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India's Economic Transition
The Politics of Reforms

edited by

Rahul Mukherji

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6

Political Skills

Introducing Reform by Stealth*

ROB JENKINS

Political skills are vital to effecting a sustainable reorientation of development policy. But like the journalistic cliché 'political will', invoking the notion of political skill comes dangerously close to constructing a residual category, a last resort when substantive variables are insufficient to explain events. To argue for political will as a contributing factor in achieving any outcome is to risk entering into the realm of circular reasoning: actions which are deemed to reveal skill on the part of their practitioners can be verified as skilful only with reference to the outcome which the skill itself was meant to explain. Thus, A occurred because B is skilful; and we know that B is skilful because of the very fact that A occurred.

To put this more concretely, the same political gambit which succeeds for one leader can fail miserably for another. The former's skill, according to conventional standards, is the ability to judge when 'appropriate' circumstances were in evidence. But in virtually every such instance, the specific circumstances identified as decisive in influencing the timing of the gambit turn out to be highly ambiguous. They could as easily have been interpreted to support a different course of action.¹ In short, the gambit was skilful because it was successful, not the other way around. Politicians considered skilful are those who produce such outcomes with surprising frequency, though even this is rarely subjected to verification. But is someone who calls a coin-toss correctly 75 out of 100 times skilful or lucky? This question acquires particular salience

when, as in politics, an early lucky streak (say, three out of four) effectively generates better odds for future tosses by creating a power base which can act as a cushion for errors that would be fatal for politicians at earlier stages in their careers.

Indeed, in the literature on economic reform and democracy there is a good deal of support for a focus upon political skills. Guillermo O'Donnell has argued that if there is any hope of solving the prisoner's dilemmas that confound efforts to manage economic and political change simultaneously, 'it probably lies in finding areas...in which skilled action (particularly by the government) can lengthen the time horizons (and, consequently, the scope of solidarities) of crucial actors.'²

Neither the political incentives thrown up by economic reform nor the political institutions prevailing in India necessarily dictated the outcome of politically sustainable economic reform. They provided breathing space and conducive conditions for governing elites seeking to outmanoeuvre entrenched interests. But would-be reformers required distinct skills in order to exploit these openings. We have seen many of these on display—especially the ability to perform the complex utility calculations which are instrumental in the creation and maintenance of political networks and, ultimately, in the capacity to broker the agreements which underwrite policy change. But if we revisit the logic which underpinned the arguments about incentives and institutions, it is possible to see the need for a somewhat different, though complementary, type of skill.

One of the arguments was that, in responding to the uncertainties that arise when policy change is initiated, governing elites are able to rely upon the tendency of socio-economic elites to operate according to established patterns of interaction. Politicians were thus able to broker arrangements on this basis, while, crucially, retaining the capacity to deviate from the accepted norms when new incentives and constraints presented themselves. Accomplishing what in game-theoretical terms amounts to a disguised 'defection' requires mastery of a range of political skills, particularly those which democracy tends to breed in its practitioners. In particular, it depends upon a talent for obfuscation, the use of intentional ambiguity, and the exploitation of other politically expedient means in the pursuit of constantly shifting policy objectives.

These tactics disrupt and complicate the utility-calculating capacity of interest groups, which tends to disarm them, while the prospect of future rounds of negotiation means that the result is rarely open revolt. It also needs to be pointed out that interest groups themselves are not averse to misdirection

* Originally published as 'Political skills: introducing reform by stealth', in Rob Jenkins, *Democratic Politics and Economic Reform in India*, Cambridge, Cambridge University Press, 1999, pp. 172–207.

and the use of clandestine lobbying. One study of reform to the intellectual property rights regime argued that the business association representing the largest transnational pharmaceutical companies operating in India 'has run a stealthy, behind-the-scenes campaign to convert the opinions of Indian policy elites regarding patent reform.'³ This, it seems, was only fitting, given the government's approach to bringing Indian patent law into conformity with its treaty obligations, which one editorial referred to as reform 'by stealth'.⁴

The extent to which actually existing democracy appears to make the skilful use of such tactics essential calls into question the validity of rather more naive conceptions of democracy. Lest this be mistaken for a teleological form of reasoning, it is important to stress that democracy not only makes such skills *necessary*; it also makes their prevalence *possible*.⁵ It does this, chiefly, by permitting governing elites to use the openness of the political system to assess continuously the relative worth of political backing from competing socio-economic groups. This, in turn, enables a better appreciation of which to accommodate, which to abandon, and which to leave in limbo. A studied ambiguity on policy, allowing relatively low-cost subsequent revisions, is vital to this process.

