Chapter 4

From State Hegemony to Market Hegemony:
The Narasimha Rao Phase

The early 1990s witnessed dramatic changes in the ideology and philosophy of development. The collapse of the Soviet Union, the setback to the Communist regimes of Eastern European countries, and the economic restructuring in Communist China affected not only the Developed Countries but also the Less Developed Countries (LDCs). The after effect of this global restructuring influenced the policy making of the LDCs. Also it so happened that during this period many countries began to face a serious balance of payment crises. All these gave a new lease of life to the market economy and is perpetuated as the only paradigm of development. Exploiting this situation, the triumphant capitalist West under the aegis of the USA and the multilateral financial institutions like International Monetary Fund (IMF) and World Bank pressurised the policy makers of the LDCs to introduce a whole set of economic reforms. They put forward a package of measures to the developing countries as conditionalities for providing loans for them to recover from the financial crisis. The economic agenda of the LDCs were revised to suit the global economic restructuring process. The basic philosophy underlying this new economic thinking was the dismantling of the state supremacy and the establishment of market superiority in the development process. Thus, the market emerged as the chief allocator of resources in lieu of the state.

While the developmental debate at the global level centred round the feasibility of the two agents of modernisation – state versus market, the Congress party, the chief agent of modernisation in India, underwent many ups and downs. The assassination of Rajiv Gandhi in the election campaign on 21 May, 1991 necessitated the installation of P.V. Narasimha Rao as the Congress president – a person from outside the Gandhi-Nehru family. Rao’s elevation as the Congress president put a question mark before the electorate (as the party had to face the remaining two rounds of polling) over the
future of the Nehruvian vision of development. This was because of the two reasons. Firstly, that the changes in the global political economy would influence the Nehruvian project of modernisation. Secondly, that the preferences of the new leadership in contrast to the earlier. However, shortly after his accession to party presidentship in June, Rao made it clear before the electorate that there was no deviations from the Nehruvian line on economic and foreign policy matters. He assured that there would be no dilution of the party's ideology built around democracy, secularism and socialism. Subsequently, the 'stability plank' and the 'sympathy wave' in the second and third stages of poll rescued the party from a deep fall. The Congress emerged as the single largest party in the Lok Sabha but it fell short of majority to form the government. It secured 37.47 per cent votes, the lowest ever and the Bharatiya Janata Party (BJP) emerged as the second largest party in the Parliament with 119 seats. The first ever Congress minority government in independent India under the leadership of Rao came to power on 21 June, 1991.

The ascendancy of Rao also marked an age of transition in the society, polity and economy of India. It was an era of fragmentation of social forces created by the Mandal politics and the emergence of identity politics. Politically, India has plunged into an era of instability and uncertainty. Economically, the restructuring of the global political economy and the euphoria created by the market forces that state centred development failed and market-oriented development is projected as the only viable alternative to the Indian economy. The period saw a redefinition of the ideologies of the nationalist movement like secular nationalism, economic sovereignty and socialist values. Since, the Congress was always influenced by the trends in the global political economy, the party under the new leadership also has to confront with these developments. The state-centric economic policies and strategies of the Congress party were put to test in the face of this new philosophy of development.

The first and foremost task before the government had to reformulate both its domestic (fiscal crisis and instability) and global (global economic restructuring, crisis

1 *The Times of India*, 1 June, 1991.
of centralised planning and development and the domination of free-market economy as the only paradigm of development) policy. The induction of Manmohan Singh, a former IMF official and the bureaucrat-turned politician, as the Finance Minister raised a few eyebrows within the party over the fulfilment of Congress' long cherished economic strategies and electoral promises. With the appointment of Manmohan Singh, it was clear that the bureaucrats and technicians who were trained at the IMF and World Bank (WB) and who exerted influence over the policy decision of the Rajiv Gandhi government during 1984-1989 from behind the curtain emerged as a new force within the party, away from the heritage and ethos of the nationalist movement. The apprehensions of the people and the rank and file of the Congress party against the appointment of Manmohan Singh as Finance Minister were justified with his retraction from the 'time-bound' solutions to the problems promised in the election manifesto.³ On 25 June, 1991 Manmohan Singh made it clear that he had 'no magic formula to curb prices' of essential commodities. He further added that, 'I have no Alladdin's lamp to bring down the prices and if the people of the nation accept fiscal discipline, the prices could be stabilised'.⁴ In response to the electoral promises in the manifesto and its time-bound implementation, the Finance Minister said that the Congress manifesto was prepared at a time when the party was in opposition, and therefore, not aware of the extent of the damage which the economy had suffered.⁵

Crisis and reform initiatives

The policy reform of Rao government, in fact, was a product of both global and domestic crisis. Augmented by both domestic and external factors – political instability and the Gulf war – the fiscal situation in the country was quite alarming. The Balance of Payment (BoP) crisis which unfolded in 1990-1991, had reached its peak in June 1991. From October 1990 onwards the inflation rose rapidly to reach 13.7 per cent in February 1991. After a brief slowing down in April-May, the process accelerated and continued until August 1991, peaking in the fourth week of that month at 16.7 per cent.

³ In the Election Manifesto 1991, the Congress party promised 'time bound' solution to the problems confronted by the nation, if came into power. (i.e. within first 100 days, 365 days, 730 days, 1000 days).
⁵ Ibid.
Growth of real Gross Domestic Product (GDP) decelerated sharply to around 2.5% in 1992. The growth of the economy slowed down substantially, partly because of deceleration in industrial growth. The direction of the new government’s policies and programmes was indicated by the then President R. Venkataraman, addressing the joint sitting of the two Houses of Parliament on 11 July, 1991 when he warned the nation to be prepared for ‘hard and unpleasant’ economic decisions which were needed to tackle the economic crisis of ‘unprecedented magnitude’. He stressed that the government was committed to macro-economic stabilisation and structural reforms that would unleash the nation’s latent energy to bring about accelerated development. He assured the members that the government was committed to ensuring that the poor and the underprivileged did not have to bear a disproportionate burden of the adjustment process.

In order to address the acute and unprecedented BoP crisis, the government initiated far-reaching changes in economic policies on major fronts. The four major policy initiatives taken by the government include: fiscal correction and the reforms in trade policy, industrial policy and public sector. Although, since the mid 1980s, India had been experimenting with these economic reforms, it was a coherent and holistic reform process. This was commonly called as the New Economic Policy (NEP). By assuring a faster output growth and rising real incomes, the market reformers by way of economic reforms suggested ‘stabilisation’ and ‘adjustment’ programmes. As such it put forward many fiscal and monetary austerity measures and the devaluation of the rupee.

Stabilisation was the primary step for the adoption of economic reform. It referred to the short term attempts to stabilise the economy. In India, the stabilisation programme aimed at restoring balance in the fiscal side as well as external payments. The stabilisation measures included devaluation, cuts in public expenditure, etc. The stabilisation phase was quickly followed by a programme of ‘structural adjustment’ and reform. It referred to the medium or long-term changes in the productive structure, in

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accordance with the overall social goals. The goals of the Structural Adjustment Programme (SAP) entailed the reducing or elimination of balance of payments, deficits, promoting higher rates of economic growth, and instituting structural changes that would prevent future payments and stabilisation problems. It was a set of conditions imposed by the IMF before giving a large loan to the recipient country. It included the integration of the economy into the world economy, minimising the role of the government and the public sector in the economy and allowing the market forces to play a greater role in the economic development of the country. It was intended to support the implementation of policies and institutional changes necessary to modify the structure of an economy so that it can maintain both its growth rate and also the viability of its balance of payments in medium term. It pressurised countries to liberalise trade, effect resource mobilisation, ensure an efficient use of resources and undertake institutional reforms.

The initiation of economic reforms marked a radical departure from the state-centred, inward-looking and a mostly regulated economy to a market-oriented, outward looking and liberalised one. The underlying theme throughout this package was that the degree of state control over the economy must reduce. By reducing the role of the state, it reduced the role of public sector in the economy, encouraged shifts towards outward oriented trade policies and drew the less developed countries more closely into the vortex of the multinational corporate regime in the name of promoting efficiency and competitiveness. It proposed to reduce or eliminate public expenditure, increase interest rates to attract capital inflow and raise domestic savings, achieve exchange rate flexibility or drastically devaluate the domestic currency, underfix exchange rates, reduce the money supply and oppose local food production or manufacturing. The basic assumptions of the SAP were that 'the market mechanism would be a substitute

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for state intervention; private investment would be a substitute for public investment and direct foreign investment would be a substitute for other forms of foreign capital flows; imports of technology would be a substitute for domestic technological capabilities; and the agricultural sector would, somehow, take care of itself.  

Economic reforms: continuity or change?

The initiation of the market-centred economic reforms generated a debate within the Congress party and outside over its links to the policies of Nehru, Indira Gandhi and Rajiv Gandhi. The party gave an elaborate explanation to the debate on the change and continuity aspect of the NEP. Manmohan Singh argued that it was in some ways a departure from the Congress party’s earlier economic policies especially the Nehruvian era, and in other ways a continuation of the liberalisation policies of Indira Gandhi in her second term and the Rajiv Gandhi era. He did not see the economic reforms of Narasimha Rao government as a sudden attempt on the part of the government to tide over the BoP crisis of 1991. According to him, it was thought of much before the ascendance of the Rao government. Because, even in the 1980s, there was a growing recognition that the economic policies were not yielding the desired results. Import substitution was not able to function, industrial licensing was in a fragmented capacity, industrial structure was neither efficient, not employment intensive, foreign exchange was not in a desired level, loot of corruption and uncertainty afflicted on the economy. Since, the economy was not responding to these problems, there was a need to change the economic policy. And most of the committees appointed during this period suggested import liberalisation and giving larger space for private sector.

