Chapter 1

Introduction

The study of political institutions in relation to economic development, particularly in policy formulation and implementation, is an important area of research in the realm of comparative politics. Though, the relationship between economics and politics was much discussed in classical political economy, the political economists who study the process of economic activity give minimal attention to political institutions which play a vital role in a democratic polity. This led to the development of a new area of research called comparative political economy. It focuses on state, society, classes and various political institutions including political parties in the development process, especially in a democratic set up. As Smith (1993) states, 'In the broadest terms, comparative political economy seeks to account for variations in national developmental paths by focusing on the interplay of three phenomena - classes, state and the global political economy'.1

Parties, as an important institution of state, revolve around the state. In fact, the nature of state - whether totalitarian or democratic - determine the nature of political parties, ideology, programmes and mobilization. Party politics, especially party mobilization and its policies and strategies, in the democratic regimes of the post-colonial states depended on the strength of the developmental state. As the state was the chief mobiliser of resources and the provider of goods and services to the people, the domination and consolidation of parties was closely related to its policies and strategies that strengthened the role of the state. Moreover, when democratic governments drive its legitimacy from the consent of various social groups, it has to satisfy the diverse interests of social groups in the process of policy formulation and implementation.

The social cleavages theory of political parties that establishes a correlation between social cleavages and the structure of electoral support of parties in a

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democratic system, argues that the stability of the party system rests on the strength of
the relationship between social groups and partisanship. Under the shadow of the
developmental state, the government initiates many welfare policies and thereby
strengthens its engagement with various social groups that indirectly help the party in
power to expand its mass base and electoral strength. The development policies
initiated by the government help the local leadership of the party to make a connection
between the government and the party and the people. Such a relationship helps the
social groups to influence the distributive policy of the government and the policies and
strategies of the party in power. Further, the use of developmental state and its
reorientation through the policies and strategies of the party in power enables them to
arrive at a consensus between various social groups on major policy initiatives of the
party/government. This consensus building mechanism helps the ruling party to
occupy a dominant position in relation to other parties even in the multi-party
democracy. Thus, dependence between the parties and the developmental state helps
them to develop an image of the 'statist' party.

As the statist parties revolve around the developmental state, any attempt to
denigrate the role of the state in development causes serious crisis to these parties. The
first ever attack on the 'statist' parties came in the 1970s when the role of the state in
development was challenged by the emergence of neo-liberalism. In the advanced
capitalist economies, the stagflation of the 1970s undermined the authority of
mainstream Keynesianism and provided the opening for the revival of free market
economics in the form of monetarism and neo-classical doctrines. The revival of
monetarist and laissez-faire theories further saw the erosion of state intervention in
development. The breakdown of the Keynesian consensus on development and the
adoption of neo-liberal policies like Reaganomics and Thatcherism forced the major
political parties in Britain and the United States to readjust their policies and strategies
towards more market-centred and neo-liberal economic agenda. These developments

2 Lipset, Seymour M. and Stein Rokkan (1967), Party Systems and Voter Alignments: Cross-National
Perspectives, New York: Free Press.
Chhibber, Pradeep K. (1999), Democracy Without Associations: Transformation of the Party System
and Social Cleavages in India, New Delhi: Vistar Publications.
enthused the political scientists and policy makers to develop a new area of research in comparative political economy - one that focused on the role of the political parties as a political institution of the state in the political economy of development.3

Throughout the 1980s, the post-war consensus on mixed economy and welfare state was challenged by the capitalist world and the thrust was on the rolling back of the state and for allowing market forces to enter previously protected areas of life.4 The neo-liberal policies altered the role of the state and the market in economic development. The impact of neo-liberal ideas gradually influenced the public policies of the developing countries.5 In this period, the policy paradigm of most developing countries underwent a change, moving from inward-looking, import-substituting, regulatory regimes to outward-looking, export-promoting and market-oriented ones.6 Thereafter, first the trans-national corporations and then the international financial markets extended their domains, leading to increased pressures on poor countries to liberalise the current account of their balance of payments, respectively.7 In the late 1980s and early 1990s, the collapse of the Soviet Union and the setback to communist regimes in East European countries and the admonishment of market economy in communist China were considered as far-reaching developments. The communist parties in these countries revamped their policy on economic development, especially in the area of market reforms and in their attitude towards foreign capital, investment and technology.

These developments in communist regimes and its project of economic restructuring gave a boost to neo-liberalism. Capitalism at this juncture propagated 'There Is No Alternative' (TINA) to free market economy and argued that market economy was the only viable alternative for economic development. Fukuyama (1989)

in his ‘End of History’ thesis claimed this to be the unabashed victory of economic and political liberalism and the total exhaustion of viable systematic alternatives to western liberalism, including Marxism and Leninism.  