Political skills are, however, important to any political system, democratic or authoritarian. They are an adaptation to the prevailing political context. In India, a premium has been placed on the ability to blur conflicts of interest between social groups. Often this has been accomplished by allocating 'hidden' subsidies and holding out the promise of future rewards, particularly in the form of government posts. During this period of economic reform, however, the flexibility of India's political actors (including politicians and non-elected elites) has proven extremely helpful in taking advantage of the institutions which the specific nature of Indian democracy puts at their disposal. Indeed, it is a skill that has been honed through a prolonged exposure to an environment of fluid competitive politics, in which cultivating new groups without necessarily abandoning long-time supporters is a common practice. This is not circular reasoning of the 'political will' variety but an adaptation to an institutional constraint.

Attempting to divorce an analysis of institutions from an examination of the skills necessary to operate within them effectively—to say nothing of the skill involved in their creation and rejuvenation—is in some ways as artificial as distinctions between economic and political factors in the process of policy reform. But this problem is inherent in the study of any system. Separating the parts from the whole, or from each other, leads ultimately to distortions of meaning. The hope is that the analytical value of identifying the functional role played by each part outweighs the danger of misrepresenting the whole.

The remainder of this chapter examines the use of these tactics. The first section concerns the skill of governing elites at maintaining the appearance of essential continuity with the past, while simultaneously undermining the basis upon which previous institutions have operated. The second section focuses on the inverse of the first: disguising continuity as change.

CLOAKING CHANGE IN THE GUISE OF CONTINUITY

One of the skills which reforming governments must possess is the capacity to cloak change (which tends to cause anxiety among those privileged by the status quo) in the appearance of continuity. The need to find innovative ways of accomplishing this considerable feat was emphasized by Robert Packenham in his study of why reform became politically sustainable in Argentina under Menem. His argument was that Menem 'combined continuity and change in such a way that the symbols of continuity facilitated the changes rather than hindered them.'⁶

There would seem to be ample precedent for achieving such a transformation in India. According to Ashis Nandy,

the tradition in India is to alter the dominant culture from within, by showing dissent to be a part of orthodoxy or by reinterpreting orthodoxy in terms of the needs of dissent: This is especially true of ideological deviations or innovations, the type of challenge the society has repeatedly faced and become experienced at handling.⁷

This is what India's reformers have tried to achieve since at least 1991, if not longer. To the extent that economic reform was considered a non-issue in the general election campaigns of both 1996 and 1998 (despite the BJP's *swadeshi* rhetoric in the latter contest), they have for the time being succeeded.

While we are arguing that change can take place within a context which appears to favour continuity, we are not arguing for the rhetorical or visionary powers of India's politicians. Even sober World Bank economists can be seduced by the notion of politicians creating a 'vision' which enables them effectively to promote change. Other World Bank-funded research contains similar views. To the extent that such studies recognize the importance of creative leadership and the capacity to transcend transitory interest-group configurations, they correspond to much of what this thesis is arguing. For instance, Leila Frischtak, a World Bank consultant in the Private Sector Development Department, argues that in some developing countries,

[t]he continual need to anticipate society, to generate new realities that are not yet

under the control or on the agenda of powerful interests, becomes the primary means for not succumbing to the control of these interests, and for simultaneously resolving disputes among them.