Mani Shankar Aiyar, another Congress leader and Member of Parliament, observed the economic reforms as ‘a new stage in the old economic policy’. The economic reforms had its logical link with the old policy though it made drastic changes to suit the changing circumstances. He, however, argued that even before the initiation of the NEP, the role of the private sector was recognised in the economic

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13 Interview with Manmohan Singh, 18 April, 2003.
14 Ibid.
policies and strategies of the Congress party. According to him, even in the landmark economic policy resolutions towards socialist orientation and in the adoption of socialist programmes at various stages, the Congress did not completely denigrate the role of the private sector in the economy. For example, in the adoption of Avadi resolution of 1955 – which proclaimed for establishing a ‘socialistic pattern of society’ – the party permitted a large role for the private sector, especially the domestic private sector. The implementation of radical programmes of Indira Gandhi was not at the expense of the private sector. Even while, Indira Gandhi adopted a radical economic agenda like the nationalisation of banks, insurance and mining and established the supremacy of public sector in the economy there was a flourishing private sector and selective privatisation. Even though restrictions were imposed on the foreign capital, those were not absolute restrictions however. And the government allowed foreign capital in sectors wherever it was required.  

The party argued that the changes in the economy in 1991 were less a reflection of series of past policies but the success of previous policies. At the end of the 1980s, the Hindu rate of growth (3.5%), increased step by step to 5.6 per cent per annum. When the rate of growth increased, the objective condition of the economic policy had also changed. Further, when the liberalisation of certain sectors yielded positive results – increase in the growth rate – there was a push for more liberalisation of the economy. Hence, the economic reforms in 1991 can be seen as a logical continuation of the policies of Indira Gandhi in her second term in 1980.  

The advocates of left-of-centre approach within the party, however, took another view of the economic reforms. According to Vayalar Ravi, former Kerala Pradesh Congress Committee (KPCC) president and All India Congress Committee (AICC) general secretary, since the idea of market economy was not the original idea of the Congress and was initiated in India under the dictates of the external agencies like IMF and World Bank, it was a radical departure from the earlier economic policy especially the Karachi Resolution of 1931 and the Avadi Resolution of 1955. The

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15 Interview with Mani Shankar Aiyar, 16 April, 2003.
16 Ibid.
reforms, based on the Washington Consensus, were profit motivated, exploitative and protecting the interests of the capitalist west and Multinational Corporations (MNCs), denigrated the ethos of the national movement. He agreed that the acute BoP crisis demanded external help. But India moved towards a capitalist economy under the pressure from the World Bank. Such a transition in the economy and economic policy was a great departure from the Nehruvian and Indira Gandhi's economic policies.\(^1\)

Like the conflicting views on 'continuity and change', there was also another view on the factors that led to the initiation of the reform process. Manmohan Singh highlighted the role of domestic factors rather than global factors in reforms in the 1990s. According to him, the economic reform in India has nothing to do with the global economic restructuring process of the 1990s, especially the collapse of the Soviet Union and other socialist regimes of the Eastern Europe. Further, he refuted the argument that India adopted economic reforms under the pressure from external agencies like the IMF and the World Bank. In his view, the economic reform in India was thought of much before the fall of the Soviet Union and the regime changes in the Eastern European countries. But economic conditions have not deteriorated like in 1991 which compel the government to postpone such an attempt. The domestic compulsion in the 1980s – arising out of the reports of the various committees – further gave a boost to the reform effort.

Amidst the diverging views on the 'continuity and change' and the global and domestic factors responsible for the reforms, the party tried to legitimise it. According to it, the 1991 election manifesto itself contained an indication of the winds of change. In other words, the fiscal and financial reforms were initiated in conformity with its election promises. This implies that Rajiv Gandhi anticipated the impending crisis and incorporated clear and concrete remedial as well as positive measures in the manifesto. The party also believed that the economic reform programme was designed to modernise the Indian economy after decades of centralised economic planning and this

\(^1\) Interview with Vayalar Ravi, 23 May, 2003.
was a first step to reshape the economy for the next generation. It viewed that the need of the hour was to liberalise trade, encourage private investment, competition and free market growth. As a result, India could compete in the global market and the standard of living of its citizens would be gradually raised. The momentum of these reforms would carry India into the next century as the single largest free market in the world. The most impressive part of India's ambitious economic reform programme, according to the party, was the smoothness with which the transition from a closed, protected economy to an open export-oriented economy had occurred. Therefore, the rationale for the economic reforms was the pressure emanating from domestic circles, though changes in the global economy further accelerated it. Like Indira Gandhi and Rajiv Gandhi regimes, Rao government appointed various committees and commissions which, in fact, played an important role in accelerating the reform process. For example, following the economic policy reform, the government constituted the Chelliah Committee (taxation), Narasimham Committee (Financial sector), Rangarajan Committee (Privatisation), Goswami Committee (Industrial sickness) and the Malhotra Committee (Insurance), etc. The recommendations of these committees provided further preparatory ground for the reform process. As a major policy initiative, the government devalued the rupee by 22 per cent by step by step. The first stage of the reform was announced in July, 1991 and it constituted the following key measures- industrial licensing had been abolished for all projects except for a list of 18 industries related to security, strategic, or environmental concerns,

20 The Chelliah Committee on taxation recommended to curtail the rate of corporate tax from 51.75% to 45% and to abolish surcharge on corporate tax. It called for abolishing zero rates of import duty on certain commodities and curtailing the existing 110% import duty to 50%. The Narasimham Committee on financial sector reforms suggested liberalisation of rules in the setting up of foreign banks in the country. It viewed that both foreign and domestic banks should be treated at par. Ranjarajan Committee recommended that the equity share for divestment in public sector units should be upto 49 per cent. However the government should maintain 50% more equity for key industries (of national interest). The Goswami Committee on industrial sickness and also gave recommendations to modify SICA and the role of BIFR closing down of sick units to check the wastage of public money. The Malhotra Committee suggested for permitting the private sector – both domestic and foreign private insurance companies – in the business of insurance sector.
changes in the application of Foreign Exchange Regulation Act (FERA), reforms in
Monopoly Restrictive and Trade Practices (MRTP) Act, and the phasing out of import
restrictions.

The first budget of the Rao government presented on 24 July, 1991 reflected
the new philosophy of the government as it emphasised that for improving the
management of the economy, fiscal adjustment and macroeconomic stabilisation should
be adopted. The budget set the ambitious target of reducing the central government’s
fiscal deficit from 9% to 6.5% of GDP in the financial year 1991-1992. However, it
was alleged that most of the provisions were intended to boost the consumerism of the
upper middle class and it meant austerity for the common people. Further, the budget
marked a shift in the basic economic philosophy of India since independence and it
markedly deviated from the basic principles of the economic policy of India. It
proposed to bring down the fiscal deficit through expenditure control and resource
mobilisation. It proposed disinvestments of up to 20% of equity capital in select
public enterprise, reduction in direct tax rate, and a relaxation of customs duties.

The budget saw the dilution of state intervention in many areas of economy,
which were politically dearer to the Congress party for a long time. In an attempt to
bring fiscal discipline, subsidies were cut in some areas, most notably fertilisers. It was
said that ‘by extending the subsidy on fertilisers, and by raising the procurement prices,
Indira Gandhi ensured the continuous rise in real incomes of the rich and middle class
peasants; and by distributing cheap ration in the urban areas, she retained the support of
the poor and middle classes’. But the budget of 1991 proposed to reduce fertiliser
subsidies by Rs. 4 billion by raising fertilisers prices, which came in for criticism from
various quarters. A Lok Sabha member from Andhra Pradesh resigned his seat on the
subsidy issue. In another occasion Balram Jhakar, the former agriculture minister and
a prominent farmer leader from Haryana thus commented on the proposed hike in the
fertiliser subsidies: ‘I do not stand for subsidies, they’re bunkum. But give us our
rights. The farmers must get remunerative prices and the government must ensure his

interests are not hit'. Later, bowing to mounting pressure from the farmers, the opposition parties and a section within the Congress, the Finance Minister restored partial subsidy. Subsequently, the fertiliser price increase was brought down from 40 per cent to 30 per cent for large farmers and 20 per cent for small farmers. It also gave total exemption from the hike in fertiliser prices to small and marginal farmers and offered some relief to big land owners. In order to pacify the farming community who constituted a large base of the Congress party, the government assured a rise in procurement prices to compensate for the increase in fertiliser price which was higher than food subsidy.

The budget also imposed reform measures in trade policy and industrial and financial sectors, etc. The reform measures encouraged foreign equity in investment and relaxed the provisions of the MRTP Act. In fact, efforts to bringing fiscal discipline by initiating reforms measures came into conflict with political considerations. Buta Singh, the senior Congress leader and former Home Minister said, 'I do not think that new fiscal policies or economic trends can be sustained without a sound political base. Therefore, equal priority should be given to the political aspect'. However, the advocates of reform process found that the state-centred and regulated economy could not succeed in achieving political modernisation. According to them social and political modernisation can only be possible by providing letter quality of life to the people. Thus, it can be seen that the crux of the economic reforms within the Congress party was to adjust with political modernisation and economic modernisation. Manmohan Singh claimed it to be 'an agenda for India's second liberation, liberation from the ancient scourge of poverty, ignorance and disease which have been the inevitable lot of millions of people in this country for centuries. It is a forward looking agenda which seeks to harness the tremendous creative potential of modern science and technology to build a new India which is at once a technologically sophisticated

\[23\] Indian Express, 11 January, 1992.
\[24\] The Times of India, 2 January, 1992.
society, is economically advanced and socially just and all these achieved in the framework of an open society'. Complete ignoring the criticisms that the Congress party deviated from the long-cherished vision of development and Nehruvian legacy, the Finance Minister said: 'We remain faithful to the vision and objectives outlined by the founding fathers of our Republic. And it is precisely because we are faithful to that vision and those objectives that our policy framework and instrumentalities need to be updated to keep pace with the demands of a dynamic economy and polity'.