The collapse of the Soviet Union and the communist regimes in East European countries, the shift in development strategy from state-led to market-led initiatives, have significantly altered the context of domestic politics in the developing countries. The debt crisis in the third world countries, at this juncture, compelled them to open up their economies and the abandonment of government-led development policies. For getting external loans, these countries were bound to bend to the fiscal dictates and conditionalities of the International Monetary Fund (IMF) and World Bank (WB). The policy of economic liberalization adopted by the developing countries to tackle the financial crisis implies ‘a very conscious and urgent attempt by the state to bring about a rapid expansion of the private over the public economy of market over non-market resource allocation and of competitive over hierarchically determined economic decisions’. These neo-liberal policies diverted the welfare state regimes into market related policy making. The World Development Report 1997 emphasis that the economic rationale for government intervention for tackling market failure and providing equity never benefited the society. It points out that government failure may be as common as market failure. The report questions the widely prevailing perception of the economic rationale for state intervention to tackle market failure. Thus the role of the developmental state was significantly reduced to accommodate market-oriented development.

The crisis of the developmental state is manifested in its retreat as producer state, regulatory state, welfare state and facilitator state. The wearing down of the

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developmental state can be seen as a crackdown on the relationship between the state and society which was the dominant feature of the development consensus in the 1950s. The shrinking resource capacity of the state strained the relationship between various social groups in their demand for more resources from the state. Some even feel that in the context of the predominant role of the market and the minimizing of the role of the state, social equalisation cannot take place and if the state does not control the national economic and productive resources, it cannot implement welfare programmes.13

Structural Adjustment Programme (SAP) imposes fiscal austerity measures on the state so that it recovers from the fiscal crisis, thus eroding the developmental functions of the state. Every democratic regime in the developing countries is forced to grapple with the neo-liberal ideologies – reduction of state budget, removal of safety nets, cuts on public subsidies, etc. In fact, political parties in a democracy are concerned over the measures to downsize the government activities in development. As political support of various social groups largely depend on the social spending of the government, the imposition of fiscal austerity measures erodes the electoral support of the political parties. They feel that a cut in public expenditure directly leads to the shrinking of state’s ability to respond to the demands of various social groups and that the neo-liberal coalition does not have a natural electoral majority.14 When the SAP forces the state to leave the distribution of economic gains entirely to the market, it risks the undermining of its electoral support.15

The retreat of the state from its developmental and welfare activities, the cut in governmental expenditure, the removal of safety nets, etc. have serious implications for the party system and party politics. The deregulation of state activities and the reliance

15 This view was also posited by Waterbury (1992) and Heredia (1994).
on market forces in the economy evokes distrust among the social constituencies who trust the state. The massive ‘social exclusion’ from development has its implications in political institutions including political parties, as they feel their demands are no longer accommodated in it. Thus, it is evident that when the state’s capacity as a developmental agent erodes; the parties that depend on the state for its mobilization of social constituencies and electoral base also erodes. It can be said that, ‘the party system got itself so deeply identified with the state that a crisis of governability shook the foundation of the party system itself’. 16

The institutional crisis due to the erosion of the developmental state has had a far-reaching effect on the dominant parties (especially the statist parties) which utilized the state for its patronage and political aggrandizement. The shift from the state directed development to a market oriented one has evoked major changes in the programmes and policies of political parties. Various studies have shown that since the 1980s and more explicitly in the 1990s the ‘statist parties’ around the world are confronted with the challenge of market oriented economic reforms. 17 In order to grapple with the changing domestic and global context major political parties in the developing countries have had to reformulate their economic policies and strategies. The changing policy preferences forced by the transition from the state to market invited resentment from their social constituencies. The growing disequilibrium between popular demands and the redistributive role of the state alienated social groups from the development process more explicitly manifested in the statist parties. The economic austerity measures as part of adjustment was meant to alienate the political support groups from the government and even parties in the allocation of resources. 18

In addition to this, the declining public investment and cut in expenditure made it

17 For example, in the countries like Australia, Bolivia, Cost Rica, Ecuador, France, Greece, Haiti, India, Jamaica, Mexico, New Zealand, Paraguay, Romania, Spain and Zambia, the statist parties were confronted with the market-oriented economic reforms between 1980s and early 1990s. see Corrales, Javier (2000), ‘Presidents, Ruling Parties, and Party Rules: A Theory on the Politics of Economic Reform in Latin America’, Comparative Politics, Vol. 32, No. 2, January, pp. 127-150.
difficult for the parties to maintain their patronage networks. The shifting ideological preferences and policies and programmes forced certain social groups to withdraw from the party and offer their loyalty to alternative political formations and sometimes resulted in the formation of parties based on ascriptive identities. Thus, the erosion of state structure means eroding all other political institutions, including the political parties.