So far so good. Frischak, however, extends this logic to claim that a government possesses governance capacity 'only to the extent that it can achieve sufficient autonomy from society by articulating a vision of the future that is distinct from, and goes beyond the diverse interests of this society.'⁸ We need not reject the notion that providing a 'meta goal or meta idea'⁹ can be an important aspect of governance in order to state that, in India, politicians have relied far less on this positive form of vision-creation than they have on the ritual intonation of developmental shibboleths to conceal reform's radical implications and thereby reassure those groups who may be threatened by them. This approach has the advantage—for Indian politicians as well as for the plausibility of our argument here—of demanding far less impressive rhetorical skills. In fact, the few attempts of India's reformers to project encompassing visions of what liberalization means have involved tired clichés that emphasize continuity with the past. Narasimha Rao's orations, for instance, often returned to Gandhian themes of village self-reliance and their purported relevance to a market economy.¹⁰ At other times they stressed the compatibility of nationalism and entrepreneurship, as he did on the occasion of the birth centenary of pioneering Indian industrialist G. D. Birla.¹¹ Most often, Narasimha Rao reaffirmed his commitment to social welfare. As he stated in a speech at the London Guildhall: 'No multinational will build a primary school in India, no foreign investor will set up a health centre. These are jobs for the government. Let the multinationals handle the top sector, we will manage the grassroots. This is the way forward as I see it.'¹²

Attempts to reinterpret past doctrines, such as Manmohan Singh's repeated claim that liberalization was simply an alternate means to the cherished goal of self-reliance, or that freeing the market was the culmination, rather than the abandonment, of Nehru's development vision, went largely ignored.¹³ They did not capture anyone's imagination. At most, they may have served a limited goal of reinforcing a default impression of 'politics-almost-as-usual'.¹⁴ Projecting such an image is more useful than standard accounts of visionary leadership allow. By lulling enemies of change into a false sense of security, obfuscatory tactics play a large role in supporting this sort of rhetoric, which on its own would serve little purpose.

Even the altered dynamics between the central and state governments illustrate the importance of both imperceptible change and the exploitation of power differentials rather than the consensus-generating capacities for which

democracy is usually praised. In so far as reformers in New Delhi were able to rely upon state governments to perform many of the unpleasant tasks arising from adjustment, without openly acknowledging the coercive means by which their services were enlisted, this represents a relatively untransparent method of effecting sustainable policy reform. That triggering state government involvement in reform involved pitting states against one another, starving states of resources, and providing new opportunities for patronage and profiteering at the state level was, of course, never admitted. It was in many ways an opaque and gradual process which only revealed its radical consequences much later.

Indeed, the political benefits accruing from the conflictual relationship underlying this burden-transferring process even escaped the notice of S. Guhan, the commentator who illustrated the importance of state-level political arenas. Voicing the standard diagnosis of federalism's ills, Guhan pleaded for the tidy public-administration solutions of which good-government theorists are enamoured:

the reforms cannot be approached in a dichotomous, segmented manner with the Centre playing its own narrowly conceived part, leaving the States to play theirs at the pace and manner determined by each of them. Quite clearly, the reform process will have to be conceived and pursued in a framework of *cooperative* federalism that takes into account the distribution not only of economic burdens and benefits between the two levels, but also of the political constraints.¹⁵

Yes, it *would* be nice if various levels of government worked in a coordinated fashion. But in reality politicians at different levels have different concerns and different interests, and they often represent different parties. Unloading thankless responsibilities on to others is part of the time-honoured tactic of shifting blame. An idealized notion of democracy should not blind us to its pervasiveness in the process of promoting policy change in democratic India. The *conflictual* nature of federalism provided some of the tools with which accomplished buck-passers in the central government were able to generate competition as a way of furthering their preferred agenda.

An examination of government policy in three areas will illuminate the existence and political function of this pattern of obfuscation. The first concerns aspects of anti-poverty policy; the second deals with subsidized credit; and the third involves policies relating to privatization and labour.

Economic Reform, Shell-Game Politics, and the Poor

Two examples from policy in the 'social sectors' are worth exploring. The first relates to food subsidies. The Government of India's approach to the food

subsidy bill, according to one observer, is 'as close to shell game politics as you will find'.¹⁶ The government has loudly trumpeted its steadfast refusal to comply with World Bank recommendations that it drastically curtail the Public Distribution System (PDS), through which rice, wheat, sugar, kerosene, and other essential commodities are sold at subsidized prices to 'ration card' holders. National leaders are able to portray this as a determined stand against attempts to undermine India's sovereignty.¹⁷ It is held up as proof of their continued commitment to India's poor and downtrodden. Government officials make frequent mention of the fact that the budgetary allocation for the food subsidy has risen or remained constant in the years since liberalization began.