In spite of the severe criticism from various quarters, it did not hamper the economic reform initiative of the Rao government. Efforts were on to find out explanations for the economic reforms and its advantages to the economy. The Finance Minister was critical of the regulatory mechanisms of the economy and wanted to remove it. He said that isolation or autarky was neither feasible nor desirable. India should seek to build a strong, internationally competitive economy and could reap results from the global economy. According to him, 'our agenda includes enabling our country to meet the challenges and capture the opportunities of the new global economy'. He made it clear that the inspiration to integrate the Indian economy to the global economy stems not from the IMF and WB but that it was drawn from Mahatma Gandhi. The Finance Minister even praised the IMF and WB for rescuing India from a debt trap. He said that 'the pain associated with such a reform will be much greater if we do not have the support of the IMF to deal with the problems of transition to a more vibrant economy'. In accordance to the announcement made in the budget for 1991-1992, the Sick Industrial Companies (Special Provisions Act, 1985) was amended in December 1991 to enable chronically sick public enterprises to be referred to the Board for Industrial and Financial Reconstruction (BIFR) for rationalisation.

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28 Ibid., p. 259.  
29 Ibid., p. 260.  
30 Ibid., p. 262.  
31 Ibid., p. 264.

Mahatma Gandhi once stated:  
"I do not want my house to be walled on sides and my windows to be stuffed. I want the cultures of all the lands to be blown about my house as freely as possible. But I refuse to be blown off my feet by any. I refuse to live in other people's houses as an interloper, a beggar or a slave".
The New Industrial Policy (NIP) July 1991 was yet another policy document of the government, which marked a significant break with the Industrial Policy Resolution (IPR) of 1956. It reversed the independent, protectionist, regulatory, self-reliant economic policy in favour of market friendliness, privatisation and the opening up of the economy to foreign capital and trade. In a broader perspective it is a shift from state-led development to a market-oriented one. It diluted the obligations of the state/government mentioned in the Directive Principles of State Policy and replaced it with new ideologies like 'globalisation' and 'competition'. The basic thrust of the policy was to 'unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic control'. It stated that the government would divest part of its holdings in selected PSEs. It said: '... in the case of selected enterprises, part of government holdings in the equity share capital of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises'. It reduced the number of industries reserved for public sector to eight from 17 listed in Schedule A of the IPR 1956. It suggested changes in the areas of industrial licensing, foreign investment, foreign technology agreements, public sector policy, MRTP Act, etc. The NIP relaxed all administrative and regulatory barriers to entry, expansion and modernisation by industrial firms and the dismantlement of the industrial licensing regime. It may be said that the distinctive feature of the new policies was that the external sector of the economy emerged as a critical area which would determine the domestic sector of the economy'.

The New Industrial Policy Statement changed the attitude towards foreign capital by giving incentives to attract foreign capital. The amendment to the FERA allowed a free flow of foreign capital and technology. It says: 'foreign investment and technology collaboration will be welcome to obtain higher technology, to increase exports and to expand the production base'. In order to invite foreign investment in high priority industries, requiring large investments and advanced technology, it has

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been decided to provide approval for direct foreign direct investment up to 51 per cent foreign equity in such industries. The public sector policy which constituted a part of the Industrial Policy Statement of 1991 stated that public enterprises had shown a very low rate of return and many of the public enterprises were a burden rather an asset to the government.\(^{35}\)

The NIP came under attack from various quarters. It has seen that the statement of industrial policy ‘abolished the system of industrial licences emanating from the Industries Act (1951), as well as the Policy Resolutions of 1948 and 1956. By abrogating the industrial licences, it took away the mainstay of industrial planning. By superseding the earlier policy resolution, it put an end to the ‘commanding heights’, concept that had supported the public sector for thirty-five years. The role of the state in the economy was not abolished but it had to be redefined’.\(^{36}\) It was argued that no serious discussion on the industrial policy was held and it was introduced by stealth and haste. It was said that Nehru invited the experts and the learned people from all over the country for an open debate on Industrial Policy Resolution. The debate lasted eight years, from 1948 to 1956. During Indira Gandhi’s regime it took around 4-5 years but in the Rao period it took only three days. Again, the policy statement was criticised as a deviation from the Nehruvian model and some even called it a ‘capitalist manifesto’.\(^{37}\) However, it was defended as a continuation of the past with changes that were required because of the new situation. Allaying the fears about the change from the Nehruvian policy on industry and reiterating the government’s stand that the NIP was a product of the Congress (I) manifesto and not dictated by the IMF, the Prime Minister said that the new policy was aimed at the liberalisation of the economy in order to encourage growth with social justice and create wealth to help develop a modern India.\(^{38}\) Thus, the budget and the NIP marked a shift in the philosophy of development from the state-oriented towards the market. ‘Welfarism’ which was the

\(^{35}\) Ibid., p. 19.
cardinal feature of the developmental state in India was no longer relevant, in the new preferences, priorities and interests of the economic policy. The Eighth Five Year Plan (1992-1997) prepared by the government in the course of the economic reforms reflected the widespread changes that were effected both in the national and international scenario. It was considered as a ‘plan for managing the change, for managing the transition from a centrally planned economy to a market-led economy’ without tearing our socio-cultural fabric’.\(^{39}\)

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

The introduction of economic reforms witnessed both intra-party and inter-party conflicts. In other words, the reforms heralded a new area of confrontation within the Congress party in particular and the party politics in general. In the past, in major reforms, the party acted as a link between the aspirations of various social groups and the priorities of government and sometimes acted as a pressure group. Though, the policies often gave priority to the interest of the dominant social groups, the party tried to reconcile the genuine demands of other segments of the society. It was done by the mechanism of consensus and accommodation. But, in the new economic reforms, there was no substantive discussion on the economic reforms of the government in the party forums. It was alleged that the role of the Congress was only to endorse the government policies and to extend support to the government in Parliament. Even the criticism levelled against reform in the party forum was seen as symbolic rather than substantial.\(^{40}\) Further, the Parliament never fully debated the economic policies in detail and most of the policies were implemented in stealth. Thus, a drastic economic reform initiative like the NEP was not a serious subject of discussion within the Parliament. In fact, Manmohan Singh, later admitted that there was not enough time to debate these initiatives internally due to acute fiscal crisis.\(^{41}\)


\(^{41}\) Interview with *Manmohan Singh*, 18 April, 2003.
The lack of genuine debate and the failure to arrive at a consensus in the implementation of the reform process was marred by both intra-party and inter-party conflicts in the course of time. The left parties held agitations and conventions in defence of economic sovereignty and organised resistance to the IMF-dictated reform package as an alternative path to the crisis and stagnation in the Indian economy. When the new economic policy shed populism and patronage for attaining fiscal health, a section of the Congress felt uneasy with the reform process. Opposition and resentment mounted within the Congress when a section expressed great concern over the deviation from the left-of-centre image as it felt it would alienate the poorer sections who constituted the party’s support base. The Members of Parliament felt that new economic policies would amount to bidding farewell to socialism and were concerned over the electorate’s anguish at the government failure to fulfil electoral promises. They felt that it was a ‘total sell out’ to the IMF and attempts were made to revive the Congress Socialist Forum to reshape the policies and programmes of the Congress towards the left-of-centre approach.\(^{42}\) They argued that the changes adversely affected the support for the Congress among the middle peasants and the rural poor, especially the Scheduled Castes. Initially, the opposition in the party over the new package was confined to the farm lobby, which opposed the fertiliser subsidy cut, but in the course of time there were resentment over issues like inflation and stagflation. In the initial stages, criticisms were raised over its direct and immediate adverse impact on different sections but later it was shifted to its long-term indirect impact. Highlighting the link between the election manifesto of 1991 and the reform process the Congress Parliamentary Party (CPP), in the context of this very controversy assured that ‘there was no going back on the Congress manifesto whatever the compulsion of the economic revival and constraints imposed by the severe balance of payment crisis’.\(^{43}\)

The new economic reforms were considered in some quarters as an attempt to dilute the Congress party’s commitment to the socially and economically vulnerable sections. The Fund-Bank’s agenda of devolution, decontrol and disinvestment were

\(^{42}\) The Times of India, 19 July, 1991.
seen as detrimental to the interest of these social groups who extended their allegiance to the party. Moreover, critics felt that fiscal austerity measures like cuts in public expenditure in social sectors, decline in the resource allocation for poverty alleviation, health care, education and other welfare programmes would create disenchantment among its social constituencies. The growing resentment, the criticism against the economic reforms and the confusion faced by the local leaders in explaining the party’s position on economic policy forced the party central leadership to issue a brief note on the ‘New Economic Policy’ to all levels of its organisation. It claimed that the party was not deviating from the Nehruvian line and the new economic policy creatively updated it. The Note praised the validity, wisdom and relevance of Nehru’s concept of mixed economy and plural policy in the wake of crisis in both the dominant systems-Capitalism and Communism.44

In spite of explanations by the party leadership and the attempt to locate reforms with the Nehruvian agenda, the rank and file of the party was disgruntled over it. On 9 January, 1993 the AICC issued another ‘Note on the State of Indian Economy’ to the various levels of the party which narrated the achievements made by the Rao government after the initiation of the reform process in July 1991. It claimed that, among other things, the rate of inflation came down to around 8.5 percent as against 17 per cent in August 1991 and the fiscal deficit had been brought down steadily to effectively impose internal financial discipline.45

A section of the Congress leaders, perturbed over the wide-ranging reforms had approached the party leadership for a debate on issues of far-reaching reforms in the party foras like AICC. The announcement of devaluation, new export-import policy, concessions to multinationals in oil exploration and new industrial policy were some of the subjects on which a debate was being sought. Congress members with a left orientation strongly argued against bringing in private capital in profit making public sector units. They were also against further liberalisation and argued that this policy

which had been tried in the past was responsible for some of the problems facing the country at present.

The critics of the economic reforms found a place for the debate within the party forum and thereby tried to convince the leadership over their electoral compulsions at the grass-root level. At the first meeting of the AICC office-bearers after the ascendancy of Rao government in January 1992 the treasurer and the Union Welfare Minister Sitaram Kesari reiterated the Congress ideology and warned the Finance Minister against diluting it. He asserted that the poor and the backward sections constituted the party’s backbone and that the economic policies should not lead to losing them.46 However, the astounding victory of the Congress party in the parliamentary election in Punjab (Parliamentary election in Punjab was postponed at the time of 1991 general elections due to law and order problems) gave some solace to the government and the Finance Minister in particular. The Congress party bagged 12 out of the 13 Lok Sabha seats in the election held on 19 February, 1992 (as Shiromani Akali Dal boycotted the election) and this was treated as a victory for reforms at the heartland of the farming community. But, soon bitterness arose within the party over the economic reforms.