According to Corrales (2000), 'this turn around not only contradicted the parties' historical platforms, but also penalized important constituents of the parties in the short term'. If the ruling party happens to be a statist party, the clash between the party and the reforms can be stronger. Because, they fear that reform would deprive them of opportunities and reduce their involvement in decision-making. Even though, parties are not state organs, they are an integral part of the state structure. There is a linear relationship between the state, which is the prime agency for development, and political parties in relation to its ideology, mobilization and even electoral supremacy. Their basic objective and ideology is to capture the state by democratic means and utilize it for the expansion of political patronage. Even the electoral competition revolves around the control of the government. State patronised development benefits that get distributed to the people to mobilize support for the groups indirectly help the parties to gain access to power.

Politics of economic reform

The study of politics of economic reforms focuses on various political institutions in a democratic system, including the political parties. This is because politics play an important role in the implementation and consolidation of economic reforms in democratic regimes based on competitive party system. Political parties in general and the ruling party in particular play a crucial role in the debates on the politics of

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20 Corrales, op. cit., p. 127.
21 Ibid., p.132.
economic reform, because of the interrelationship between the state and society in the political system. Bates and Krueger (1993) point out 'the role of electoral institutions, party systems and politicians play in both introducing and sustaining economic reforms'. They further add that '... the success of proposed reform was attributable to the number of competitive parties and the ideological space within which the position adopted by these parties was arrayed.23

The politics of economic reforms in relation to parties involves two phases - partisan competition within the parties and between the parties in the political system. It 'occurs within the parties as well as between the parties. Each level of partisan competition generates an important dynamic in the reform process, their interaction shapes the politics of economic reforms'.24 The adverse impact of the reform process accelerates intra-party confrontation between different groups represented by diverse social constituents and also the confrontation between the ruling and the opposition parties. Thus, the politics of economic reform is not only manifested within the ruling and dominant party alone but it is reflected in the entire party system.

There are three major emerging themes that have to be accounted for while analyzing the political economy of economic reforms in developing countries. The first is that economic policies have political consequences in the democratic polity. Because it can change the political equilibrium that generated those policies- market reforms can influence political change and the nature of political balance among the competing political groups. Secondly, an analysis based on the political economy of economic policy determination in developing countries can only be undertaken on the basis of an assumption about the nature of governments. These two themes have arisen both in economics and political science literature. Thirdly, if the first two premises are found

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unsatisfactory, the 'policy cycles' of various types may emerge where neither the
governmental type nor the set of economic policies are exogenous.25

Political institutions in a state effectively mediate the diverse interests of
different social groups by acting as a channel between the state and society. In
democracy, such an interaction and mediation not only enable the political parties to
extend their mobilization but also consolidates democratic rule itself. Haggard and
Kaufman (1995) opine that 'the consolidation of democratic rule depends not only
economic growth and broad distribution of benefits, it also depends on the development
of political institutions that can effectively mediate policy debates and coordinate the
relationship among contending social and economic interests'.26

It is clear that in the politics of economic reform, parties have an important role
to play in the initiation and consolidation of it. The nature of the party system whether
it is authoritarian or democratic, has a crucial role in the reform process. Many political
economists argue that non-democratic (authoritarian) regimes have several economic
advantages over democratic regimes in the implementation of economic reforms.27
Because, democratic governments undermine economic growth by favouring policies
that promote consumption rather than investment in an effort to please key
constituencies.28 In a democracy, based on competitive party politics, partisan politics
and political cost-benefit ratio of the various policies shape the politics of economic
reform. Diverse groups and sectional interests pull the reform process in opposite
directions and thereby impede and block the reform agenda. Democratic governments
face distributive pressures from different groups. Thus, while the economic situation
may compel it to initiate wide ranging economic reforms, political circumstances and

MIT Press, pp. 9-10.
26 Haggard, Stephan and Robert R. Kaufman (1995), The Political Economy of Democratic Transitions,
27 This view was expressed by political economists like Prezoworski and Limongi (1993), Sirowy and
Inkeles (1990) etc.
Prezoworski, Adam and Feramando Limongi (1993), 'Political Regimes and Economic Growth', Journal
Sirowy, Larry and Ales Inkeles (1990), 'The Effects of Democracy on Economic Growth and Inequality:
April, p.130.
demands from various social groups can impede both the initiation and the consolidation of reforms.\textsuperscript{29} In an autocratic political system, the political party in power is never bothered about the shift in the economic policies. However, in a democracy based on the competitive party system the shift in the economic policies is a great concern for the political party in power. But even in a one party system, where the probability of losing election is very low, the party leaders are concerned about their party’s margin of victory.\textsuperscript{30} Thus, the relationship between economic performance and party strategy is indeed a central question in the political economy literature.

