade balances and efficiency in resource use. Stress was laid on export promotion, import liberalisation and especially on greater access to free flow of technology from abroad, presumably by means of an easier access to foreign equity participation in India. These recommendations were implemented by the Rajiv Gandhi’s Congress government in the annual and the Long-term Import and Export Policy (LTIX) in the financial year

\textsuperscript{58} V. S. Mahajan, \textit{Manmohan’s India and Other Current Writings}, Deep and Deep Publications, New Delhi, 1994, p. 10.
of 1985-86. The indicators were clear that henceforth the Open General Licence (OGL) list of imports would expand both with inclusion of new items and with transfers from the licenced list. Thus, the government mooted a general move to confine the quantitative restrictions to a narrow range of importables. Business and other well-off urban groups provided support for 'economic rationalization.'

In the beginning, there would be all around aroma of complete modernisation. Further, to achieve this end Prime Minister had encouraged a large number of high-fund consuming programmes and studies, practically touching every area of the economy.

In the meantime, there was considerable opposition to the new economic policy of Rajiv Gandhi. As soon as he attempted to translate his broad mandate into a specific economic direction, the first major source of resistance was his own party. It was opposed by senior Congressmen who believed in socialism.

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63 V.S.Mahajan, supra, no. 58, p. 10.

Opposing the initiative to introduce liberalization, the Leftists and other opposition parties criticised the government and called it pro-rich.

The second phase of Rajiv Gandhi's economic policy started with confrontation within his own party. The opposition was at the grass-root level and it did not take long time to be organized. The resolution he wanted to be ratified represented an attempt to get his party formally behind the new economic beginning that he had begun with the Budget. The resolution that was eventually ratified, however, recommitted Rajiv Gandhi and the Congress party to socialism.\textsuperscript{65} Two lengthy quotations, from Jawaharlal Nehru's speeches in the speech of Rajiv Gandhi while presenting the Budget for 1987-88, have been enough for the cheer leaders who liked to flaunt their Left progressive pretensions to applaud the return of the young Prime Minister to what they call the 'Nehru Path' in economic policy.\textsuperscript{66} The most important influence which has worked in determining the basic parameters of the Budget was L.K.Jha. He has dragged Jawaharlal Nehru's name in justification of his policy prescription and it was from him probably that the queue was taken by Rajiv Gandhi to have

\textsuperscript{65} Telegraph, May 14, 1985.
profuse quotations from Nehru in his Budget speech. But the
economic resolution which had recommitted Rajiv Gandhi to
socialism, however, accepted all policy changes that Rajiv
Gandhi's government had introduced so far. Then Rajiv Gandhi
continued to push piece-meal liberalizing reforms most of which
were carried out while reemphasizing his commitment to
socialism.

The Congress government's economic policy position was
not so clear. During the celebration of the Congress's centenary,
on the day after the confrontation with the Working Committee
over the economic resolution, Rajiv Gandhi reaffirmed that the
Congress's goal had always been and would be socialism. Over
the next few months the economic policy changes included
several liberalizing measures. When presenting India's seventh
economic plan to the National Development Council, Rajiv
Gandhi once again stated that the 'industrial policy remains
unchanged'.

The Industry Minister, N.D. Tiwari once prepared a 'policy
package' to stem the flow of capital goods imports and offered
protection to domestic capital goods industry. Among the

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68 The Times of India, May 27, 1985.
measures contemplated was an import duty of 200 per cent on indigenously produced machinery, abolition of the category of ‘projects imports’ at the preferential tariff of 55 per cent ban on import of second-hand plant and equipment and withdrawal of the global tendering facility for capital goods imports by the 13 selected industries. Clearly it was a move towards socialism, however, these proposals failed to clear the approval of Prime Minister’s Secretariat.\footnote{Economic and Political Weekly, 21(47), November 22, 1986, p. 1.}

Rajiv Gandhi’s attempts to reduce India’s public expenditure on poverty programmes evoked considerable opposition within the Congress, and Rajiv Gandhi backtracked. When plans, to remove subsidies on prices of essential goods like kerosene, were announced, numerous opposition parties threatened a general strike across urban India. Once again he backtracked.\footnote{Atul Kohli, supra, no. 64, p. 224.}

A different type of policy fluctuations characterized the government’s approach towards industries that imported goods and thus directly affected the balance of payments. A good example is the automobile industry. During 1985 the Congress government planned the expansion of automobile production including the foreign collaboration especially with the Japanese
manufacturers. After several efforts to undertake such expansion got underway, the Government in early 1986 changed its mind. Implementation of the new automobile policy was postponed indefinitely. Among the reasons cited were the need of conserve petroleum and the worsening balance of payment situation.73

In January 1986, a one-day national strike against Rajiv Gandhi’s liberalisation policies almost paralysed Indian industries. In 1985-86 India suffered large trade deficits and foreign borrowings were increased considerably. And even there was a drop in inflows from NRIs. The rate of growth of domestic capital goods industries was at 3.3 per cent and it was regarded as cause of concern.74

Rajiv Gandhi’s overall political popularity declined in late 1986, which resulted in loss of many State assembly elections. The loss of Haryana State elections in 1987 was especially devastating because it was the part of the Congress (I) party’s traditional power base, the Hindi heartland. The defeat in Haryana elections marked the end of the second phase of Rajiv Gandhi’s economic policy. These were the years best characterized by Atul Kohli as two steps forward and one step