In the midst of the growing resentment and reservations against the reform process from some sections within the party, the government during the period vigorously called for stringent fiscal austerity measures. The second budget (1992-1993) of the Rao government continued the basic thrust on economic reforms and proposed a number of major changes. But the political compulsion forced the government to include certain welfare measures in the budget unlike the previous year. The government’s assurance was that it was ‘deeply conscious of its special responsibility to protect the poorer sections of our society, especially in rural areas from the burden that would otherwise be forced upon them as the economy goes through the process of macro-economic stabilisation and economic restructuring’.47 The

46 Indian Express, 1 February, 1992.
introduction of the budget was disrupted by the opposition parties who alleged a leak of the budget proposals to the World Bank by the government. While talking on the debate of the motion of thanks on the President’s address, the Prime Minister refuted the government’s alleged servility to the World Bank. He reminded that this was not the first time India approached the World Bank and the IMF. He felt that ‘the World Bank belongs to India as much as the United Nations belong to us . . . World Bank is nothing but an institution which comes to the rescue, come to the assistance of countries which need such assistance’.

He further added that ‘while we open up, while we become part of the world economy, we will not allow ourselves to be swamped by the world economy’.

The discussions on the budget saw arguments and counter arguments over the government’s economic policy in general and the budget proposals in particular. The Finance Minister, while replying to the discussion on the budget, reiterated that ‘the source of inspiration for various policy changes that the government had undertaken was in consonance with the Congress manifesto of 1991’. In an overt attack on its detractors within the party and the opposition’s charge against deviating from the Nehruvian path, the Finance Minister reiterated that ‘the terms of the basic objectives of the government’s economic and social policy is not reneging on any of the commitment that the national leadership had made to the people right from the days of Nehru’. Mani Shankar Aiyar, in fact, refuted the charge that the Congress party is abandoning the path of a socialistic pattern of society. He claimed that the Congress’ socialism is not an imported ideology but that it was indigenous in nature and its objective was the ‘elimination of poverty’.

Tirupati session: An ideological confrontation

The Congress party had to face both an ideological and policy confrontation with the policies of Rao government. The 79th plenary session on 14-16 April, 1992 at Tirupati

49 Ibid., p. 523.
in Andhra Pradesh was a watershed in two ways. Firstly, it was held under the aegis of the new leadership in the Congress party other than the Nehru-Gandhi family. Secondly, it was held in the backdrop of the adoption of New Economic Policy and the growing apprehensions over the deviation from Nehruvian socialism. In other words, it was a landmark in the Congress’s policies and strategies since it designated NEP as ‘change with continuity’ and thereby added a new terminology in comparison to the earlier major policy pronouncements in various sessions – ‘Socialist Pattern of Society’ (Avadi, 1955), ‘Cooperative Commonwealth’ (Nagpur, 1957), ‘Democratic Socialism’ (Bhubaneswar, 1959), ‘Modernisation for the 21st Century’ (Bombay, 1985), etc.

The discussions and debates that arose from the session saw the party leadership’s attempt to equate reforms with the long cherished goal of the Congress party. Further, the compulsions of electoral politics attempted to link the reform process to the interest of the political constituencies of the party. The Congress president P.V. Narasimha Rao in his presidential address stressed that since the beginning of the era of planned development, the Congress had been inspired by the vision of Jawaharlal Nehru. The government had introduced this reform programme with great dynamism. Since the government was committed to its thrust on employment generation, poverty alleviation and welfare programmes these economic reforms and emphasis on welfare programmes two were parallel and complementary programmes. Between the two of them all sections of the people were covered, at all levels of the social pyramid, with particular emphasis on the base of the pyramid.\(^\text{52}\) He rejected that the government gave up Nehru’s vision of a socialist India yielding to outside pressures. The government, to him, intended to strike a balance between individual and common good, though contrary to each other, by virtue of democracy it would be pursued. He also refuted the allegations that it had given up self-reliance. According to him, ‘our concept of self-reliance so far has included an emphasis on building up basic industries within the country and on import substitution’. The present

attempt was only a re-defining of self-reliance and had not abandoned the basic principle.\\(^{53}\)

On the major issue of foreign capital, the Congress president said that at the initial stage of development India gave protection to native capital by restricting the flow of foreign capital. But after four decades of independence, the indigenous capital had reached a stage where it can stand on its own feet. So there was no way that the Indian economy could remain insulated within its confines any longer and it had to integrate itself with the world economy. A two-way traffic for the capital, manpower, technology, etc. had to be opened up. In a bid to woo various social classes, he stressed that the Scheduled Castes, Scheduled Tribes, Other Backward Classes, minorities and all weaker sections would get greater benefit when the state’s responsibility for the creation of large physical assets gets transferred to other agencies and its resources available for human resources increase consequently. When this happens, in his view, the present social tension, emanating often from inadequate attention to these sections, will also tend to ease.\\(^{54}\)

The economic resolution saw the government’s attempt to regain the confidence of the party and its frontal organisations in the reform process. While moving the economic resolution at the Subject Committee meeting, before it was finally moved at the Plenary Session, Pranab Mukherjee denied the allegation that India was compromising on economic sovereignty by borrowing from the IMF and the World Bank. He asserted that it was wrong to say that just by getting some money from the IMF or from the World Bank to overcome a temporary crisis the Congress had given up its basic concept of economic development. According to him, ‘those policies adopted in the 50s, 60s and 70s were absolutely relevant in the context of the situation prevailing at that point of time. But in the changed situation, therefore, if the policies are not changed and adjusted according to the needs of times, surely these policies cannot serve the people in an efficient way. A policy is not a dogma. Our policies are

\(^{53}\) Ibid., p. 8.
\(^{54}\) Ibid., p. 11.
meant for the well being of millions of our people who were exploited for more than 150 years under the colonial rule'.

Amidst public criticisms that the party deviated from its commitment to PSUs and the concept of socialism, Pranab Mukherjee also reminded that the Congress had not given up the importance of public sector in the economic development of the country and that this was evident from the Eighth Five Year Plan that had increased its share of investment. According to him, the Congress’ concept of socialism never envisaged total control over the means of production but was a logical combination of both public and private sectors. There was no question of giving up the planning process or diluting the role of the public sector. He said that it was their duty to look after the poor and in this regard their policy was not being dictated by the IMF or WB but the party’s election manifesto, which gave them the mandate to follow the new economic policies. ‘India could not afford to live in isolation and if we did not open ourselves to what was happening outside, we would not have any access to super technology, higher technology’. He further said that ‘decontrol and deregulation are absolutely necessary if we want to grow. We have not deviated from our policies and principles ...there is a continuity in the policy and there is a little change to make the economy viable and vibrant to fulfil our commitments to the people’.

The explanation by the leadership on the government’s policies did not satisfy the advocates of the left-of-centre approach. The dissident note came from Vayalar Ravi who reminded that the party’s goal was growth with social justice and it should continue to pursue it since even today a vast majority of the people were living in conditions of extreme poverty. He argued that steps had to be taken to improve the purchasing capacity of the poor. There should be no cut in subsidies. He warned that import of technology would lead to unemployment and said that while opening up it should also be considered as to how to protect domestic industry. However, other sections defended the government’s approach on economic reforms. P. Chidambaram

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55 Minutes of the Subject Committee Meeting, Rajiv Gandhi Nagar, Tirupati, 15 April, 1992.
AICC (1993), Congress Marches ... op. cit., p. 51.
56 Ibid., p. 52.
57 Ibid., p. 58.
said that there was nothing to be afraid of from the multinationals, as these would bring in capital and modern technology. He assured, that while going ahead with the economic reforms, the government would not abandon the poor to the market but would strengthen the schemes for their welfare such as Jawahar Rozgar Yojana and Indira Vikas Yojana. N. D. Tiwari assured that the country was in no way compromising its economic sovereignty by taking loans from the world financial institutions, including, the World Bank. In fact, he reminded that India was one of the founder members of the World Bank and the country was very much within its rights to approach the World Bank for loans to accelerate the pace of development in the country. He assured that there was no deviation from the basic policies and that while improving the performance of the public sector, workers’ interests would not be jeopardised.  

Inspite of a heated debate on economic policy, the party was able to arrive at a consensus and thereby slowdown the intra-party criticism temporarily. The final economic resolution adopted in the 79th plenary session at Tirupati reiterated the party’s commitment to the vision of Nehru and reaffirmed that democracy, socialism, planning, secularism, self-reliance and non-alignment were the basic tenets of Congress ideology. It gave a new interpretation to self-reliance in the changed national and global economic climate. Accordingly, ‘self-reliance cannot be attained merely by reducing imports. Self-reliance does not mean insular economy, it means accepting the challenge of making Indian industry competitive and the rupee convertible in the international market. Self-reliance means a self-confident economy. On the issue of the role of the public sector, the resolution recognised that by holding the commanding heights of the economy it diversified the country’s industrial structure but its major constraint on economic growth was its inability to generate adequate resources for further expansion. To increase its efficiency and accountability, it was necessary to give the greatest possible autonomy to the public sector. It categorically said that the government could not indefinitely give budgetary resources to loss making public

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58 Ibid., pp. 99-100.
59 Ibid., p. 267.
sector when these resources were urgently needed for other high priority plan schemes. ‘Instead of being a drain on the budget, the public sector should contribute to the budget through an adequate flow of dividends in return for the heavy investment made in public sector equity’.  