Political parties perform a dynamic role in effecting national policies as they are capable of serving as a two-way communication channel processing the demands and interests of the population upward to the centre of power, and simultaneously passing downward to the people a better understanding of the absolute restraints and the ultimate requirements of the party as a whole.\textsuperscript{31} Parties winning elections on a traditional platform of state intervention in the economy are able to maintain its constituencies under the protection of the state.

Like the relationship between state and parties, parties and social groups constitute an intrinsic relationship to the state. Since in a democracy, parties are the political manifestation of social groups and exert pressure on the state to fulfil their demands, their loyalty to the parties depends on its ability to allocate resources.\textsuperscript{32} The retreating state in the redistributive functions evokes mixed response from the social groups. The poor and vulnerable sections are afraid of reforms on two accounts – as they do not have assets or skills, their accessibility to the market is difficult and even when they enter the market, they are not able to obtain fair returns.\textsuperscript{33} Thus, the stability

of a party system rests on the strength of the relationship between social cleavages and partisanship.

The adoption of economic reforms had a big impact on the politics of India especially party politics. The shift from state to market forced the mainstream parties to reformulate their programmes and policies towards economic development. One of the most important areas of economic reforms is the retreat of the state from its redistributive intervention. The withdrawal of state is manifested in the developmental process by means of the neglect of vital economic priorities of the people—cut in the safety nets like education, health and other basic amenities. The fiscal austerity measures, intended to bring down fiscal deficit exhorted the state capacity to meet the increasing demands on the state from various sections of society especially the newly politicized groups and communities. The retreat of state caused the legitimacy crisis of political institutions including political parties. It is clear that the survival of political parties in a democratic system depends on the ability of the political system to meet the popular and redistributive demands. The statist parties gain their strength and mass base at the cost of the developmental state. Whenever, it loses its control over the instrument of government to another party, there is an erosion of its support base and alienation of its social constituencies.34

Political parties and economic reforms in India

Party system in India developed in the context of a state that wanted to be the engine of social and economic transformation. Even the nationalist movement envisioned a developmental state that would unite divergent social groups and classes. After independence, as the state became the focus for the distribution of resources, political parties began to mobilize support around it. The parties attracted new social forces and recruited them into the political system through a state focused strategy. In fact, political competition revolved around the access to the state so as to acquire a due share from the state. The economic policies and strategies of the parties in independent India

were based on the philosophy of developmentalism in general and the strength of the developmental state in particular. There was an intertwined relationship between the developmental state and political parties, especially the dominant party.

The Congress party, which is presumed to be a statist party, dominated the political spectrum in the early decades of independence, attracted various political scientists not only in India but also the world. No other political party in the newly independent states in the aftermath of the Second World War evoked a wider academic interest than the Congress party. Its legacy of leading a mass movement against the imperialist powers, which ultimately brought freedom from the clutches of colonial masters; its capacity to accommodate and assimilate diverse social groups into one platform; its contribution to the modernization process of India while entering a dialogue with traditional values and norms; its amalgamate character of synthesizing diverse ideas and ideologies; its dominant role in the electoral politics of India in spite of a multi-party democracy, its inclination to influence the dominant thinking of the global political economy while appropriating with domestic interests; its capacity to give a cushioning effect to diverse socio-economic groups in policy-making and implementation, the prime ministerial domination of the party, etc. made it a unique area of interest in the study of Indian politics.

The Congress party which dominated the political spectrum of the early decades of independent India owed much to the developmental state. It depended on the developmental state for its mobilization, electoral domination and political management. Since state was instrumental for its strength and domination, the party formulated its economic policies and strategies to further augment the sphere of the developmental state. The Nehruvian strategy of development adopted by India soon after its independence had the potentiality to develop not only India from its colonial

backwardness to a modern self-reliant economy but also to strengthen the Congress party which was the ruling party. The potency of the developmental state enabled the party to maintain its relations with the state, society and various social groups. The abundant resources under its control and its allocation to various social groups helped the party to build a social consensus in society and to gain the loyalty of various social groups and classes. Whenever the party weakened the authority of the state by adopting more market friendly reforms, it was met with chaos and crisis within the party.

