

India's economic reforms bend with the political winds

by Ramtanu Maitra and Susan Maitra

The annual budget for Fiscal Year 1995-96 presented by Finance Minister Manmohan Singh has been widely acknowledged in New Delhi as a belated attempt by the ruling Congress Party to rebuild the old poor-and-minorities consensus that has kept the center party in power historically, with an eye toward the 1996 parliamentary elections. As a result, the often-debated future agenda of the economic reforms program (including currency convertibility, new labor laws, and financial sector restructuring) has been put on the back burner for the time being.

The March 15 budget presentation took place in an environment in which the government of P. V. Narasimha Rao had no choice but to accept the reality that the Congress Party has lost significantly in elections nationwide and in such major Indian states as Maharashtra, Gujarat, Uttar Pradesh, and Bihar. While there is an ongoing debate as to why precisely the ruling party is continuing to lose ground, there is a genuine concern among the powers-that-be that the Congress Party has come to be known as anti-Muslim and anti-poor. Although no senior Congress Party leader has openly admitted that the party is considered anti-Muslim by the Muslims—who were a major faction in the consensus of earlier days—Congress Party spokesman V. N. Gadgil made it clear following the budget presentation that the party can no longer be considered anti-poor.

Losing ground

Over the last six months, the ruling party has lost control over state assemblies in Andhra Pradesh, Karnataka, Maharashtra, and Gujarat in statewide elections. There is no question that the defeats, following earlier defeats in Uttar Pradesh in 1994 and Bihar in 1991, have created a great deal of uneasiness among the party leaders at every level of the party hierarchy. Some of them criticize Prime Minister Rao's inept administration, while others point to the "adverse impact" of the economic reforms process, with which the Rao government is commonly associated, on the majority of the people. It is evident that the new budget is considered a curative measure to deal with the latter problem.

On the face of it, the budget is weak. There is no clear directive to resolve any of the major problems that are holding back growth of the Indian economy. The measures undertaken to "help the poor," and which earned the budget the reputation as pro-poor, are more cosmetic than substantial. While subsidies were not disturbed, and in fact the subsidy to the fertilizer sector has been given a hike despite protests from the free-traders, the budgets of the much-needed science and technology and infrastructure sectors were not given the boost they badly need.

The Economic Survey for Fiscal Year 1994-95, prepared by the Ministry of Finance and issued traditionally a few days before the budget is presented, however, led one to believe that the finance minister would use the budget to give a directional change. The survey pointed out that industrial growth would almost double in 1994-95, from 4.1% in 1993-94. The survey also pointed out that the infrastructure sector, hit by an acute resource crunch and having failed to attract enough private and foreign investments, has failed to gain from the ongoing economic reforms. The crippling shortage of funds has pushed down the growth rate in the coal (a major ingredient for power generation), railway (another major ingredient for enhancing power generation), civil aviation, and road sub-sectors. Although growth in the power sector is not considered low, it is significantly less than what is required at this juncture to sustain an 8-10% industrial growth rate in the coming years and make a visible dent in unemployment. The government was expected to tinker with the tariff structure to lure more investment into the power sector. However, no such indication was given in the budget.

A weak budget

Although the budget has been labelled as one that would slow down inflation, which is currently running at a rate of 11%, the fiscal deficit will remain quite high, at 5.5%. Much more important, however, is the government's decision to continue lowering capital expenditure vis-à-vis total government expenditure. According to one calculation, during the period 1980-85, the ratio of capital expenditure to total gov-

ernment expenditure was 37%. This fell during 1985-90 to 33%. By 1992-93, it had shrunk further to 25%, and was 24% in 1994-95. The 1995-96 budget indicates that the ratio will shrink further, to 21%.

What this means is that the money allotted to the public sector enterprises in the power, telecommunications, petroleum, and other infrastructure sectors is either finding its way elsewhere or not getting spent under the self-imposed diktat of containing inflation through reduction of the fiscal deficit. The reforms have failed to curb inflation, but have certainly slowed down the infrastructure growth rate to a dangerous level.