The intra-party consensus arrived at the Tirupati session did not last long because of inter-party conflict on economic reforms. In other words, inter-party conflict accelerated the intra-party conflict within the Congress. The left parties targeted the government and the Congress party for its anti-poor and anti-people policies. On 16 June 1992 an industrial bandh was observed and it was followed by the nation wide strike against the economic policies and the industrial policies of the government. Even in states with Congress governments, in which the left parties were in opposition, they protested against the government’s policies like cuts in subsidies on Public Distribution System (PDS), fertilisers, increasing price rise, etc. For example, the Congress government in Kerala faced intense criticisms from the opposition CPI (M) who accused them of overthrowing the widely acclaimed PDS and other social security measures which helped the state to achieve high position in all human development indicators. Hence, the protest against the economic policies of the Congress government came from a section of Congress leaders in Kerala. They said that party local leaders and the rank and file of the party were facing difficulty from the common people with respect to the anti-poor economic policies of the government. The resentment against the reform process was explicited in the party organisation at the meeting of the Pradesh Congress Committee (PCC) presidents meeting on 23 October, 1992. Vayalar Ravi said that the party was facing acute criticisms from the CPI (M) on the economic policy. According to him, ‘the CPI (M) was criticising the Congress government on the economic front and the fertiliser prices which had gone up three times’.  

\[60\] Ibid., p. 268.
The PCC presidents pointed out to the agricultural minister Balram Jakhar, who was present in the meeting, that they were finding it difficult to face the farmers on the government’s policy on fertiliser prices. The farmers, according to them, were annoyed at the sudden withdrawal of subsidies and that the party would suffer a setback if the subsidy was not restored. Thus, it can be seen that the vehement opposition against reforms within the party came from the leaders who were confronted with staunch opposition from their respective states.

Manmohan Singh explained to the presidents of PCCs the circumstances that led to the embarkment of economic reform and the need for continuing it. He convinced them about the economic crisis faced by the government when it came into power in 1991. He narrated the progress achieved by the reform process in all sectors of economy, despite its counter allegations. The policy, however, did not dilute the concept of self-reliance. The policy also did not mean cutting India off from the rest of the world.62

The agriculture minister assured that while withdrawing the subsidy, the government had protected the interest of the farmers by considerably enhancing the procurement prices of different items of agricultural produce. What resulted from the meeting was that Vayalar Ravi who was critical of government’s economic policies later moved a resolution supporting the polices of the Prime Minister at the end of the meetings. The resolution stated: ‘the new economic policy which he (Prime Minister) has introduced has once again brought to the forefront the concept of development with social justice . . . This meeting unanimously and whole-heartedly supports the economic reforms launched by the government’.63

Another dimension of the politics of economic reforms was that it showed how electoral compulsion forced to slow down the reform process. Although the Congress government at the central level initiated the reform, some of the Congress ruled state governments even refused to go on that way fearing of the erosion of its popular

62 Ibid., p. 160.
63 Ibid., p. 163.
support. The reform process, even though it gained momentum at the central level, was slowed down in the Congress ruled states where the opposition party was against the liberalisation policy. The Congress ruled state government in Kerala postponed most of the reform measures fearing that it would face strong opposition from the CPI (M). Thus, the criticisms aroused over the economic reform showed that political compulsion rather than conviction forced the party leadership to take a stand against reforms.

Public sector reforms: An arena of confrontation

In the economic reform process, one of the most important issue areas was the public sector reform. The public sector in India had a decisive role in building up basic infrastructure and the core industrial base, massive public investment, self-reliance etc. The economic reforms made a frontal attack on the commanding heights of the public sector in the economic development. Privatisation and deregulation, the twin components of the economic reforms, affected the dominant role of the public sector. The decreasing role of the public sector and the increasing role of private sector could be considered to be the part of the attempt for altering the relationship between the state and the market in economic development.

The government was quite critical of the performance of PSUs in the reform process. Its argument was that though public sectors has contributed significantly to the diversification of India’s industrial structure, its contribution in terms of generating internal resources for further expansion has fallen short of expectations, and its inability to do so has become a major constraint on economic growth. According to government sources, the performance of the public sector deteriorated sharply in 1990-1991 when the net profit (after tax) of all non-departmental central public sector enterprises declined to Rs. 2368 crore from the level of Rs. 3789 crore reached in 1989-1990. The poor performance continued in 1991-92 too.64 The government’s view was that not only the budgetary support to public sector enterprises needed to be scale down and

thereby maintain financial discipline in their operation but also exposed to market competition.

The changing philosophy of the role of public sector was more explicated in the Industrial Policy Statement on 24 July, 1991. It states that, ‘public enterprises have shown a very low rate of return on the capital invested. This has inhibited their ability to regenerate themselves in terms of new investment as well as in technology development. The result is that many of the public enterprises have become a burden rather than being an asset to the Government’.65 For the sustained improvement in productivity and profitability of the public sectors, the government brought in certain restructuring process. In 1991-1992 the government undertook a limited disinvestment of a part of public sector equity through public institutions and mutual funds in order to raise non-inflationary finance for development. It hoped that such a limited disinvestment would bring greater public accountability and help to create a new culture in their working and thereby improve efficiency. Keeping in this view, the government experimented limited disinvestment in certain public sector enterprises. For example, some of the profit making public enterprises such as National Aluminium Company (NALCO), Hindustan Zinc Limited (HZL), Indian Petr-Chemicals Corporation Limited (IPCL), Bharat Heavy Electricals Limited (BHEL), Hindustan Machine Tools (HMT), and National Thermal Corporation (NTPC) sold about 20% of their equity holdings.

Subsequently, the government initiated many reform in the public sector which included: budgetary transfers to public enterprises to be progressively reduced. To provide further market discipline for public enterprise, ‘competition from the private sector was to be encouraged and part of the equity in selected enterprises were to be disinvested; chronically sick public enterprises were not to be allowed to continue incurring heavy loses, the number of industries reserved for the public sector was to be reduced, private participations, in these areas, was to be allowed selectively and the government was to disinvest its equity in selected public sector enterprises’.66

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Politically, the public sector reforms evoked concern among some sections of the Congress party. Because the dominance of wide ranging PSUs was considered as one of the means to develop the patronage of the Congress party. The wider perception was that the reforms diluted the party’s commitment to the public sector in its economic policy and strategy. But the advocates of reforms tried to legitimise it with the election manifesto of 1991. The manifesto emphasised that ‘the public sector is crucial to the growth of the Indian economy, industry and employment. However, over a period of time some public sector companies have become lethargic, inefficient and expensive. This situation needs to be set right’.\textsuperscript{67} In a drastic move, the Industrial Disputes Act (IDA) was replaced by a new industrial relation bill to weaken the bargaining power of organised workers; it increased the vulnerability of the various social groups – farmers, workers and marginalised sections. As these groups constituted important political constituencies for the Congress party, the public sector reforms in the context of the new economic policy affected the party’s mass base. For instance, the policy of denationalisation resulted in the loss of much of the concessions which the employees in the public sector enterprises were enjoying. Even with the pressure from the international financial agencies for more public sector reforms, the presence of organised labour in India was a constraint to public sector reform due to two reasons: existence of labour laws and the importance of labour unions as political constituencies.\textsuperscript{68} It has been observed that ‘while external pressures served primarily as an impetus for the public sector reform, internal economic and political factors have functioned primarily as constraints to reform’.\textsuperscript{69} In the Tirupati session, the party categorically stated that the restructuring of PSUs was intended to restore its heath and profitability.

The debate on economic reforms acquired a new thrust in the early 1994 and it gave a new lease of life to the opposition’s criticism to the reform process. In a significant move, in April, 1994 India signed the General Agreement on Tariffs and Trade (GATT) Agreement and the opposition accused the government ‘of surrendering

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\textsuperscript{69} \textit{Ibid.}, p. 108.
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the country’s economic sovereignty’. This forced the Prime Minister to make a statement in both Houses of the Parliament. He said that accession to GATT was necessary for the Indian economy to be integrated into the world economy. He also rejected the propaganda against the GATT and asserted that the Dunkel proposals were to India’s advantage. He further made it clear that ‘... in this Dunkel proposal there is no such provisions which is disadvantageous to us’.

In view of the mounting criticism from the opposition parties against the acceptance of Dunkel proposals, the party decided to constitute an AICC level Committee with a view to educate people about the GATT. While moving the economic resolution on 10 June 1994 at the AICC meeting, N. D. Tiwari criticised the opposition parties for launching baseless propaganda against GATT which, he said, was in the best of the country’s interests, taking into consideration the global trends. Pranab Mukherjee also defended the signing of the GATT agreement and added that there was no question of compromising the country’s economic sovereignty. The Agriculture Minister Balram Jakhar refuted the opposition charge that it was harming the interest of the farming community. On the contrary he argued that GATT was in the larger interest of the nation.

The party leadership time and again attempted to find the positive aspect of the reforms and how it helped the Indian economy. It tried to bring back the confidence of elected representatives on the reform initiatives at various sectors. The two-day AICC meeting held in New Delhi on 10-11 June 1994 saw the party’s attempt to reinvent the positive developments in the economy after the initiation of economic reforms. It was a low affair and it did not witness any heated discussion on the economic policy of the government unlike in the Tirupati session. The moderate discussion witnessed in the session proved that everyone accepted the economic reality and even praised the

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71 Translation of Speech in Telegu at a public meeting, Nandyal, 6 January, 1994.
72 Party General Secretary’s letter dated on 11 April, 1994 to the PCC/TCC Presidents.
73 Ibid., p. 140.
74 Ibid., p. 140.
government for its effective steps in dealing with the crisis in 1991. The Congress president Narasimha Rao in his opening address claimed that they had saved the country from going bankrupt. He also said that his concern for the future was to ensure that the pace of reforms did not adversely affect the poor. The government was pursuing balanced programmes towards this end.\textsuperscript{75}

The economic resolution adopted at the AICC meeting warmly congratulated the Rao government for the progress in the implementation of the economic reforms launched in 1991 and for arriving at a consensus on them. It refuted the allegations that the economic reforms and the process of structural adjustment would jeopardise the anti-poverty programmes of the government. The resolution reiterated the party’s long-standing commitment to self-reliance. To them, the true objectives of self-reliance were best achieved through trade, not by aid, investment, nor borrowings. It said that ‘self-reliance is not a mere slogan but a cherished goal which can be achieved only when the economy develops the capacity to pay for its imports through export earnings’. In response to the issue of foreign direct investment, the resolution claimed that it was done on terms set by India and in areas which were essential. It was bringing in new technology and was creating new employment and export opportunities as well. The resolution added that along with liberalisation for industry and trade, the Congress was deeply committed and sensitive to the needs of the poor and disadvantaged sections of the society. In an attempt to counter the wider perception against the economic reforms in general and the privatisation of PSUs as affecting the job opportunities of the SCs and STs, and that private sector did not guarantee any affirmative actions provided by the Constitution to these sections, the party called upon the government to implement the reservation policy with regard to employment not only in government but also in the public and private sectors.\textsuperscript{76} It also urged the government to implement the Scheduled Caste Component Plan and Scheduled Tribes Sub-Plan more expeditiously.