The initiation of economic reforms in 1991 marked a significant change in the political economy of development in India. In fact, in the mid-1980s, India had experimented with some of the liberalisation policies, but a coherent and comprehensive reform process was initiated only in 1991. The objectives of this policy were aimed at correcting the balance of payment crisis and fiscal deficit and creating a more competitive and efficient economic environment. The intellectual origins of the reform process stems from the ‘Washington Consensus’ of the Breton Woods institutions (the IMF and the World Bank). The main objective of the economic reform was to improve efficiency and growth, through free competition in an open market economy. The rationale for the economic reforms, according to its advocates, was that the Nehruvian – Mahalanobis strategy of state-dominated industrialization with all its protective and regulative barriers blocked efficient and rapid development pushing the country towards backwardness. The reforms aimed at achieving ‘macro-economic balance with high investment levels; reform and redefinition of the role of the public sector; reducing and restructuring domestic controls over production to Indian industry; and opening up to foreign investment’.36 The first measures in the liberalisation package included stabilization and a large devaluation of currency and deflationary measures. Subsequently, the structural adjustment reforms that were flagged off, included the removal of restriction on foreign investment and technology, cut in public subsidies, restriction of public distribution system, privatisation of public sector units, etc.

The new strategy marked a departure from the past by diluting the time-tested principles with its commitment to growth with justice, social responsibility and accountability, self-reliance, etc. Further, it questioned the mixed economy based on the strategic partnership between the public and private sectors. The new slogans that got momentum were liberalisation, privatisation, globalisation, efficiency and competition. Even though the rationale for the reform process was an attempt to provide an alternative development strategy against the existing one-the Nehruvian model of development-some feel that these reform agendas while representing only one alternative path of 'reform' were not necessarily the most effective for addressing the primary ills of the economy. 

One of the major areas of debate in the politics of economic reforms in India was the retreat of the state in economic development and the superiority of market in its place. The dominant view of state as an active agent for development was questioned. It 'moved from a widespread belief, prevalent in the 1950s, that the state could do nothing wrong in the 1950s, to that the state can do nothing right in the 1990s'. The transition from state to market as explicated in the economic policy in the 1990s, had evoked greater concern for political parties, especially the statist parties which depended on the developmental state for its mobilization, electoral strength, domination and consolidation. The reforms heralded a new philosophy of development policy minimizing/withdrawing the role of the state in the development process. Since the ruling party was forced to adopt the market-oriented reforms, it had to confront with various social groups which were the base of the party for a long time. The party felt that the fiscal austerity measures intended to achieve fiscal discipline like devaluation of the currency, cut in public expenditure, removal of safety nets etc. would create discontent among the social groups.

The practitioners of patronage politics felt that the rolling back of the state would mean a reduction of resources that will fail to satisfy their allies. When the state

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capacity to allocate resources to various social groups recedes, the party in power faces a grave situation. Because ‘the pressure to use public revenues as patronage not only stem from the heterogeneous nature of India’s dominant classes but also originate from the need to maintain electoral support in a democratic polity’. 39

The adoption of economic reforms by the Congress party impinges on the capacity of the state to accommodate various social groups by breaking the social consensus. This has serious implications for a party like the Congress whose existence depends on such a consensus mechanism. Since, the market had no control over the redistributive function, certain groups felt that the dominant social class should overrule their concerns when they were hijacking the economic resources. The emerging discontent among these groups, forced them to shift their loyalty to other political formations based on ascriptive identities (like caste, religion and region etc...) where they felt that their interests were best protected. Failing to check the alienation of these discontented groups, the Congress party witnessed a grave crisis in the Indian political system. Since mobilization and strength of the party was related to the strength of the developmental state, the weaning away of the state from the developmental process was of great concern for the political parties.

The analysis of the political dimensions of economic reforms can be based on three approaches – state-centric, society-centric and state-society-centric. The changes in the state, society and the relationship between both these have much impact on the political institutions including parties. As already pointed out, the statist parties have a strong linkage with these groups and the economic reforms altered the relationship between the state and society. It is argued that ‘political parties can play a more important role in creating links between social cleavages and party system in contexts in which the state plays a large role in setting economic and social policy ...’. 40 Political supports of various social groups largely depend on the social spending of the government in a democracy. The cost of fiscal austerity measures superimposed a

39 Kohli, op. cit., p. 239.
40 Chhibber (1999), op. cit., p. 12.
burden on certain social groups, whose electoral support for the party in power was then eroded.

