WHAT IF INDIA HAD POLITICAL STABILITY?

Though some believe that political stability could be India's panacea, Rob Jenkins concludes that stable rule would do little to tap the country's potential

A "caged tiger" is how one survey described India in the early 1990s in summing up the country's past performance and future prospects. The same sense of regret is evident at the end of the decade, as the same surveyors pass their verdict: despite "reservoirs of resilience" India is still not fulfilling its promise. The "wasted potential" refrain is as familiar to Indians as it is to any bright but wayward schoolboy. Well-meaning critics cite India's under-exploited assets: a huge internal market, a talented pool of entrepreneurs, abundant natural resources. While the east Asian financial crisis has taken some of the sting out of the once-ubiquitous (and highly unflattering) comparisons with South Korea and Taiwan, the economic gap is still enormous.

The only obstacle to India becoming the next Asian miracle, say those who lament its disappointing record, is politics. Some fault democracy itself, introduced too quickly amidst a population too vulnerable to the predations of a parasitic political class. These days it is considered politically incorrect to imply that any country is unready for democracy. Hence the muted version of this critique: that what India needs is stability.

So, what if India did get stable government? The problem with answering this question is that, as Bill Clinton famously said about defining "sexual relations", it depends what you mean by stability. The version of stability peddled by India watchers today is almost always single-party rule. A few might accept that a compact coalition could provide stability, in the minimal sense of serving out a full five-year term. But only if the coalition partners were sufficiently "centrist", whatever that might mean in the mixed-up world of contemporary Indian politics, where Marxists in Calcutta woo foreign capital and the World Bank's darling, Andhra Pradesh's chief minister Chandrababu Naidu, buys popularity at the exchequer's expense while the state lurches towards financial crisis.

The collapse of four governments in less than three years has lent credibility to those who consider coalition governance an enemy of sound economic policy at the best of times, and an outright hazard when, as in India of late, the parties involved have little in common but a thirst for power. They are wrong on two counts: coalitions can be stable and single-party regimes unstable, and either way, stability itself does not guarantee results. Mobutu Sese Seko's Zaire, before it collapsed two years ago, was very stable, but hardly an economic showcase.

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THE RISE OF REGIONALISM

But why even bother assessing the potential economic consequences of a scenario – governmental stability in India – that seems at present so implausible? In fact, single-party rule, or at least a coalition completing a full five-year term, is not as far-fetched as the last few years might seem to suggest. What has fragmented parliamentary politics of late is the rise of regional parties. Many are offshoots of once nominally "national" parties, competing for votes in smaller and smaller geographical niches. This trend is not irreversible, despite the extrapolationism of political pundits who predict a future of ever-shrinking parties. Phases of fragmentation and integration are common features of evolving party systems.

There are many reasons why rule by a single-party or dominant-party coalition, were this to establish itself following September's general election, would be unlikely to produce a quantum leap in India's economic well-being. For analytical purposes they can be divided into two categories, each of which corresponds to a question.

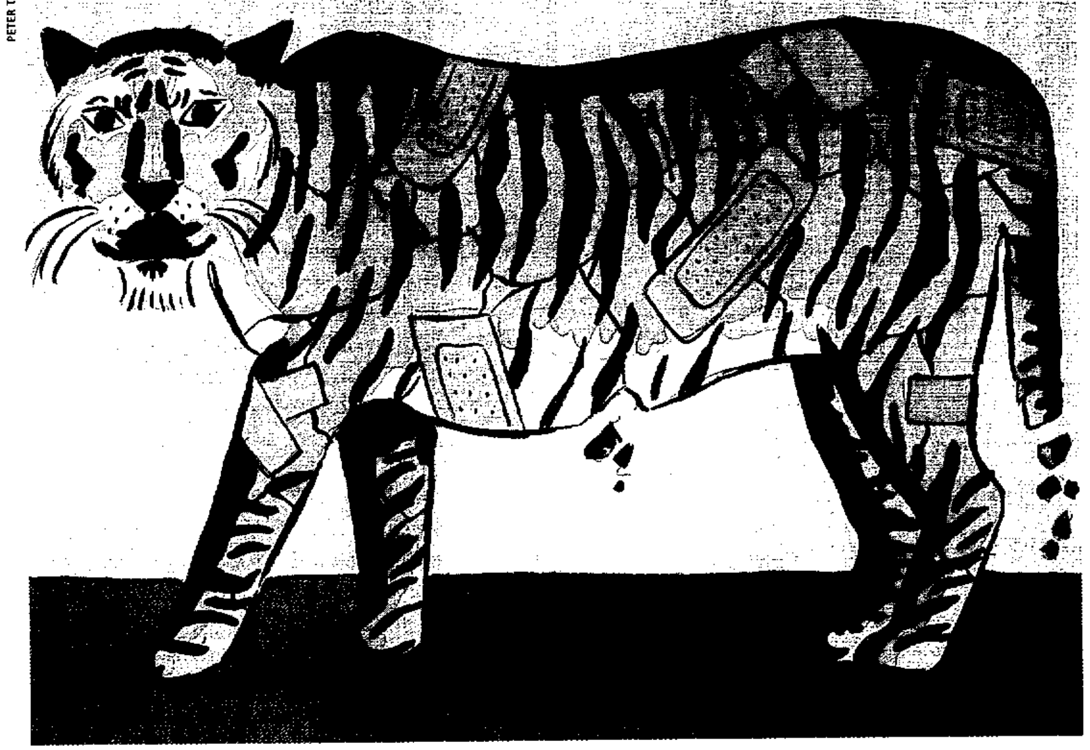
First, is this sort of stability sufficient to overcome the obstacles to India's development? The safe money here would have to bet "no". India has huge problems that transcend the domain of economic policy-making. This was dramatically illustrated by the armed conflict which broke out in late May along the India-Pakistan border in Kashmir. India's relations with China have also soured since its nuclear tests in May 1998, which India justified by pointing to China's own arsenal and Chinese aid to Pakistan's nuclear programme.