73 The Economic Times, February 2, 1986.
74 Supra, no. 71, p. 1.
backward in relation to liberalisation policy of Rajiv Gandhi.\textsuperscript{75} Later Narasimha Rao accepted that, "Rajiv Gandhi took the mission, made enthusiastically as a singular result-oriented methodology suited to Indian condition. According to P.V. Narashima Rao, one feels a little disappointed that this promising process did not receive the innovative support it deserved".\textsuperscript{76}

The third phase of Rajiv Gandhi initiative to change economic policy started with the defeat of the Congress in Haryana state assembly elections. The Haryana election was every inch a national election and the referendum on the Prime Minister and his government. Haryana was voted on issues most of which were national issues.\textsuperscript{77} There was, therefore, sudden reversal of the whole strategy of Rajiv Gandhi. Instead of highlighting in his speeches and programmes about taking India into the 21\textsuperscript{st} century as a fully modernised country, now he began to emphasize on the programmes to help rural transformation. This was very much evident in his Independence Day speech of 1988 and even more so of 1989 where every emphasis was laid on new programmes introduced for rural development.\textsuperscript{78} Naturally

\textsuperscript{75} Atul Kohli, supra. no. 27, p. 315.
\textsuperscript{77} Calcutta Diary, Economic and Political Weekly. 22(27), July 4, 1987, p. 1057.
\textsuperscript{78} V.S.Mahajan, supra, no. 58, p. 11.
with elections not far away, the urgent need for highlighting those programmes which touched the masses as ultimately in the Indian democracy it were the rural people who decided the fate of the country.

But the rural programmes were prepared in equal hurry like the earlier ones. They were equally half-baked, lacked thrust and direction. When one has a close look at the spate of programmes like decentralized planning, Panchayat Raj and Jawahar Rozgar Yojana, there is every likelihood that these would result in flittering away country’s resources in rich abundance without achieving the much projected effects.\(^79\)

During 1984-85, after a massive electoral victory, Rajiv Gandhi was a lot more politically secured than his mother had been during 1982-84. But he could not convert the huge mandate into an economic policy framework. The low level of India’s economic development has also been politically consequential for it has been necessary for the State to promote development.\(^80\)

The opposition adopted a relatively populist position, critising Rajiv Gandhi’s negligence of the interest of farmers and

\(^{79}\) Ibid.

the poor. The challenge posed by V.P. Singh in Hindi heartland, Jyoti Basu of CPI (M) in West Bengal, N.T. Ram Rao and Ramakrishna Hegde in south exposed Rajiv's electoral vulnerability among the lower classes. As a consequence, the Congress party was defeated in 1989 General Elections. No one can doubt that Rajiv Gandhi was to liberalise the Indian economy and it was equally beyond doubt that he failed miserably.

The Introduction of Liberalization of Indian Economy

It is quite clear that the image, of any country in this capitalist dominated international politics, largely depends upon economic strength. Emphasis, therefore, in many countries economic policy is shifting from political and ideological considerations to economic issues. Motives of profit and property unrestrained by states' intervention, seek to operate realization on the part of leadership, globally and nationally, that their enhanced economic growth would give them a better place and power in the world, is gaining currency. Indian leadership is no exception to such realizations.

The first two IMF disbursements coincided with other signs of economic improvement, including a good harvest, increasing remittances from Indians working the Middle East, a surge of
exports after the global recovery from the recession of 1981-83 and relatively easy access of Indian private and public sector companies to the international credit market. India thus decided to cancel the third trenches after drawing only 54 per cent of the total $5.8 billion loan and repaid entire IMF debt in 1984.81 This action led some commentators to describe India as an ‘economic miracle’ in 1985.82

In 1989 the economic situation was perceived to be good and India was praised for its sound economic management. National income was growing by 5.5 per cent per annum in the 1980s. Industrial growth was running 8 per cent per annum and the country had achieved self-sufficiency in food.83 There was an article published in the Financial Times, London, titled, “Ready to confound the critics”, which declared that fundamental changes took place in the economy which suggested that India would soon find a place in the ranks of the Asia’s growing newly industrialized countries.84 And in 1990 all of a sudden the then Finance Minister, Madhu Dandavate of National Front government announced that “India’s coffers are empty”.85 From

81 Kishor C. Dash, Supra No. 29, p. 896.
82 Subroto Ray and William E. James, Foundations of India’s Political Economy: Towards the Agenda for the 1990s, Sage Publications, New Delhi, 1992, p. 18.
the view point of the 1990s, Rakesh Mohan asked a question, “Where are we now and how did we get here?”

In the post-1985 period, India began to borrow heavily from both commercial sources and such international financial institutions as the World Bank and the Asian Development Bank, in order to finance its growing Budget deficits. The credits from the International Development Association (IDA) on soft terms declined while loans from the World Bank on market terms increased sharply. During this period revenue expenditure grew faster than revenue receipts. “From 1981-82 to 1989-90 while the receipts multiplied 3.19 times, expenditure multiplied 3.88 times. Consequently there emerged a growing deficit. In 1989-90 (RE) the deficit that was access of revenue expenditure over revenue receipts was 17.59 per cent of the revenue receipts.” Combined revenue receipts and expenditure of Central and State governments is shown in Table 3.2.