\textsuperscript{75} Ibid., p. 117.
\textsuperscript{76} Ibid., p. 283.
Recurring elections at various levels in the democratic polity is often considered as a testing mechanism of the public perception of the policies and programmes of the ruling party. Though, the Congress party attempted to minimise the effect of reforms and arrive at a consensus within the party over economic reforms, the public resentment augmented over economic reforms. The assembly election results were a shock treatment to the Congress party in the backdrop of economic reforms. In November 1993 the Congress faced stiff contest in five state assembly elections – Uttar Pradesh, Rajasthan, Delhi, Madhya Pradesh and Himachal Pradesh. Though, the party could wrest Madhya Pradesh and Himachal Pradesh from the BJP, the results in Uttar Pradesh, Rajasthan and Delhi were quiet alarming. The party’s dismal performance in Uttar Pradesh, its erstwhile strong hold signalled the exodus of the Scheduled Castes, Scheduled Tribes, Other Backward Castes, and minorities from its fold and the erosion of its mass base. The rise of Bahujan Samaj Party (BSP), the party of Dalits, posed a greater challenge to the Congress’s electoral performance. In 1994 the party was defeated in Andhra Pradesh and Karnataka by Telugu Desam Party and Janata Dal respectively; it was also defeated in Sikkim and Goa. It can be seen that hard decisions and fiscal austerity measures hit the electoral prospects of the party as it pushed the deprived and exploited masses out of the reckoning in the economic and political process. Some observed that the Congress had failed to communicate to the people that liberalisation was a pre-condition for economic development in today’s world, and through this road alone poverty could be fully eradicated. But the wrong strategies and indecisiveness in the organisation, projected a wrong impression on the minds of the public that economic liberalisation meant the domination of IMF or multinational companies.77

Utsa Patnaik (1994), for example, found two interlinking factors for the dismal performance of the Congress party in the assembly elections. According to her ‘... it was a vote against corruption and a vote against the new policies of the government. The main plank of the new economic policy that rests on the withdrawal of subsidies

and reduction in agricultural growth rate has led to this undoing of the Congress. Withdrawal of food subsidies in particular has affected the poor . . . it was a vote against the new economic policy'. 78 In fact, The main reason the ruling party lost in the states was because of the lack of relevance of the reforms at the grass root levels. The benefits of the reforms did not trickle down to the grass-root levels- at the state, regional, sub-regional and zonal level. However, the Prime Minister rejected that the mandate was against the economic reforms of the central government. He asserted that whatever may be the results of the by-elections and assembly elections in various states, there was no question of going back on the reforms, and there was no return to old policies. 79 Later, the party also dispelled the argument that these results were a rejection of the policies and programmes initiated by the Congress government in 1991. 80

Another round of assembly elections in March 1995 was a further jolt to the Congress party with respect to the economic policy of the government. Even though, the party could wrest Orissa, Manipur and Arunachal Pradesh, it was routed in Gujarat and Maharastra, two major industrial states, and in Bihar. The defeat in the election proved that the business class and the upper middle class too were deserting the Congress and were shifting their loyalty to more centrist and Hindutva forces like BJP and Shiva Sena. The shifting loyalty of the business and upper middle class forced the BJP to soften its stand on liberalisation which was in contrast to its ‘swadeshi’ plank. The statement by Keshubhai Patel, Chief Minister designate of Gujarat proved the BJP’s positive approach towards the economic reform 81. The assembly election results

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81 After the astounding victory of BJP in Gujarat, the Chief Minister designate, Keshubhai Patel said:

“...We are not opposed to the policy of liberalisation. In fact, we have been demanding it since the Jana Sangh days. It was the Congress which later adopted our programmes and policies in this regard. I cannot believe that the government or the public sector can do everything that is needed to be done. There is a definite role for the private sector”.

see The Times of India, 15 March, 1995.
also gave the signal to the rise of rightist/right wing politics and identity politics; both of which threatened the Congress party's mass base. To the Congress it was obvious that the defeat was a popular rejection of the new economic policies.

**Revival of political populism**

Political populism, which provided a cushioning effect to the disadvantageous groups under the economic management of Indira Gandhi and Rajiv Gandhi, renewed its shape in the last phase of Rao government. The poor performance of the party in the assembly elections forced the leadership to adopt certain measures to bring back the disenchanted sections into its fold. The party decided to set up two panels; one for working out a new economic package for poorer sections keeping in view the populist slogans of the opposition parties and the other package was to deal with the problems of minorities. On 20 December, 1994 Pranab Mukherjee placed the report of the panel on socio-economic programme which highlighted a nine-point package. The package to deal with the problems of the minorities was placed by Ahmed Patel and it contained a 12-point package.

The party's setback in the assembly elections and its shrinking mass support among various sections of its social constituencies accelerated factional feuds within the party. Arjun Singh, the Human Resource and Development minister, raised opposition against the adverse impact of economic policies, observed that the packages of poorer sections and minorities were not the deciding factors, but that implementation was the most important aspect. On 24 December, 1994 Arjun Singh resigned from the Rao government over economic reforms. In a seven-page letter to the Prime Minister he criticised, among other things, the economic policy of the Rao government by accusing it as a crude attempt to debunk the efforts of the great leaders of India like Nehru, Shastri, Indira Gandhi and Rajiv Gandhi. He further cited that the NEP

84 The Finance Minister Manmohan Singh viewed Arjun Singh's resignation was due to personal reasons rather than the economic reforms. Interview with Manmohan Singh, 18 April, 2003.
carefully delimited the steps taken by the Congress government after independence to build a strong and self-reliant economy. According to him, the goals for economic achievement were under attack for reasons of personal acts of commission and omission of some people. Singh accused the 'liberalisation of economic policy has become liberalisation of corruption'. He was of the view that in the best tradition of the Congress party it gave a dignified place for the weak and the poor in the making of a strong and modern India. But NEP alienated these groups from the party. The letter revealed that the rising prices and the concomitant spin-off of the reform added a sense of disillusionment among the lower sections of the society. He also attacked the disinvestment policy of the government. According to him, in order to bring the economic liberalisation policy in tune with the aspirations of the people and to assuage their apprehensions about it, it is necessary to clearly define the steps that we want to take and give a human face to this policy. Secondly, it should concentrate on the economic empowerment of SCs, STs and other weaker sections of the society.

The Prime Minister, on the other hand, refuted the allegation of Arjun Singh that economic reforms lacked a human face. He said that the Congress was pro-poor but not populist and emphatically asserted that there would be no alteration, no U-turn and not even slowing down of his government's policy of economic reforms. Meanwhile, Arjun Singh was suspended from the primary membership of the Congress for 'anti-party activities', but the decision was later revoked a year later. In the subsequent months after the defeat in assembly elections and the resignation of Arjun Singh, the discontent over the economic policy augmented within the party. Various sections who owed allegiance to the Congress party came forward to protest the government's economic policy. At the Indian Labour Conference on 3 January, 1995 the Congress affiliated trade union (Indian National Trade Union Congress) joined the left trade unions in giving notice to widespread industrial unrest on issues like the proposed exit policy and the delay in salary revision for public sector employees.

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86 Current (Bombay), 31 December, 1994.
87 The Hindustan Times, 1 January, 1995.
Reforms with 'human face'

The underlying dynamics of economic reforms in a democratic regime based on competitive party politics is the minimisation of its ill effect on the voters. The adverse impact of reforms, often create political resentment and thereby erode the support base of the ruling party. In such a situation, the political leadership adopt certain measures to counter the political antipathy of its constituencies. Following the party’s setback in the assembly polls, the resignation of Arjun Singh and the growing protest over economic reforms from different organisations and social groups which owed allegiance to the party, there was a call for further debate on economic reforms within the party.

Moreover, the Finance Minister was confronted with the conflicting pressure from the IMF and World Bank on the one hand and the ensuing general election in 1996 on the other. The international financial institutions pressurised the government to accelerate the pace of liberalisation in India. The pressure from outside agencies forced the government not to dump the economic reforms, while the domestic pressure forced it to shed its anti-poor image. This forced the government to adopt a ‘human face’ in the management of economic policy.

In a step towards giving a human face to the economic policy and thereby to minimise its adverse impact on the people, the government offered more supportive measures. The Prime Minister reiterated that the government was bound to protect the interests of the weaker sections. He reminded that the Eighth Plan allocation for the rural sector had been stepped up from Rs.11,000 crores to Rs. 30,000 for employment generation, education, health care and other programmes through a later injection of resources.\(^88\) The Prime Minister suggested that the future course of the reform programmes would be guided by the demands of domestic needs and admitted that the benefits of the new economic regimes had failed to reach the poor.\(^89\)

The budget of 1995-1996 claimed to have satisfied the demand for growth with justice on the one hand and that of fiscal discipline on other. This budget, in contrast to


the previous ones, saw much emphasis on rural development, employment generation and poverty alleviation programmes and human resource development. The provision for food subsidy has to be substantially increased by Rs. 1, 100 crores. In addition to the increase in subsidies there has been a big increase in new projects targeted at the poor; social assistance for the aged; mid-day meals for poor children; rural housing, maternity benefits and life insurance; rural infrastructure development, etc. The outlay for rural development increased to Rs. 7, 700 crores from 7, 010 crores of the last year. The plan outlay for education was increased from Rs. 1, 541 crores in 1994-1995 to Rs. 1, 825 crores in 1995-1996. In the following months, the party leadership tried its best to get rid off its anti-poor image by adopting more populist policies. Mani Shankar Aiyar claimed that the Congress party’s/government’s reforms programme – Manmohanomics – comprised of two distinct elements: market orientation for matters best dealt with by the market and massive direct state intervention in favour of 700 million Indians who are yet to be raised to full market status. He was of the view that the focus of the economic policy over the four decades from Avadi resolution of 1955 to the budget of 1995 had been on the poor and the deprived.