India will continue to pay for living in such a hostile neighbourhood in the form of inflated risk premia and growth-choking levels of defence spending, regardless of whether subsequent governments consist of one or many parties, or how long they stay in power. And contrary to conventional wisdom, government instability did not cause this costly nuclear diplomacy: Vajpayee did not authorise the tests in order to hold his coalition together. His Hindu-nationalist Bharatiya Janata Party (BJP) had long advocated "going nuclear".

The idea that a government more assured of its survival would possess either the will or capacity to cure India's numerous structural maladies stretches credulity. The votaries of the stability thesis must ask themselves a serious question: If the remedy for what ails India is stable government, then why did the Congress Party during its many years of uninterrupted power fail to tackle illiteracy, stem population growth, or halt the decline of India's woefully inadequate infrastructure? Wasn't it stability that sent India down the wrong path to begin with? A no-nonsense rejoinder to the stability thesis presents itself: the smugness of well-ensconced ruling parties is as much a hazard to economic advancement as the uncertainty of minority or coalition governments.

Second, is stability – in the sense of longevity in office, or single-party rule – necessary to attaining economic nirvana? The answer again is a pretty decisive "no". Since World War II Italy has experienced revolving-door coalition government; this has not prevented Italians from becoming some of the most prosperous people on earth. In India the correlation between political stability and prudent economic management is just as shaky, even for the most straightforward functions of government policy – taxing and spending. As Rathin Roy of London's School of Oriental and African Studies argued in a recent review of research on fiscal rectitude among India's state governments, "there are substantive reasons to dispute the notion that unstable coalitions are more profligate than stable governments". After analysing the records of governing parties over the past 20 years, Roy concluded, "rising revenue deficits and poor control over revenue expenditure have been a feature of central and state governments since the late '70s. Tax efforts have faltered through 1999, regardless of the government of the day".

PETER TILL



RULE BY MANY

Moreover, the rapid government turnovers India has witnessed recently have their compensating features. Since 1996 almost every one of India's top twenty-five parties, from across the political spectrum, has held ministerial office. Now almost the entire political class is implicated in liberalisation. Investors seeking assurances of liberalisation's staying power could ask for no better hedge against the risk of serious backsliding. Many politicians have even come to recognise the market's benefits, both to their constituents and to their political careers. Rapid government turnover – through the rise and fall of patently unstable coalitions – has made this type of on-the-job learning possible.

What has also allowed liberalisation to strike deeper roots has been the nature of the coalitions. Strongly represented are regional parties. Their leaders are not overly preoccupied with economic policy questions. But they do have one thing in common with those who see markets as the key to uncaging the Indian tiger: a loathing for the old system of central planning. Their main complaint is more with the "central" than with the "planning" half of the equation: most regional parties consider their states economic victims of Delhi's long succession of Congress governments.

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State governments, especially those run by regional parties, want more control over economic decision-making, and a chance to steer high-profile foreign investments their way. Their representatives in Delhi – often ministers in the rag-tag coalitions so frequently blamed for India's economic malaise – demand that the central government's Foreign Investment Promotion Board approve projects pending for their states. The coalition governments that succeeded PV Narasimha Rao's single-party government of 1991-96 have in three years vastly outstripped their Congress predecessor on foreign investment approvals. Parochial self-interest furnishes ample scope for horse-trading: if Maharashtra wants an electricity project approved, then the coalition partners from West Bengal and Haryana will have to be obliged as well, and the files on their manufacturing joint ventures dispatched with haste. So the composition of coalitions – in this case, their regional flavour – compensates for their lack of ideological coherence.

Finally, a brief mention of an overlooked aspect of rapid government turnover. When governments come and go as often as they have in India recently, this puts parliament out of the picture for significant periods, as the nation awaits fresh elections under a caretaker government. Many important decisions are thus delayed. But many are implemented quietly by executive order, or through bureaucratic decree.