What this masks, however, is that this level of budgetary support for the food subsidy has not been sufficient to offset the steep rise in government support prices offered to cultivators of wheat and rice.¹⁸ As a result, poor consumers have been forced to pay far higher prices. The fact is that it would have required *even higher* increases in the level of budgetary support in order to stabilize the price at which grains are sold to 'ration card' holders in the Public Distribution System's (PDS) 'fair-price shops'. While 'increasing the level of budgetary support' for the PDS, the government nevertheless made essential commodities more expensive for the poorest of the poor.¹⁹ But that was not all. Through a deft display of political legerdemain, it transferred a substantial portion of the subsidy from consumers to farmers. This was deemed necessary to compensate for the government's failure to take other measures demanded by farmers. For instance, it did not increase fertilizer subsidies in line with the previous trend or extend the loan-waiver scheme initiated by the V.P. Singh government. The result was to change the way subsidies were delivered. It is significant that the government did not increase its commitments through *overt* subsidies. Instead, it handed out enormous increases in the form of 'price incentives' for farmers, while recouping as much of this outlay as possible from those who rely on subsidized foodgrains, namely, the poor. While maintaining the appearance of continuity (maintaining the food subsidy), the government effected a dramatic change (massive increases in the prices at which consumers bought them through the PDS).

It would be a mistake to consider this an isolated episode.²⁰ Moreover, the downstream implications are important if we are to comprehend the ways in which incentives, institutions, and skills can work together in support of change. This is because the opaque manner of bringing about a qualitative shift in the food subsidy—increasing need, while reducing outlays as a percentage of GDP—will influence the government's capacity to effect further reform in this area. The policy feedback effect requires a supportive institutional climate in

order to produce results. It also relies upon the application of tactical skill. The rise in the prices at which foodgrains are sold through the PDS—the 'issue price'—shortened the distance between the 'subsidized' and market prices, leading to a very large decline in consumption through the PDS, from 20.8 million tonnes in 1990 to 14 million tonnes in 1994. This is because PDS issue prices during that period rose even faster than the consumer price indices for the groups most in need of subsidized foodgrains.²¹

Ashok Gulati and Shashanka Bhide, two economists specializing in subsidy issues, have argued that this policy of retaining an administrative network of subsidized fair price shops, while slowly removing incentives for people actually to use them by bringing their prices closer to market levels, was a strategic way of deferring open conflict on the issue. It was also, they argued, an extremely shrewd way of softening the introduction of a system better targeted towards the poor.

We cannot know whether this was, in fact, a 'calculated move', and any effort to ascribe such strategic genius to Indian reformers should rightly be greeted with suspicion. But the ability to respond skilfully to opportunities that arise from previous decisions is arguably something that democratic politics engenders in its practitioners. Gulati and Bhide's further point was that if rises in PDS issue prices were a prelude to a focus on greater targeting, it would be 'better for the government to come out openly with its policy and have the courage to announce the withdrawal of the untargeted PDS'.²² This, of course, it did not do. After roughly a five-year delay, during which many pro-poor activist groups had been thrown on the defensive, the United Front coalition which succeeded Narasimha Rao's government did continue the process of PDS reform in the way predicted by Gulati and Bhide's account: the concept of targeting became further entrenched with the introduction of the Targeted PDS (TPDS).

Imploring reformers to avoid taking paths of lesser political resistance is a favourite pastime of neo-liberal economists,²³ though if anyone should know that such pleas will fall on deaf ears, it should be neo-liberal economists themselves. They would do better to probe the additional political implications of the central government's de facto retreat from food subsidies to the poor. One reason why it was able to get away with such sins of omission is that it is state governments, the first line of political defence, who must face the irate public. Electorates vent their frustrations at the most accessible level of government, not necessarily the one most responsible for their problems. This may be unfair, but so is the abuse hurled at ticket clerks when trains are late or cancelled. The laying of blame is a political process, one that by no means follows strict rationality.