On the government side, there was an effort to highlight its achievements on various sectors of economy. In June 1995, after the completion of the fourth year in office, the government issued a document entitled ‘New Vision, New Hope’ highlighting some important initiatives and achievements of the central government during 1991-1995 in various sectors. It claimed that the effort to embark on an unprecedented programme of economic and industrial reforms was aimed at obtaining freedom for its people from want, disease and ignorance. The strategy, according to the government, went well beyond structural adjustment, and endeavoured to remove the root cause of economic crisis and to bring in more and more of people’s participation at the grass roots level in an expanding vision of representative governance.

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91 Motion of Thanks on the President’s Address. Lok Sabha Debates, Vol. XXXIX, No. 16, 25 April, 1995, pp. 292-293
government claimed that 'the policy initiatives taken by the government intends to benefit the national economy and the society at large including the poorer section'.

In September 1995 the party published another document entitled, 'Congress Marches Ahead with Vision and New Hopes' highlighting the achievements of the government. The party claimed that in 1991-1992, the growth of economy had fallen below 1%. Within one year it was brought up to 4.3% and it accelerated to 5.7% in 1994-1995. In 1991-1992, industrial growth had collapsed to ½% and in 1994-1995 it was 8.7%. The rate of inflation which was at a peak of 17% in June 1991 came down to 7% in 1993-1994 and 8.6% in 1994-1995. In 1990-1991 the external deficit on current account which was 3% of GDP came down to mere 0.5% of GDP in 1994-1995. The party claimed that the fertilizer subsidy was launched in January, 1992 to strengthen the existing PDS in the far flung, difficult and other identified backward areas. Quoting from the report of World Bank, it claimed that only 25% of India's population was below the poverty line compared to 43% when the liberalisation process started. The party claimed more central plan allocation for Elementary and Adult education and health, promotion in jobs for SCs and STs, increased procurement prices for the farmers, increase in food grain production, and enhancement of allocation for rural development, growth in new jobs, etc. in the reform period.93

Democratic regimes demand the legitimacy from the people in the policies and programmes of the government. The renewal of democratic consent often necessitates the government to shed its stubbornness in policy reforms and accommodate the demands of the people. This forces every government to reorient its policies and programmes in a more people friendly manner during the election years. In the last year of its term, the Rao government refrained from major policy decisions and listed the achievements of the government in various sectors. The Economic Survey of 1995-1996 presented to Parliament on 27 February, 1996 advocated continuing reforms and fiscal stabilisation measures for sustaining high growth of output and employment. In the survey, the government claimed that 'the Industrial Policy Statement announced by

93 Ibid.
the Government in July 1991 envisaged disinvestment of a part of government holdings in the share capital of selected PSUs in order to provide market discipline and to improve the performance of public enterprises'.

The interim budget of 1996-1997 presented in the Parliament on 28 February, 1996 by the Finance Minister Manmohan Singh, in the run up to the general election, reflected the major achievements of the last four years. While presenting the budget, he claimed that the reform process took care of the needs of the poorer sections of the society. According to him, ‘as the private sector has expanded vigorously into many areas which were earlier reserved for the state, the focus of state activity and deployment of public resources is now being concentrated on meeting the needs of the poor and on the social sectors such as health, education and rural infrastructure where the market economy alone cannot bring benefits rapidly’. He claimed that the economic reforms initiated in 1991 controlled inflation, revamped the PDS for benefiting the poor, resurged growth, specially boosted small scale industry, etc. The proportion of people below the poverty line fell from about 25 per cent in 1987-88 to below 19 per cent in 1993-94. According to him the government pursued a three-pronged approach of promoting rapid, broad based employment generating growth, broadening and deepening special programmes for poverty alleviation and employment generation and giving strong thrust to programmes for social sectors and social security. The Finance Minister claimed that contrary to the criticism levelled against the NEP, it accelerated export growth, increased Foreign Direct Investment (FDI) and caused a fall in the ratio of external debt to Gross Domestic Product (GDP). Trade liberalisation, according him, actually increased India’s self-reliance in foreign trade.

According to Manmohan Singh, the Seventy-Third Constitution Amendment Act of 1992 was a step forward for the empowerment of the under-privileged sections of the society. It provided more devolution of powers to the state and distribution of revenue to the lower levels.

96 Ibid., p. 4.
Politics of dissensus and consensus

The party's reaffirmation for the cause of the poor in the midst of vigorous economic reforms did not bring an everlasting consensus on the economic policy. The dissident camp over the economic reforms also gained their strength and criticised the government for its economic reforms more strongly. The Congress leader P. R. Kumaramangalam later joined issue with dissidents like Arjun Singh and N. D. Tiwari over economic reforms. He was critical of the power sector reforms of the government. He said that the policy was meant to help the 'fabulously rich' international power giants.97

The braking of consensus over economic policy within the Congress was evident during the 'Congress Workers' Convention' organised by the rebel leaders on 19 May, 1995 as they presented an economic document. It sharply attacked the government's economic reform package, especially foreign firms and imports in general and multinational companies in particular. It pleaded with the government to ensure that Indian farmers, workers, consumers and industry are 'protected from the ruthless exploitation of the multinational corporations.. It criticised that the 'lack of transparency' in the Foreign Investment Promotion Board (FIPB) approval mechanism and had exposed the functioning of the government to the charge of 'crony capitalism'. They found inadequacies in the implementation of the reform package and its 'deviation' from the traditional policies of the Congress party.98 In short, their economic document described the economic policies of the government as 'anti-poor policies' and made a demand for 'removing' Narasimha Rao from the post of Congress president.

However, in the close of the term of the Narasimha Rao government saw the dilution of the apprehensions of the lower level leadership of the Congress party. The grass roots level workers who expressed their resentment over the economic reforms at the earlier stage came in the way of the government. There was a growing realisation

97 The Economic Times, 10 May, 1995.
that economic reform was the need of the time but the adoption of poverty alleviation programmes as an essential ingredient for the sustainability of the reform process. On 11 March, 1996 at the meeting of District Congress Committee (DCC) presidents, a resolution was passed. It stated:

New economic policy aiming at rapid economic growth with social justice, taxing series of measures to ensure smooth transition with human face and gigantic efforts to eradicate poverty by well conceived programmes and massive inflow of financial resources in the rural sector have brought a turn around in Indian economy. The massive economic growth, rapid industrialisation, robust international trade, substantial investment from abroad have clearly demonstrated the effectiveness of the new policies of the Prime Minister Shri. P.V. Narasimha Rao.99

Inspite of internal dissensus and consensus over the economic reforms, the government found an emerging overall consensus on economic reforms among the various political parties. While criticising the Central government’s policy of economic liberalisation at the national level, many non-Congress governments initiated certain reform measures in conformity with the economic reforms adopted by the Centre. The Rao government, at the Centre, received support from even non-Congress parties at the state level on economic reforms. For example, the Congress party received backing from Mulayam Singh Yadav, the Chief Minister of Uttar Pradesh and some of the parties of the North-East in the signing of GATT.

In 1995, a year before the general election, both the Prime Minister and the Finance Minister stated that whichever party come into power in the next election, the economic policy would be continued. To them, it could not be reversible as even opposition ruled state governments were implementing such reforms with mild intensity. For example, the Chief Minister of Karnataka, Deve Gowda of Janata Dal after assuming power in 1994 set up a high level committee to screen all proposals for foreign direct investment. His counterpart in Orissa also advocated the dismantling of the command economy since 1990. The Chief Minister of West Bengal pleaded for pragmatism in his economic policies and in Uttar Pradesh, Mulayam Singh Yadav was also soft on economic reforms.100 Further, the various state governments also

liberalised their industrial policy in order to attract domestic and foreign private investment and technology. The Chief Ministers of different states cutting across party line were competing for foreign visits, seeking foreign capital investment in their respective states. The Finance Minister, Manmohan Singh confidently stated that 'economic reforms are no more an object of contention among political parties. This is evident from their manifestoes and the speeches of various leaders, and more so from the recent industrial policy statement of the left-ruled West Bengal, which is virtually an endorsement of the Centre’s policy'.

Liberalisation figured prominently in almost all the manifestoes and most political parties indicated that they would go ahead with the reforms in case they were voted to power. As Economist Intelligence (EIU) Country Report noted, ‘one of the main points of difference between the parties in their election strategies was in the rhetoric employed over foreign investment. Congress justified its liberalising stance (at least in relation to past Indian policy). The BJP and the Left front talked the language of swadeshi (self-reliance). They made it clear that foreign investment would be more selective and restrictive, although it was never easy, even under the Congress government, as Enron, Kentucky Fried Chicken, Cargill and others could attest'.