The industries left to the private sector were regulated by the Industrial Development Regulation Act, 1951. Further to prevent private monopolies and the concentration of the economic power the government enacted the Monopolies and Restrictive

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Trade Practices (MRTP) Act. All such regulations and controls inevitably led to a growth of bureaucracy inhibiting enterprise

### TABLE - 3.2
Combined Revenue Receipts and Expenditure of Central and State Governments

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue receipts</th>
<th>Revenue expenditure</th>
<th>Surplus(+) Deficit (-) as per cent of (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Development</td>
<td>Non-developmental</td>
<td>Total</td>
</tr>
<tr>
<td>1960-61</td>
<td>1710</td>
<td>806</td>
<td>828</td>
</tr>
<tr>
<td></td>
<td>2330</td>
<td>3336</td>
<td>5666</td>
</tr>
<tr>
<td>1980-81</td>
<td>13881</td>
<td>11001</td>
<td>24882</td>
</tr>
<tr>
<td>1981-82</td>
<td>16301</td>
<td>13045</td>
<td>29346</td>
</tr>
<tr>
<td>1982-83</td>
<td>19416</td>
<td>15703</td>
<td>35119</td>
</tr>
<tr>
<td>1983-84</td>
<td>22765</td>
<td>18521</td>
<td>41286</td>
</tr>
<tr>
<td>1984-85</td>
<td>27563</td>
<td>22153</td>
<td>49716</td>
</tr>
<tr>
<td>1985-86</td>
<td>31884</td>
<td>27121</td>
<td>59005</td>
</tr>
<tr>
<td>1986-87</td>
<td>37941</td>
<td>32717</td>
<td>70658</td>
</tr>
<tr>
<td>1987-88</td>
<td>44738</td>
<td>36519</td>
<td>81257</td>
</tr>
<tr>
<td>1988-89</td>
<td>51385</td>
<td>43000</td>
<td>94385</td>
</tr>
<tr>
<td>1989-90</td>
<td>63565</td>
<td>50430</td>
<td>113995</td>
</tr>
<tr>
<td>(RE)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Report on Currency and Finance, Reserve Bank of India (various issues)

and industry. This resulted into the growth rate of GDP arising in public administration and defence even higher than the growth rate of the GDP.\(^89\) "In the meanwhile, the trade deficit in the first three years of the Seventh Plan (1985-86 to 1987-88) exceeded Rs. 9,000 crore per annum and in the fourth and fifth year (1988-89 and 1989-90) exceeded Rs. 12,000 crore per year. In 1990-91

\(^89\) Ibid., p. 60.
the deficit touched the astronomical figure of Rs. 16,934 crore.\textsuperscript{90}

India’s balance of payment from 1980-81 to 1990-91 is shown in Table 3.3.

\textbf{TABLE - 3.3}

\textbf{India’s Balance of Payments}

\textbf{(1980-81 to 1990-91)}

\begin{tabular}{|c|c|c|c|c|c|c|c|}
\hline
Year & Trade balance & Invisibles (Net) & Current account & Capital transaction & Errors and omissions & Total Surplus(+) & Deficit (-) \\
\hline
1982-83 & -5776 & 3480 & -2296 & -950 & 203 & -3043 & \\
1983-84 & -5871 & 3608 & -2263 & 245 & -490 & -2508 & \\
1984-85 & -6721 & 3849 & -2852 & 1285 & 323 & -1244 & \\
1985-86 & -9586 & 3630 & -5927 & 2159 & 580 & -3188 & \\
1986-87 & -9354 & 3524 & -5830 & 2171 & -129 & -3788 & \\
1987-88 & -9296 & 3003 & -6293 & 1830 & -947 & -5410 & \\
1990-91 & -16934 & -435 & -17369 & 12661 & 237 & -4471 & \\
\hline
\end{tabular}


The failure of monsoon resulted into a massive import of food grains. The imports rose sharply by an average of 13.4 per cent in US dollar terms partly due to large imports of food grains in 1988-89. The volume of net POL imports increased from 12.4 million tonnes in 1984-85 to 23.5 million tonnes in 1989-90.

\textsuperscript{90} S. K. Mishra and V. K. Puri, supra, no. 61, p. 360.
However, the fall in crude oil prices during the period helped to contain the oil import bill.\footnote{91} As far as external commercial borrowing and NRI deposits are concerned, they represent a substantial future liability.\footnote{92} Moreover, large outflow in any year would seriously deplete reserves. This happened in 1990-91 as the international confidence in India’s abilities was shaken leading to a downgrading of India’s credit rating. On an annual basis in 1990-91, there was a net erosion of Rs.4,094 crore in receipts from commercial banks and NRI deposits as compared with total receipts from these sources in 1989-90.\footnote{93}

The political developments in India also contributed to economic crisis of 1990s. The shifting toward new balances within and among political forces was partly a continuation of the fragmentation of the Congress party and partly the inability of other parties to develop viable alternatives on their own and partly the result of new developments. By breaking away from V.P. Singh’s Janata Dal government at the end of the 1990, Chandra Shekhar was able to get the Congress support from

\footnote{93} S.K.Mishra and V.K.Puri, supra, no. 61, p. 363.
outside and he formed the government. Personally presenting some remarkably fresh and even pragmatic ideas, Chandra Shekhar could not escape the pressures from the Rajiv Gandhi’s Congress either in policy making or in personnel opponents. His greatest problem was a fast disappearance of financial reserves and the inability to fashion any economic policies, even a Budget. However, in January, 1991, the Chandra Shekhar government was forced to take IMF loans worth $1.8 billion necessary to put India’s international trade on track and save India from a default on its repayment obligations. Any hope of new policy initiatives soon disappeared as the country was plunged into the grips of electoral politics and a suspended anxiety in the wake of the assassination of Rajiv Gandhi in May.