A fair proportion are the sorts of reforms that would attract unwelcome grandstanding from anti-reform opposition leaders, and even ruling party backbenchers, were they introduced through normal legislative procedures. Instead they enter through the back-door – a sort of reform by stealth, which can often be politically efficient. So instability creates opportunities for actions which ruling parties, operating by the rules of politics as usual, might be too cowardly to take.

We can answer the original question by changing the emphasis, and rendering it rhetorical: so what if India got stable government? Neither actions nor outcomes would change much. It would be foolish to argue that more political instability is the answer to India's economic woes. But it does, at times, have its advantages. Above all, it undermines the complacency which parties enjoying a stable majority frequently exhibit. Neither stability nor instability – coalition nor single-party rule – is the answer. Neither is necessary, and neither sufficient. Stability is a red herring, and those who lament its absence would do well to suggest means for adapting to the fluidity which a fast changing world will continue to generate. ■

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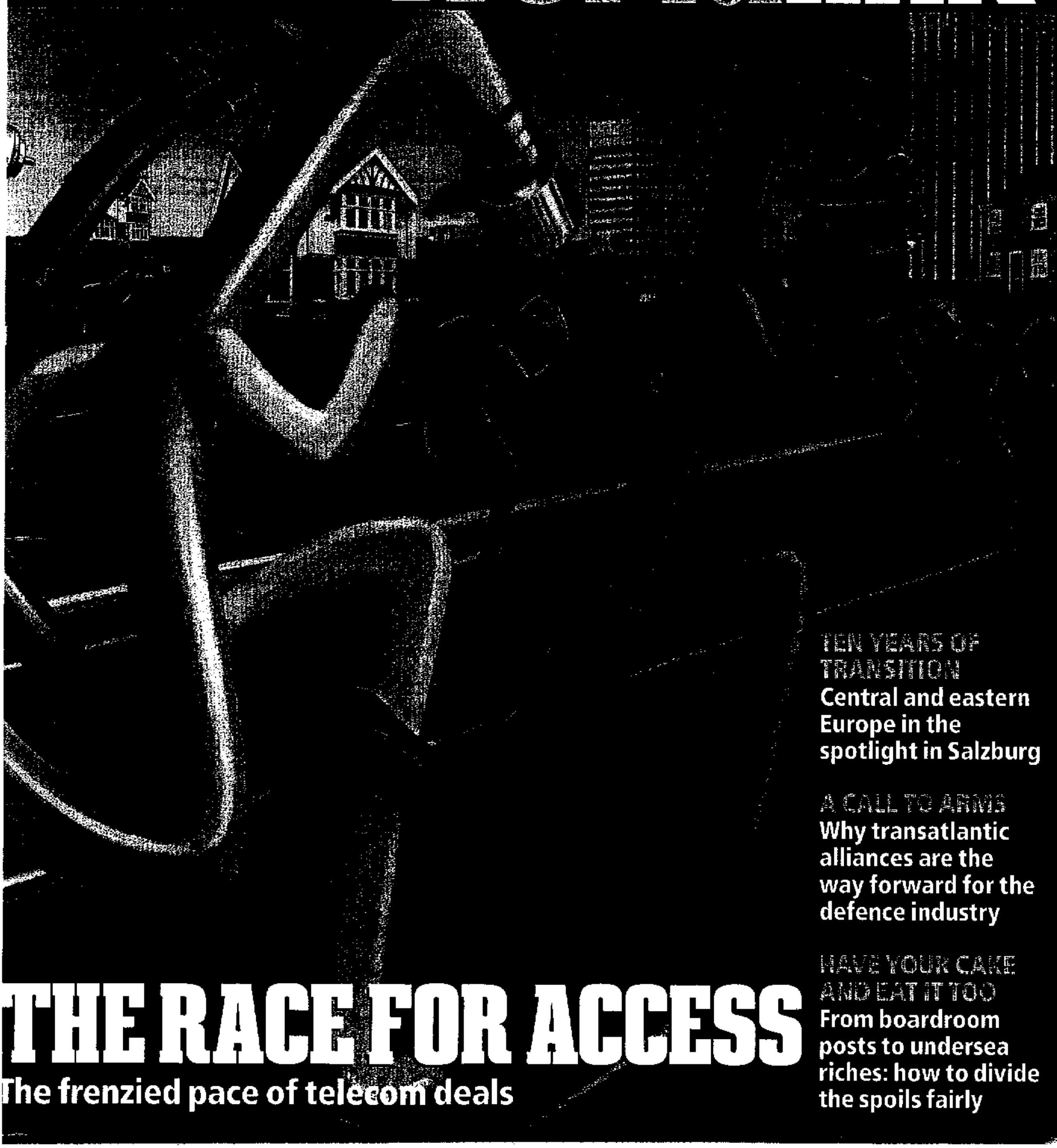

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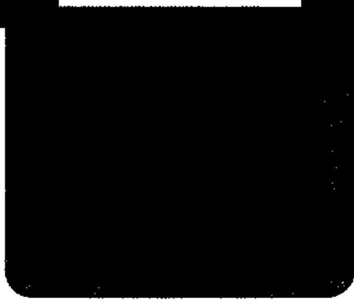

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