The Congress party in its manifesto promised ‘to carry forward the momentum of economic reform and restructuring of economic policies to achieve a higher trajectory of economic growth, efficiency and competitiveness in all production sectors and achieve 8 to 9 per cent growth in GDP per annum”. It also proposed to continue and strengthen the policy reforms, price incentives and input subsidies which have improved the relative profitability of agriculture. The manifesto reaffirmed that ‘the restructuring of the public sector is the highest priority of the party . . . . The goal is to make these enterprises productive, efficient and profitable. The Congress is committed to achieve this goal’. In contrast to its earlier position on the closure of sick PSUs, the manifesto made it clear that those enterprises which were put in the public sector

101 ‘The economic reform have come to stay’, National Herald, 26 October, 1995.
104 The Hindustan Times, ‘Reforms after poll’, 22 April, 1996.
107 Ibid., pp. 8-9.
for security and strategic considerations could not be privatised. The manifesto took pride in raising the total subsidy even higher than the budgeted allocation. It claimed that it was because of the support of the people that ‘economic reforms of an unprecedented magnitude could be unfolded’ and that ‘the world could be compelled to take note of India and her stable polity and resurgent economy’. The party claimed that only a stable government could bring positive changes and claimed that the new economic policy is the product of a stable government. The manifesto maintained that economic reforms achieved growth in the economy – farmers got more income in relation to what they spend; industrial growth reached its highest level, more job opportunities were created; export averaged over 20% growth in the last three years; inflation was down to below 5%, (a record for 10 years), the farmers were given high remunerative prices by way of Minimum Support Price; PDS was revamped to benefit the very poor; the prices of urea was subsidised and the sale price of urea in India is the lowest among neighbouring countries etc.  

Among the other issues that figured in the electoral battle in 1996, the economic reforms constituted an array of political battles between the major political parties. It had been a widely recognised perception that economic issues have never been an issue in electoral politics of India except for certain slogans like _garibi hatao_ which added Indira Gandhi’s astounding parliamentary majority in 1980. But, on the contrary, the 1996 election proved that economic issues also had a significant role in altering the electoral arithmetic. Even though, the economic reforms never were a direct issue in the election, its immediate effect on people like rise in prices of essential commodities and the shrinking of job opportunities, figured in the election.

**Economic reforms and popular perception**

The relationship between economic factors and the voting behaviour in the election process has been a keen area of interest in western scholarship for a long time.  

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107 Ibid.

basic assumption of such a relationship is that good economic conditions and policies bring more votes and seats to the party in power. In other words, economic insecurity forces the electorate to shift their loyalty to other parties and thereby destabilise the ruling party. This theory was first explicated in India in 1967 when the Congress government’s inability to resolve the economic crisis and to control rising prices led to its loss of hegemony to non-congress parties in many states.

The verdict of the 1996 election renewed this theoretical formulation as it proved that the economic policy, which harmed the interest of the majority and benefited a minority, caused the erosion of the mass base of the Congress party. The party’s share of vote dipped from a high of 48.1 per cent in 1984 to a low of 31 per cent in 1996; its Lok Sabha strength plummeted from a staggering 415 seats to a pitiable 136 seats. It showed that the party failed to win back the support of the major social groups who resented over its economic policies, inspite of its pro-poor rhetoric. Moreover, the defeat of the party in Maharashtra proved that even the middle class and the business community who were the strong constituency behind the reforms, turned against the Congress. Here, the party lost its traditional strongholds to the Shiva Sena and Bhartiya Janata Party (BJP). All over again the election verdict proved that the economic reforms had a limited political support because it was implemented by a minority government. The lack of wider political support from the multiple groups in the Indian society on economic restructuring proved that the Congress brand of ‘consensus’ which was effectively an elite or dominant class-caste’s consensus had now lost its popular appeal.109

The general election of 1996 marked a transformation in the Indian party system. Because, it accelerated the process of fragmentation and the regionalisation of the party system which began in the late 1960s.110 It was pointed out that ‘while the social and regional base of the Congress has got fragmented, other parties or so called

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'coalitions' have been able to take its place and aggregate diverse interests'. On the other hand, there was the shrinking space of the Congress in the Indian political spectrum, the emergence of regional parties as actors in national politics and the consolidation of the right wing politics.

The party during the Rao regime legitimised the government’s reform process in connection with the popular mandate of the 1991 election. It equated reforms with the promises made in the manifesto which according to the Congress mentioned the initiation of reforms, if it was voted to power. But, one can interpret the poor performance of the party in the 1996 elections being a contrary to their argument. It proved that the people never gave their assent to the adoption of a market-friendly economic policy by denigrating the role of the developmental state. The initiation of economic reforms by the government and the dumping of the left-of-centre approach alienated different social groups from the party. Even though, the party time and again tried to convince them that the reforms are in consonance with the Nehruvian ethos and the time tested principles of the party, these groups felt that their views and aspirations had no place in the new economic agenda of the party. The traditional political constituencies of the party – the poor, Dalits, Tribals and farmers who were at the receiving end of the reform process moved away from the party and shifted their loyalty to other parties. Further, the verdict once again reaffirmed that whenever the Congress moved its commitment from the state to market it could not secure the confidence of its traditional social constituencies.

The verdict of 1996 election brought the debate on economic policy once again in the party circles. Reacting to the party’s defeat in the elections, Ved Prakash, Joint Secretary at the party headquarters, said; ‘we failed to communicate the success of economic reforms to the people. The benefits go through the state governments and most of the state governments in the country are ruled by opposition parties that did not cooperate with the Congress. Secondly, party cadres were also not able to disseminate this information to the voters’. He also admitted that the common man continued to

think that economic liberalisation was pro-rich. Pranab Mukherjee, the chairman of the campaign committee also endorsed the view that ‘lack of communication’ (in the economic reforms) was the most important factor that influenced his party’s electoral fortunes. Digvijay Singh, the Chief Minister of Madhya Pradesh, categorically stated that ‘until the minorities, the weaker sections and the Dalits are brought back into the Congress fold it would be difficult to win elections’.\textsuperscript{112} Manmohan Singh, on the other hand, did not agree with the argument that the party had lost election due to economic reforms. He saw the defeat owing to two discrete tendencies of the pre-reform era—Mandalisation and Hinduva. The mandalisation politics fragmented the consensus among the diverse social groups in the 1990s. Primordial identities like caste and region acquired political power and thereby shrunken the political space of the Congress. Secondly, the emergence of Hindu nationalism, which was in one way in response to the mandalisation, as manifested in the emergence of BJP, made a religious polarisation in Indian politics. The emergence of caste, religion and regional identities in Indian politics had eaten into the Congress vote base. In his view the 1996 elections was the explicit manifestation of the continuation of the fragmented politics started in the economic reform era.\textsuperscript{113}

In spite of its dismal performance, the party saw the fractured verdict as being in favour of secular polity, it reflected that ‘some of the divisions and schisms in the society caused the communalisation of the polity and the emergence of sectarian politics’ The CWC meeting held in the aftermath of the general election on 12 May, 1996 noted that the Indian people appreciated the programmes and policies pursued by the Congress party during the years under the leadership of Rao. But it admitted that it could not put across the positive dimensions of the economic policy as well as several historic decisions taken during the past 5 years. In spite of criticism levelled against Rao’s leadership, in certain quarters, over the party’s dismal performance, the CWC reaffirmed its faith in his leadership.\textsuperscript{114} Again, the CWC meeting held on 13 June, 1996, which reviewed the Lok Sabha and some assembly election results, came to the

\textsuperscript{112} The Economic Times, 12 May, 1996.
\textsuperscript{113} Interview with Manmohan Singh, 18 April, 2003.
conclusion that the causes for the defeat was local issues rather than national issues (like economic policy as alleged by the opposition). It found reasons in organisational weaknesses, failure of party machinery to communicate the programmes and policies of the Congress government and its achievements, and the alienation of Dalits and minority votes and also the alienation of the younger generation. \textsuperscript{115}

To conclude, the reform experiment of Rao government was a defining event in the history of the political economy of India. The conventional wisdom regarding economic rationality is that the authoritarian or stable governments with thumbing parliamentary majority are suitable for the sustainability of hard economic reforms. However, the economic reform of Rao government questions this formulation. Inspite of the criticisms rose from the opposition parties and from within the Congress party itself, the government did not face any threat to its stability. Further, though with mild retraction, the government carried out its economic reforms steadily. Unlike Rajiv Gandhi, who was afraid to implement economic reforms, though he enjoyed three-fourth majority in the Parliament, the Rao government being a minority in the Parliament confidently implemented reforms. The internal criticism within the Congress party on economic policy reforms was minimal compared to the earlier period. Though, the devaluation policy in 1991 evoked criticism within the party, it was not as intense as 1966, the first experiment of the devaluation. Even though the opposition parties raised their criticisms against economic reforms, Rao went on with his reform effort as nobody wanted to topple the government for its economic policy and put power in the hands of the BJP. Thus, Rao’s parliamentary instability helped him to push forward radical reforms which were a landmark in the history of India’s political economy. \textsuperscript{116} For example, the Left parties who were staunch critics of the Rao government’s economic policy, never wanted to bring down the government fearing that the BJP would take the opportunity to come into power. Moreover, the lack of unity among the major opposition parties (the BJP and Left parties) also helped the government to pursue major policy decisions. It can be seen that the BJP, the main

\textsuperscript{115} Minutes of the Congress Working Committee Meeting, 13 June, 1996 in AICC (1988), \textit{ibid.}, p. 19.
opposition party, indirectly supported the economic reforms. The social engineering and religious bigotry of the party especially the issue of Ayodhya diverted public attention from the economic reform. Thus, the religious polarisation helped the Rao government for the sustainability of the economic reforms.

Moreover, there was another dimension of the sustainability of the reform process in the Rao period. It is to be noted that the Finance Ministers are generally who are seasoned politicians and often undergoing democratic pressure in the economic management of the government. But Manmohan Singh, the bureaucrat turned politician, did not depend on any social group or constituency to implement the pace of reform process. Also, there was a common belief among the various parties that the reform process was essential taking into consideration the changed global political economy. Domestically, the business and industrial groups who developed under the protective wings of the state were able to compete with global capitalism. So they favoured liberalisation to a certain extent. The upper middle classes who were angry over Mandal politics extended their silent support to the economic reforms. Moreover, the parties based on identities were highlighting on social and political issues rather than economic reforms. While all these factors helped the government to sustain the reform process, the mounting discontent among its social constituencies over the dilution of developmental state through market reforms pushed the position of the Congress from being the 'natural party of governance' to the 'national opposition party' in Indian politics.