The state-centric approach focuses on the functioning of the institutions in relation to the state and society-centric approach concentrates on its relationship with society. The third approach analyses the functioning of the institutions in relation to the state-society relationships. The state-centric approach argues that by strengthening the role and capacity of the state, one can strengthen the political institutions including political parties. When the role of the state in development is eroding, the institutions reach a crisis level. For example, the Congress party developed a policy of patronage and thereby maintained its vote bank under the presence of a strong developmental state. Kothari (1964), for example, conceptualized the domination or the institutionalisation of the Congress party in the Indian political system as the 'Congress System'. The erosion of state’s authority in development after the initiation of economic reforms seemed to deepen the crisis of the Congress party. There is an inter-relationship between the state and other political institutions in a democratic polity. Eroding state/state structure means eroding all other institutions including political parties. The decline of the 'Congress System' and the crisis of the Congress party is related to the weakening of state structure in India.

Society–centric approach proclaims that the strength of political institutions in a democratic system depends on the effective relations with society. The conglomeration of social forces and the social consensus strengthened the political institutions. The confrontation and fragmentation of social forces erode the political institutions, including political parties. For example, the social consensus existing in the 1950s, strengthened the dominant position of the Congress party. However, with the rise of new social groups – Dalits – who are demanding larger share on the state’s resources,

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42 Kothari (1964), op. cit.
fragmented the social consensus in the 1990s. This was a time when the state capacity to mobilize and distribute resources was shrinking. ⁴⁴

The smooth relationship between the state and society strengthened political institutions including parties. When strains arise in their relationship it erodes the associated political institutions. Indian democracy and political institutions work smoothly when the relationship between the state and society is cordial. The Congress was the main instrument that knit together the state and society and acted as India’s central integrating institution. ⁴⁵ The party’s capacity to absorb and assimilate groups and movements into its fold even prevented other parties from gaining strength. ⁴⁶ The changes in the policies of the state and its preferences alter the relationship between the state and society. ⁴⁷

As a statist party, the Congress was severely affected by the erosion of state authority. The party was trying to maintain its patronage its the patronage of the state was wearing away. While the acute balance of payment crisis and other problems afflicting the economy forced the leadership to adopt economic reforms, they were fearful of its adverse effect on the vulnerable sections of the community. The party was confronted with the lack of ideological clarity and lack of consistency in its programmes. The fiscal austerity measures that intended to bring back the financial health of the country evoked mixed consequences in the political system especially party politics based on democracy.

The shift of Congress policy and the discontent of various social groups proved that the ideological consensus and social consensus developed by the party behind the developmental state was in disarray. The economic reforms which gave due weight to market wean away the patronage politics developed by the Congress party over decades through the network of public sectors, public subsidies, public distribution and other welfare programmes. In such a situation a party like Congress which depended more

⁴⁴ Sridharan, op.cit. pp. 6-7.
⁴⁶ Ibid.
on the developmental state for its mobilisation of social groups, consolidation of political power and domination in Indian politics finds it difficult to maintain its mass base among the divergent social groups. The party’s move towards ‘Washington Consensus’ replacing its age-old commitment to ‘Nehruvian Consensus’ threatened the social consensus on developmental policy erected in 1950s. In fact, ‘as the effect of liberalising, the economy started to bite, the discontent of social groups who suffered went against the Congress’. 48

The shift in the policies and strategies of the Congress with the adoption of economic reforms in 1991, from a state oriented to a market oriented one contributed to the crisis of the party in the Indian political system. The replacement of state by market in its economic strategy created discontent among the various social groups which were the support base of the party since independence. As market is conceived as a far and non-regulatory agency, the dominant social groups took the control of it at the cost of the majority. ‘The economic adjustment implies the loss of several prominent tools of building a political base in India: fiscal austerity limits the ability to distribute subsidies; industrial delicensing and the relaxation of foreign exchange controls remove important methods of rewarding political supporters’. 49 The intra-party and inter-party conflict in Indian politics can be seen in the context of the retreating role of the developmental state and strengthening market. When the capacity of the state in developmental process, especially in the production and redistribution of resources to various social groups was reduced, different groups and identities sprang up demanding more shares in the economic resources.

Review of literature

The initiation of economic reforms heralded wider debates in India and it produced a variety of literature on the various dimensions and effects of the reforms. For example, the measures like the curtailment of public expenditure, withdrawal of public subsidies, disinvestment of public sector, and the devaluation of currency are important political

questions in a democracy. For a closer view of the political dimension of the economic policy, some important literatures are reviewed below.