Kishor C. Dash identifies seven external factors which were responsible for the economic crisis of the 1990s. Firstly, with the collapse of the Soviet Union in 1991, India’s favourable rupee trade with the Soviet Union came to an end, depriving India not only of a large market but also of the opportunity to build its foreign exchange reserve. Secondly, India also lost East European markets when the latter were integrated with Western Europe in the late 1980s. Thirdly, the global recession and lower

95 Kishor C. Dash, Supra, No. 29.
demand for Indian products abroad hurt India's export earning, and adversely affected foreign exchange reserve. Fourthly, foreign direct investments in India at this time were minimal. Fifthly, India lost some benefits of aid capital because of foreign aid competition from Eastern Europe and the former Soviet Union and the domestic pressure on the governments of donor countries to reduce this aid Budgets. Sixthly, the most immediate reason of India's foreign exchange crisis was the Gulf War in 1990. The Gulf crisis had two import implications for the Indian economy. The oil price rises following Iraq's invasion of Kuwait in August, 1990, increased India's important bill for oil substantially and the inflows of funds from workers' remittances from the Gulf (1,70,000 were employed in Kuwait and 9,000 in Iraq) dried up as a result of the loss of jobs and return of large number of Indian employees to India. As a consequence of increase in the price of oil as well as certain oil-related imports, the trade deficit for the year 1990-91 deteriorated by around 2 billion US dollars. Lastly, substantial withdrawal of the NRI foreign currency deposits from Indian banks equaling almost 20 per cent of

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97 C. Rangarajan, supra, no. 91, p. 217.
India's foreign debt, accentuated India's foreign exchange crisis. 98

When the P.V. Narasimha Rao's Congress government took over, the country was facing serious BOP crisis. In June, 1991, India faced a severe BOP crisis as its foreign exchange reserves plummeted to an all time low of $.1.2 billion – barely sufficient to pay for two weeks of vital imports.99 The seriousness of the crisis, that the country was facing may be calculated by the that even before taking oath, the first name that Rao announced for his cabinet was that of Manmohan Singh – an outsider.100

When P. V. Narasimha Rao became Prime Minister in July, 1991, India was in desperate need of financial help and a substantial IMF loan was more a matter of necessity than choice. India's credit rating at this time was very low. Without the IMF's 'seal of approval', obtaining loans from other commercial sources would not have been a viable option.101 Thus, an IMF loan was the only pragmatic choice for India.

98 Kishor C. Dash, supra no. 29, p. 897.
In a strategic move P. V. Narasimha Rao appointed Manmohan Singh, an outsider, to the ruling Congress party and a long time critic of India’s policy of export pessimism\textsuperscript{102} as the Finance Minister. Besides, during his term as the Secretary-General of the South Commission in Geneva in the late 1980s, Singh and Michel Candessus participated in several meetings in which they shared a similar philosophy about the positive impact of pro-market strategies on India’s economy.\textsuperscript{103}

Manmohan Singh appointed Montek Singh Ahluwalia, who had a long career as a World Bank economist as his Finance Secretary and P. V. Narasimha Rao’s appointment of other reform minded ministers like P. Chidambaram as Commerce Minister, NKP Salve as Minister for Power and M. Arunachal as Minister of State in the Industry Ministry furthered the liberalisation process that the Finance Minister sought to introduce as preemptive efforts to please the IMF.\textsuperscript{104}

The government admitted that the economy was in a very bad shape. The Finance Minister issued a statement in Lok Sabha that “We have not experienced anything similar in the history of independent India” and his warning that there was no time to lose

\textsuperscript{102} Kishor C. Dash, Supra, No. 29, p. 809.
\textsuperscript{103} Business India. November 11-24, 1991, p. 80.
\textsuperscript{104} Kishor C. Dash, Supra, No. p. 900.
underlined the depth of the economic crisis. A new economic policy was announced which aimed at improving management of the economy. The new economic policy comprises the various policy measures and changes introduced since 1991. These changes involve a greater reliance on the market mechanism and this translates into a class of public policies including deregulation and reduction of governmental controls, greater autonomy of private investment, less use of public sector, more opening of the economy to the international trade and so on. In response, the IMF approved drawings by India $943.6 million (SDR $65.1 million) under the Compensatory and Contingency Financing Facility (CCFF) related to an increase in oil import costs and a short-fall in merchandise exports for the 12 months that ended in July, 1991. The IMF programmes for 1991-92 and 1992-93 which the funds supported through a standby arrangement (for $2.46 billion or SDR $1.656 billion approved on October 31, 1991), sought to ease India’s external payment position and rebuild international reserves.

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107 Ramashray Roy, supra, no. 105, p. 121.
Mustering political support from opposition political parties was not easy. Although all opposition parties recognized the gravity of India’s economic situation, the IMF loan and its external liberalisation and privatization of public sector units were not acceptable to them. While the Janata Dal and the BJP adopted a 'wait and see' approach and the CPI (M) opposed any move to approach the IMF for a loan, categorising the IMF loans as an extension of ‘Pax America’.  

In a letter to the World Bank President, the Finance Minister, Manmohan Singh wrote the reform strategy of the government which aimed at achieving in the course of next five years.