Danger signals

As one economic writer pointed out recently, the investment rate of 20% in India is way below that of all newly industrializing countries. These countries average 30-40%. The writer suggests that India will have to reach this rate of investment to ensure a sustained rate of growth of national income of 8 to 10%, which ostensibly the Finance Ministry seeks to achieve quickly. According to the annual government survey, the growth of the gross domestic product (GDP) estimated for 1994-95 will be about 5.3%.

While many of the survey's recommendations were given a go-by in the latest budget, the warning about a high fiscal deficit was heeded and it shows through in certain cases. However, the political exigencies of the ruling party have kept the other features, commonly associated with economic reforms, in the background in the latest budget.

But despite the cautionary measures undertaken in the budget, there is little to cheer up Congress Party leaders. Prime Minister Rao, who is also the Congress Party president, is under personal attack from a significant number of middle- and top-level Congress leaders. Some of these leaders have even gone on record to express their displeasure openly with Rao's leadership vis-à-vis the party as well as the government. It is still not clear whether the attack on the Rao government by these leaders is a fallout of the disagreement over how the party affairs are conducted, and the adverse outcomes in the recent state assembly elections, or the economic policies adopted by the government, which, when all is said and done, are an extension of the economic policy foundation laid down by the late Rajiv Gandhi administration in the mid-1980s.

Political exigencies

Among the top dissident leaders, former minister of Human Resource Development Arjun Singh, a political powerhouse from the state of Madhya Pradesh, stands out. Former Uttar Pradesh Chief Minister and senior Congress Party member N.D. Tiwari's recent decision to quit the all-powerful membership in the Congress Working Committee (CWC) (but remain in the party as an ordinary member) is an indication that the dissidents are alive and well. However, neither

Arjun Singh nor Tiwari attributed their differences with the prime minister to anything beyond party matters. Their views, expressed through open letters to the Congress president, accuse the prime minister of having failed to stem the erosion of the party's popularity, and in addition, accuse the Rao government of adopting an economic policy which projects the party as anti-poor. Arjun Singh, incidentally, has endorsed the latest budget.

Perhaps the most articulate voice against the functioning of the Rao government is former Science and Technology Minister P.R. Kumarmangalam, who had earlier resigned from the government and is currently spearheading a group of younger party members with the purpose of rebuilding the party. While making clear that his campaign is not targeted against "any individual," Kumarmangalam claims that the new economic policies initiated by the Rao regime have led to "distortion and corruption." And, he told media recently, in the guise of reforms, "a grand strategy to balkanize and disintegrate the country" has been unveiled.

Though it is difficult to surmise how many senior Congress members would subscribe to Kumarmangalam's thesis, there is, however, no doubt that the party is in deep trouble. Most of the trouble the Congress Party, still by far the largest national party, faces, is not simply related to widespread corrupt practices, of which a large number of party members are accused. The bigger problem is the party's inability to change and adapt itself to post-Cold War, albeit post-ideological, politics. The political growth of the backward and scheduled castes and scheduled tribes, exemplified in the assembly elections in Uttar Pradesh and Bihar, and its ability to garner support from the minority Muslims, who constitute 15-20% of the population as a whole, has been an eye-opener to all but the Congress leaders. This new political alliance was earlier the backbone of the consensus built by pre-independence Congress Party stalwarts and which allowed the Congress Party to remain in power almost uninterrupted since independence in 1947. Increasingly denied this vote, and in fact pitted against it, the Congress Party leaders fear that the party is being increasingly identified as an upper caste Hindu party—a problem that the other national party, the Bharatiya Janata Party (BJP), is also encountering.

Neither Congress Party leaders nor the party cadres so far have shown any genuine intent to look at this significant development which emerges out of the majority's search for social justice. Instead, Congress Party leaders are still pursuing the old politics, denying the emerging realities, and embracing the illusion that nothing has changed.

The crux of the matter, which the Congress Party leaders have failed to tune themselves to, is that a new political process has emerged. Under this new process, the political leadership in many states is slowly slipping into the hands of the majority represented by backward castes, scheduled castes, and scheduled tribes, and in alliance with the Muslim minority community.