Robert S. Jenkins (1995)\textsuperscript{50} examines the political dimensions of the adjustment by arguing that the liberal democracy which provides political space as well as resource to groups with an interest in preserving the status quo, does often act to halt the change. To him, the decay of the Congress party is a serious challenge to the institutional basis of the Indian political system. When the fragmented interests assert their strength, the party organization became less capable of reconciling conflicting political claims. The economic adjustment erodes the patronage politics and thereby shrinks the social base of the party. The fiscal austerity ‘limits the ability to distribute subsidies, industrial delicensing and the relaxation of foreign exchange controls remove two important methods rewarding political supporters’.

Sridharan (1993)\textsuperscript{51} while analyzing the economic liberalisation since Rajiv Gandhi’s period, links it to the deinstitutionalisation process in India. To him, in the liberal-pluralist theory of political economy, the deinstitutionalisation process got momentum in the 1980s – with the advent of economic liberalization. It signifies the decline or undermining of liberal democratic political institutions, processes and norms. According to him there are two perspectives on deinstitutionalisation- state-centric and society centric. The state-centric approach emphasizes that the deinstitutionalisation process is due to the shift in the policies and strategies of the state and its new preferences. In such a situation, the political leadership undermining the institutions, including parties. On the other hand, in the society-centric approach, we see the rise of new social groups and their demands increasing on the state’s limited resources and the state’s capacity to mobilize and distribute resources shrink. India’s premier political institution- the Congress party – is undergoing the deinstitutionalisation process because of the shift in the priorities and functions of the Indian state since the adoption of economic reforms in 1991. Secondly, it broke the social consensus on development, battered the state-patronage politics and the resources were diverted to the benefit of

\textsuperscript{50} Ibid., pp. 1-24.

the dominant sections of the society. In such a situation, where the social consensus is in danger and there is a possibility of confrontation amongst social groups, the deinstitutionalisation of the Congress party was a natural outcome.

Nayar (1992)\textsuperscript{52} also discusses the statist approach and society-centric approach while analysing the political dimensions of economic restructuring in India. According to him, 'the examination of policy outcomes requires focus on the dynamics of state-society interaction rather than state-society separation that goes with the blunt category of state capacity'.

Rob Jenkins (1999)\textsuperscript{53} analyses how democratic politics and its compulsions affect the implementation of economic reforms. While providing a state-centred explanation to the economic reforms, he emphasizes the role of political parties in the consolidation of the economic reform process. In democracy, according to him, as governments have strong vertical linkages with electoral constituencies, it slows down the process of sustainable policy reform. By analysing the Indian experience, he argues that the political sustainability of economic reform in India depends on its deeply rooted democratic system. As the political parties are the bridging link between the state and the society, any attempt to wean away the authority of the state through the reform process is strictly thwarted. In such a situation, the reforms often get introduced stealthily due to the political cost involved in its implementation. Further, the discontent of disadvantaged groups from the development experience, because of the neo-liberal paradigm, leads to identity politics that hampers the sustainability of reforms.

Varshney (1999)\textsuperscript{54} makes a distinction between the economic reforms initiated by both Rajiv Gandhi and Narasimha Rao. The process of economic reform under Rajiv Gandhi was slow and piecemeal, even though his government enjoyed absolute


\textsuperscript{53} Jenkins, Rob (1999), \textit{Democratic Politics and Economic Reform in India}, Cambridge: Cambridge University Press.

majority in Parliament. On the other hand, the Rao government succeeded in bringing drastic economic reform measures and carried it out vigorously, in spite of his party not having even simple majority in Parliament. According to him, this was possible because of the shift in Indian politics in early 1990s towards social issues rather than economic issues. For example, the rise of identity politics and its overtone to the social issues made the reforms possible. Secondly, the rise of Hindu nationalism overshadowed economic issues. The attention of the non-BJP opposition parties, who were critical of the government’s economic reform, turned towards tackling the growing menace of Hindu nationalism. This saved the Congress government to carry forward the economic agenda.

Patnaik (2000)\textsuperscript{55} sees another political dimension in the economic reforms by stating that the external pressure forced the Rao government to initiate the reform process. Since it was imposed from outside, it had an adverse impact on the domestic political process of India. According to him, globalization in India has intensified communalism, fundamentalism and secessionism. ‘These movements have become more important in Indian politics, and even led to a shift in political discourse away from economic policies towards issues raised by these movements’. Geared by the social fragmentation and confrontationist politics, the advocates of reforms created a euphoria that the implementation of reforms would stimulate modernization and would help to overcome traditionalism and backwardness. But, the outcome of the reform was a complete reversal to traditional values and it strengthened the role of politics based on ascriptive identities in India.