(a) A liberalized trade regime with tariff rates comparable to those of other industrializing developing countries and the absence of discretionary import licensing (with the exception of a small negative list).

(b) An exchange rate system which is free from allocative restrictions for trade.

(c) A financial system operating in a competitive market environment and regulated by sound prudential norms and standards.

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(d) An efficient and dynamic industrial sector subject only to regulations relating to environment security, strategic concerns, industrial safety and unfair trading and monopolistic practices.

(e) An autonomous competitive and streamlined public sector, geared to a provision of essential infrastructure, goods and services, the development of key natural resources and areas of strategic concern and development of crucial social sectors like education, health and R&D which normally remain under funded/under-investment in a market dominated economy.\textsuperscript{109}

The intentions of the Congress government were clear. It was trying to bring some basic changes in the Indian economy. The menu of structural adjustment consists of mainly four courses:

(i) re-establish foreign trade,

(ii) return to healthy state finances,

(iii) make market economy – less State intervention, and

(iv) fight poverty – promote development.\textsuperscript{110}

Beginning with the devaluation of the rupee the government had a flurry of changes in credit, foreign trade and exchange,


\textsuperscript{110} C.S.Sundaresan, Economic Liberalisation: A Political View, Mainstream, August 21, 1993, p. 22.
industrial and fiscal policies, all of which have become the subject of wide and often violent debate.\textsuperscript{111}

Even before the Budget, Narasimha Rao’s government decided to announce the new Industrial Policy on the Budget day. The whole country was waiting for the two announcements. Already the media and economic experts had started to speculate what the new era would be like for India, and the interested in doing business with and in India. The Industrial Policy was the first major indicator of the change.

The new policy was the trend-setter of things to follow also the prologue for the IMF and World Bank to read. It sought to achieve three major objectives:

(a) reduce the role of public sector and restrict it to key sensitive areas,

(b) reduce the burgeoning governmental controls on the freedom of the Indian businessmen to set up a unit, and

(c) remove the bias against entry of the multi-nationals into the country.\textsuperscript{112}

Answering to a question about the role of public sector, Narasimha Rao expressed, “Today we are talking about the

\textsuperscript{111} K. S. Krishnaswamy, supra, no., 17, p. 2415.
\textsuperscript{112} Adish C. Aggrawal and P.V Narasimha Rao, Scholar Prime Minister, Amish Publications, New Delhi, 1995, p. 72.
expansion of the public sector. But where is the money going to come from? We are happy about the public sector and its performance in certain areas. But in the most crucial area of paying for its own expansion, we are not happy about its performance at all. Therefore, we had to find other avenues because whatever you produce in the public sector today is not going to be sufficient”.\textsuperscript{113} And about licensing policy and MNCs, he replied, “About licensing policy I don’t think there can be any objection to the removal of all the difficulties and we are inviting MNCs for the sake of taking their technology, for the sake of employment and for the sake of competitiveness” and he argued, “whenever we have got technology from outside, we have developed”. He concluded by saying, “This is the decision of the government that we will implement it. As we go along, if there is any difficulty, we will remove it. That is all”.\textsuperscript{114}

Unfortunately in the meantime, the public debate on the IMF conditionalities and the involvement of the World Bank in the reform process, considerably increased. The government baring then Finance Minister, Manmohan Singh and then Commerce Minister Chidambaram, made no special effort to

\textsuperscript{114} Ibid., pp.162-163.
Commerce Minister Chidambaram, made no special effort to convey to the people that the reforms are not being adopted merely because the IMF wants them but because India needs them. This has prevented the transmission of true meaning and purpose of the economic reforms to the people at large. But the words of Narasimha Rao were different. He clarified that India was the founder member of the Bank and said, "It is ours just as the United Nation is ours. The truth is that they are not running after you, but you are going to them because there is no one else you can run to".

But it is very surprising to note that the All India Congress Committee adopted an economic resolution in 1992 which reiterated its commitment to the vision of Jawaharlal Nehru and reaffirmed that democracy, socialism, planning, and self-reliance, are the basic tenets of the Congress ideology. But it did not forget to conclude that the economic policy of the Congress is based on the concept of change with continuity. It, however, indicated lack of consensus on the economic policy in the Congress party. As a step towards another move to the liberalisation of Indian economy, Indian government signed the

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116 Adish C. Aggrawal, Supra, No. 112, p. 81.
Agreement on Trade and Tariff, (GATT) is an international body founded in 1947 by 23 member nations including India. But it was opposed by almost all the political parties in India except the Congress party. But Narasimha Rao justified the government’s decision by saying, “We don’t have any disadvantage in Dunkel proposals. When more than 160 countries in the world on one side agree to those proposals, why should we object these proposals, when there is no disadvantage and when we are going to gain something”, and regarding the patent issue he said, “I am unable to understand when they change their patent law in order to gain, why don’t we change such law when there is a situation that gives benefit to us. As it is being done by the Congress, they are opposing it with a motto of opposing”. He even moved ahead by asking: “What is the next alternative?” He went on a step ahead and asked if somebody would show the alternative.

But the Congress government faced a number of difficulties primarily due to the criticism of the opposition parties. Yet moving another step ahead in the same direction, India joined

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121 Ibid.
hands with the World Trade Organisation (WTO). The WTO replaced the GATT and it came into effect from January 1, 1995 with backing of 85 founding members including India. Although the selling of the reform package domestically was proving to be an uphill task for both Narasimha Rao and Manmohan Singh. They were doing pretty good job of ‘selling’ India oversee. Manmohan Singh’s trips to Tokyo and Singapore yielded results while Narasimha Rao’s trip to Davos too got a good response from foreign investors.\textsuperscript{122} Despite the government’s efforts to woo foreign investors, this sector remained sluggish. Between April and September, India attracted a mere \$1.044 billion in new foreign direct investment (FDI). Foreign exchange reserves hovered around \$1.18 billion and total external debt stood at \$1.102 billion.\textsuperscript{123} The number of FDI approvals, amount approved and actual amount of inflows of FDI in India during 1991 to 1996 is shown in Table 3.4.

\textsuperscript{122} Adish C. Aggrawal, supra, no. 112, p. 83.

TABLE – 3.4
Number of FDI Approvals, Amount Approved and Actual Amount of Inflows of FDI in India During 1991-96.

(Rs. crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of FDI approvals</th>
<th>Amount approved of FDI</th>
<th>Actual inflows of FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>286</td>
<td>534</td>
<td>351</td>
</tr>
<tr>
<td>1992</td>
<td>692</td>
<td>2838</td>
<td>675</td>
</tr>
<tr>
<td>1993</td>
<td>785</td>
<td>8859</td>
<td>1787</td>
</tr>
<tr>
<td>1994</td>
<td>1062</td>
<td>14187</td>
<td>3289</td>
</tr>
<tr>
<td>1995</td>
<td>1355</td>
<td>32072</td>
<td>6820</td>
</tr>
<tr>
<td>1996</td>
<td>1559</td>
<td>36147</td>
<td>10389</td>
</tr>
</tbody>
</table>


According to the weekly magazine, *Sunday*, the high points of the Rao government are two landmark achievements: ending the licence-quota-permit raj and reducing tariff barriers against foreign competition. The first, ensured that domestic industry could now respond to market demands instead of the ministers. The second, opened up domestic industry to foreign competition forcing efficiency and innovation. The other achievements include the relatively better external payment situation, reduction of fiscal deficit and initiation of financial sector reforms. And the low point of the government was no reforms in the agriculture sector. On the contrary, over 70 per cent of the workers were still employed in agriculture. The failure to introduce reforms in
this sector could prove fatal. It was also significant that reduction in fertilizer subsidy was the first official decision of Rao government and also its first retraction. And the other failure was the inability to introduce an exist policy for industry. The Reserve Bank of India (RBI) is still far from autonomous.\textsuperscript{124}

Though the Narasimha Rao’s Congress government did the tremendous job of uplifting the country from the 1991 economic crisis, however, it witnessed many scandals which ruined the electoral prospects of the Congress party. The Hawala Scandal (illegal foreign exchange) did not enable P.V.Narasimha Rao to consolidate his own hold over the Congress (I) nor bring it electoral success. The party suffered major defeat in the Eleventh General Elections. P.V.Narasimha Rao himself got charge sheeted in many scandals. On July 20, 1993, the P.V.Narasimha Rao government faced a no-confidence motion provoked by stockbroker Harshad Mehta’s allegation that he paid a crore rupees to the Prime Minister.\textsuperscript{125} P.V.Narasimha Rao was charged by CBI along with the other Congress leaders including Ajit Singh, V.C. Shukla, Captain Satish Sharma and R.K.Dhavan of having bribed the members of Jharkhand Mukti Morcha to get their support to defeat the no-confidence motion. Lakhubhai

\textsuperscript{124} \textit{Sunday, March 31-April 6, 1996, pp. 19-02.}  
\textsuperscript{125} Ibid., p. 31.
Pathak, a British businessman of Indian origin leveled charges against P.V.Narasimha Rao of having accepted a bribe to secure a government contract.126 A final criminal case was filed in late September. The charges in this case stemmed from 1989, when as the Minister for External Affairs, P.V.Narasimha Rao allegedly orchestrated. The forgery of certain documents designed to implicate Ajey Singh, the son of V.P.Singh in illegal foreign exchange transactions in St.Kitts in the Caribbean.127

The beginning of the process of economic reforms actually began in the 1980s. But this experiment with economic reforms was limited only to liberalizing some aspects of the control system without making any fundamental change in the policy. But the reforms initiated by Narasimha Rao government were somewhat different, as they aimed at making structural changes in the economic system. The Lok Sabha elections took place in 1996. The Congress, after days of grappling with the crucial dilemma whether economic liberalization, as an issue, would affect the party positively or negatively, had finally decided to link reforms boldly into the party’s manifesto coining with a slogan, “Every rupee earned by the reforms is a rupee gained for

126 Sumit Ganguly, supra, no. 123, p. 128.
127 Ibid.
The Congress promised to carry forward the momentum of economic reforms to achieve a higher trajectory of economic growth efficiency and competitiveness." With the entire emphasis on economy, the manifesto also pointed out that money generated, through the process of disinvestments in public sector, had been channelised for multi-billion rupee poverty alleviation programmes.