Corbridge and Harriss (2000)\textsuperscript{56} reinvent India in two dimensions- the neoliberal reform and Hindu nationalist project in the 1990s. The economic reform, according to them, while denigrating the role of the state, drifted away from the Nehruvian consensus which led to massive transformation in Indian politics. Since the


\textsuperscript{56} Corbridge, Stuart and John Harriss (2000), Reinventing India: Liberalisation, Hindu Nationalism and Popular Democracy, Cambridge; Polity Press.
social base of the state was shifted, newly politicized groups – the weaker and marginalized sections- asserted themselves in politics. The two projects in the 1990s – new economic policy and Hindu nationalism – diluted the social base of the Indian state. But, despite both these trends, the assertion and mobilization of Dalits, strengthened popular democracy in India. The authors argue that the reforms were responsible for the reworking of the idea of the state and its ‘capacity to work on behalf of those who stand outside India’s (expanding) social and economic elites’

**Focus of the study**

There are a large number of studies relating to the various aspects of the Congress party in Indian politics. The initiation of economic reforms in 1991 produced an enormous literature on its various dimensions and impact on Indian economy. But, there was no major effort to study the relationship between economic reforms and political parties. This study focuses on the policies and strategies of the Congress in relation to its emphasis on the role of the developmental state and its transition towards market-oriented development in the 1990s. The present study attempts to analyse the intra-party dynamics of the Congress party and to find out how the party was affected by the economic reforms as it moved towards market reforms reducing the strength of developmental state – especially in the area of public sector reforms and removal of subsidies, etc. The study focuses on the prospects of the Congress party in Indian politics when it moved from the status of a ‘statist’ party to a market friendly one in the aftermath of the liberalization programme in 1991.

In a competitive democracy based on electoral politics, a party may assume a dual role- the ruling and the opposition party. As such, the economic policies and strategies of a party are to be studied by looking at both dimensions – when it is in power and in opposition. In contrast to the earlier studies on the Congress party which concentrated on the party when in power, this study analyse its policies and strategies both as a ruling party as well as an opposition party. More literally, the study which covers more than a decade, deals with the two roles of the Congress – ‘natural party of governance’ and ‘the national opposition party’. But the limitation imposed on such a demarcation is that in a federal system like India, one cannot draw a clear-cut
distinction between the 'party in power' and 'party in opposition'. Even though a political party may not be a ruling party at the Centre, the same party might be holding power at the state level. However, for the purpose of study, a distinction is made that if the party holds power at the Centre, it is considered as the ruling party and if not, it is the opposition party.

Sources and methodology

It is considered that the economic strategy of a party may have links with the government when a single party is in power. It is argued that the economic policies and strategies of a party involve two dimensions. When it is in power as a single party, the government’s policies and approaches may influence the party and the party has to explain it to the electorate. The party forums often engage in discussions on government policies. As the Congress party was the chief formulator of the policies and strategies of the government since independence, every policy announcement of the government reflected the party’s stand. The primary sources used in the study, when the party is in power, include government documents like Five Year Plan documents, Budget speeches, Economic Surveys, Industrial Policy Statements, Reserve Bank Bulletins, reports of various committees and commissions appointed by the government on economic policy reforms. In addition, parliamentary debates provide important input on the perspectives of parties and government. Party documents like economic resolutions, election manifestoes, report of the party meetings, speeches and writings of the party functionaries have also been used in the study. Interviews of selected party leaders on various issues have also been conducted to know the internal dynamics of the Congress party. For the purpose of analysis, secondary sources like books, journal articles, e-publications and newspaper clippings relating to the party’s approach on economic policy are used. The thesis makes use of both historical and analytical method.

Chapterisation

Chapter 2 deals with a brief history of the evolution and development of the economic policy and strategy of the Congress party since the beginning of the nationalist movement to the Indira Gandhi period.
Chapter 3 examines Rajiv Gandhi’s economic reforms and the response of the Congress party.

Chapter 4 elaborates the economic crisis in 1991 and the following reform initiative of the Narasimha Rao government and the Congress party’s response towards it.

Chapter 5 deals with the policies and strategies of the Congress party in the post-Rao period after losing power to the United Front and the BJP governments.

Chapter 6 looks at the second generation economic reforms initiated by the BJP government and the approaches of the Congress party as a principal opposition party.

Chapter 7 concludes and summarises the impact of economic reforms on the decline and the deinstitutionalisation of the Congress party.