The Congress expected a massive victory but the party lost the 1996 Lok Sabha elections, managing to win only 140 seats compared to its early tally of 244 seats during 1991 Lok Sabha elections. The party popularized the issue of economic reforms and appealed to the people to vote for its economic reform policies. Many party leaders believed that the party lost the elections as people rejected the policy of economic reforms. The others in the party put forward the argument that the party lost badly mainly because the party could not popularise this issue. Ved Prakash, Joint Secretary of the Congress party said, "We failed to communicate the success of the economic reforms to the people. The benefits go through the state governments and most States in the country are ruled by the opposition parties, which

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129 The Hindu, April 13, 1996.
130 Asian Age, March 5, 1996.
did not cooperate with us. Secondly, the party cadres were also not able to disseminate this information to the voters."\(^{132}\)

The Position of the Congress on Economic Issues as an Opposition Party

When a ruling party gets defeated in the coming elections and sits in the opposition, actually it gets a chance and time to rethink where the things went wrong and to adopt the policies which might help to reestablish itself in the ruling position and to broaden its political base.

Stanley Kochanek has usefully identified four broad tendencies in Indian politics that unite particular elements in society around certain sets of ideas. These are a Communist tendency, a socialist tendency, a non-confessional rightist tendency, a confessional rightist tendency.\(^{133}\) James Manor notes that all of these have at times been represented by the non-Congress parties. The Congress had at times allied itself with and borrowed a number of ideas from Communists. In recent years the socialist tendency can be said to have been somewhat in eclipse. Within the Congress under Indira Gandhi has begun to give assertive expression to views associated with that

\(^{132}\) The Economic Times, May 12, 1996.

\(^{133}\) James Manor, supra, no. 28, p. 76.
tendency. The business community support, for Indira Gandhi’s socialist policies during the 1970s, was weak. After the death of Nehru some Congress leaders like Morarji Desai and S. Nijalingapa, the party President himself were not in favour of socialist policies of the Congress. When Morarji Desai formed the Janata party government, the business community pledged its full support to him. The tremendous support that the business communities had given to Morarji Desai’s government must have left Indira Gandhi feeling peculiar vulnerable especially in regard to future electoral financing. When she returned to power in 1980, implicit initiatives were taken by the Congress government for liberalization. Restrictions at some manufactured imports were removed, controls on entry and expansion of national firms were relaxed and the rate of direct and indirect taxes were reduced. Thus the trend towards liberalisation has begun.

After the 1989 General Elections, the Congress party under the leadership of Rajiv Gandhi, worked as an opposition party. It was the second time in the history of Indian National Congress (I). Then the Congress party never expressed anything about the liberalisation of Indian economy. When Rajiv Gandhi formed the

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134 Ibid.
135 Kishor C. Dash, supra, no. 29, p. 892.
136 Ibid.
137 *The Times of India*, April 19, 1982.
government in 1984, he was regarded as a champion of liberalisation and modernization of the country’s political and economical structure. During the end of his period, mostly due to political compulsions dramatically shifted the whole strategy towards rural development.\textsuperscript{138} After the Bofors scandal, he even regarded multinational and business interests allied with them as the threat to Indian political stability and economic progress.\textsuperscript{139} And he returned to socialism.

The Congress party’s position on economic policy reforms gained importance when it lost the General Elections of 1996. The political compulsions took Rajiv Gandhi away from liberalisation but the economic compulsions brought Narasimha Rao towards the liberalisation of the Indian economy. While justifying his reputation as a consensus seeker, the Prime Minister moved fast and steadily to transform India’s economic system, even though no consensus on this was possible within his own party.\textsuperscript{140} Going outside the party to choose the highly respected but totally apolitical technocrat, Manmohan Singh, as

\textsuperscript{138} V.S.Mahajan, Supra, No. 58, p. xiii.
the Finance Minister, Narasimha Rao disappointed many supposed heavy weights who had hoped for the job.\textsuperscript{141}

Many senior Congressmen were not happy with the functioning of Manmohan Singh, whenever they met P.V.Narasimha Rao and expressed their dissatisfaction. The Prime Minister would ask just one question: "Do you have any alternative to the present economic policies?"\textsuperscript{142} It clearly indicated that there was difference of opinion on the economic policy issues. When the party lost the General Elections of 1996, even many Congress leaders believed that the party lost the elections as people rejected the policy of economic reforms.\textsuperscript{143} And some of the Congress ministers yet by their own admission concluded: The failure of our liberalisation strategy lies essentially in our inability to "sell" the idea of economic reform. We failed in PR, not in the substance of our reform package.\textsuperscript{144} The debate began ever then.

Sonia Gandhi took over as the Congress President on March 14, 1998. She appointed a Committee under the leadership of Pranab Mukherji to take stock of the situation and restate the

\textsuperscript{141} Ibid.
\textsuperscript{142} Adish C. Aggrawal, supra, no. 112, p. 77.
\textsuperscript{143} Sanjay Kumar, supra, no. 131, p. 1623.
\textsuperscript{144} Shahabzad Ysuf Ahmad Ansari, Bridging the Divide, Seminar 526, June, 2003, p. 51.
party’s position on reforms. The leaders like Manmohan Singh and his colleagues with a pro-reform attitude did not want to abandon the path of reforms. But the more politically minded Congressmen wanted the party to accept the fact that it was now the main opposition and must, therefore, oppose some of the second generation reforms. The Pranab Mukherji Committee had therefore put in two face-saving clauses – the usual “reforms with human face” and “put the farmers first”. It has been described as the document of the party which is in opposition at the Centre in power in nine States. Sonia Gandhi, the Congress President, declared that the Congress was committed to economic reforms. The Congress as the opposition party cooperated with the government on Insurance Bill and WTO related matters or the Company Law Amendments. Mani Shankar Aiyar blamed the NDA government that scandal after scandal had plagued the process of LPG (Liberalisation, Privatisation, Globalisation) and told that only the Congress could put reforms back on tract. During the opposition period the Congress was with the economic reforms.

146 Ibid.
The Continuity of Economic Reforms under UPA Coalition

A coalition is an alliance of parties formed for the purpose of contesting elections and/or forming a government and managing the governance by a process of sharing power. So coalition implies co-operation between political parties and this co-operation may take place at one or more of three different levels – electoral, parliament and government. Electoral coalition is formed by two or more parties to fight the elections against a common enemy. Today's Indian politics is a coalition politics. The 2004 General Election was the election mainly between NDA and UPA coalitions.

In the elections, the BJP-led NDA was defeated and it was replaced by the Congress led UPA at the Centre. The verdict of 2004 once again created a situation for the emergence of coalition government at the Centre.

The Communists have always opposed the Congress and whenever an opportunity came they maintained a good distance from both the Congress and the BJP. It is the first time in the post-independence period the Communists have recognised that

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150 Ibid., p. 6.

the communal BJP cannot be kept away by ignoring the Congress. As a result of this, they extended external support to the UPA government.\footnote{152}

In 1991 when Manmohan Singh was appointed as the Finance Minister by PV Narasimha Rao, Montek Singh Ahluwalia was appointed as the Finance Secretary. Later Rao appointed P. Chidamaram as the Commerce Minister. This time the team is back with different positions - Manmohan Singh as the Prime Minister, P. Chidambaram as the Finance Minister and Montek Singh Ahluwalia as the Deputy Chairman of Planning Commission.\footnote{153} This is clearly a competent group for the continuation of economic reforms in the interest of the country.

The new government announced that reforms would continue but with a human face.\footnote{154} The presence of the Left in the government will be positive. The government’s promise to initiate reforms with a “human face” will gain more credibility due to the Left’s presence.\footnote{155}

The UPA government announced its CMP in May 2004 which abolished the Disinvestments Ministry and disfavoured the

\footnotesize{\textit{Sahara Time}, May 29, 2004.} 
\footnotesize{\textit{India 2005}, Publication Division, Ministry of Information and Broadcasting, Government of India, New Delhi, 2005, pp. 914-916.} 
\footnotesize{\textit{The New Indian Express}, May 21, 2004.} 
\footnotesize{\textit{Sunday Pioneer}, June 6, 2004.}
profit-making PSUs.\textsuperscript{156} The CMP of UPA meant to create a ‘Left-of-Centre’ government as opposed to the defeated NDA. Right-of-Centre government.\textsuperscript{157} Newly appointed Finance Minister, however, declared that the government would continue economic reforms and make efforts to boost investment in agriculture, manufacturing and for employment generation.\textsuperscript{158}

When the Finance Minister P. Chidambaram presented his first truncated Budget for the remaining seven months of the financial year 2004-05, the first sharp criticism against Chidambaram’s proposal to increase FDI limits in insurance, telecommunication and aviation, came from the Left saying it went against CMP.\textsuperscript{159}

The UPA government announced the new foreign trade policy for 2004-09. The Commerce and Industry Minister Kamal Nath listed a number of steps to streamline procedures and aimed at boosting momentum of export growth and laid thrust on agro-exports, including removal of exports cess on farm and plantation commodities.\textsuperscript{160} The UPA government decided to go ahead with disinvestments of shares in Bharat Heavy Electrical Limited

\textsuperscript{156} The New Indian Express, May 28, 2004.  
\textsuperscript{157} Sahara Time, June 19, 2004.  
\textsuperscript{158} Ibid., May 25, 2004.  
\textsuperscript{159} The Pioneer, July 31, 2004.  
\textsuperscript{160} Deccan Herald, April 9, 2005.
(BHEL) with an aim by Finance Minister P. Chidambaram’s disinvestments target of Rs.10,000 crore in 2005-06. This step was opposed by the Left parties blaming the government as first serious violation of CMP. While the protest by the Left to the government stake in blue chip BHEL continues, the Centre has decided to go ahead with the disinvestments of four more PSUs, namely, Nepa Ltd., Richardson and Cruddas Tyre Corporation and Water Oil Company.

In a major decision concerning the newspaper industries towards liberalisation, the Union Cabinet decided to permit foreign investment by NRIs, PIOs, Overseas Corporate Bodies (OCBs) and portfolio investments besides FDI, in print media, but maintained the ceiling of such investments at 26 per cent.

Manmohan Singh rejected the Left parties’ charges that his government was making compromises with country’s economic sovereignty, asserting “nobody can sell India – India is not for sale”.

In an important development the Prime Minister Manmohan Singh thinks of FDI into the retail segment and he visualizes that it would move our economy to a higher growth path, to create

new employment opportunities and that this would not hurt the small shopkeepers.\textsuperscript{163}

There are many differences between the UPA and the Left parties with the economic policy to be followed, however, the UPA is going ahead with economic reforms but in the meantime, it is dependent on the Left parties for its survival. The study indicates that leaders of the Congress party play an important role in introducing changes in the economic policy according to the requirements of changing times, keeping in mind political dimensions. So this implies the politics of the Congress party about the Indian economic policy and liberalisation of Indian economy.

\textsuperscript{163} The Times of India, August 27, 2005.