Faced with protests, and the futility of blaming New Delhi, many state governments in India were, in effect, forced to substitute their own food subsidies to offset what the central government had withdrawn. The most notable example was the highly expensive Rs 2 per kg rice scheme in Andhra Pradesh, which emerged as a result of a campaign promise during the 1994 assembly elections. In that case, not only was the newly installed non-Congress state government forced to clean up the mess created by the central government's PDS price increases, it was also blamed for its lack of fiscal prudence when it had done so. With a good deal of the responsibility firmly laid upon its shoulders, honouring this commitment at the lowest possible cost by cutting corners became a major preoccupation of the state government. Obfuscation at the centre begat more obfuscation in the states.

Andhra Pradesh had the most expensive subsidy scheme, but others took similar actions, and for similar reasons. In Karnataka, the Congress government of Veetappa Moily in 1994 reduced the prices at which PDS outlets in the state sold rice and wheat. This cost the state's exchequer Rs 420 million. As a newspaper editorial noted:

The decision to reduce the end prices of grains also represents the additional financial burden that the states are forced to carry on account of the Centre's fiscal stabilization programme. While the Centre raised issue prices to contain food subsidies, Mr Moily reduced it to ensure demand among the weaker sections.²⁴

If we recognize that only *some* states found it necessary to cushion the blow of the central government's PDS price rises, it is possible to gain an even greater perspective on the extent to which the politically unpalatable consequences of underhanded tactics are masked by the veneer of continuity. Slowly emerging in India is a system in which the states with the most assertive populations—not necessarily the most deserving—take remedial action. In practice, the distribution of public resources thus takes a *politically* more efficient form: it apportions the price rises in accordance with regional, rather than national, thresholds at which such hardships translate into widespread political discontent. After all, poorer groups are not as politically assertive in Rajasthan and Orissa as they are in Karnataka and Andhra Pradesh. In this sense, it is valid to ask, as Mick Moore's study of the politics of adjustment in Sri Lanka did, whether one unintended consequence of how liberalization has been implemented in India has been to 'remedy an historic "weakness" of the... political system: the relatively indiscriminate and inefficient distribution of relatively large volumes of material patronage such that they purchase little lasting support for the party in power.'²⁵ To whatever extent this has taken place, it has not been advertised.

The second example of shell-game politics is the proliferation of employment-generation schemes, which have been among the major 'safety net' programmes during the period of economic reform. The massive expansion of such schemes was an attempt to enhance the government's pro-poor credentials (or at least curtail their erosion), while still finding ways to benefit groups whose clout might pose a serious threat to reform. This was possible because employment-generation programmes in India have been prone to leakages, benefiting individuals outside the official target groups.

The national schemes which have been so much more in evidence during the reform period are modelled on Maharashtra's Employment Generation Scheme (EGS), which continues as a separate programme. Both the EGS and the national Jawahar Rozgar Yojana (JRY) guarantee—in theory, and for the most part in practice as well—daily wage employment to citizens willing to contribute their labour. Because the work is physically demanding, and the pay minimal, the EGS (and to a lesser extent the JRY) is widely considered extremely well targeted at the poorest of the poor. But the nature of the programme has encouraged the formation of a considerably more broad-based constituency to support its continuation, and indeed expansion.²⁶ The rationale of both the EGS and JRY is not only to put people to work, but also to enhance the value of rural public assets, such as roads and irrigation canals. But, in reality, the work that is performed by poor labourers, paid from public funds, is often used to upgrade facilities used primarily by prosperous and middle-class landowners who otherwise despair of having canals desilted or roads maintained. In some cases, much of the work carried out under the EGS actually 'turns out to be land improvements... on land belonging to richer rural households'.²⁷ The JRY, as it evolved as a national programme administered by state and local governments, followed a similar pattern.²⁸ Both the JRY and EGS also provide opportunities for local politicians and bureaucrats to intervene in the selection of works projects and the recruitment of labourers.²⁹

If politically sustainable adjustment requires continued commitment to poverty alleviation programmes—and if such commitment is likely to arise only when a solid constituency remains to support it—then the emergence of the 'targeted-yet-leaky'³⁰ JRY as a major plank of the Indian social safety net must be viewed as an important contributor to the political sustainability of economic reform. It may not represent the most economically efficient allocation of resources, or the most equitable means for helping the poor.³¹ But given Indian realities it is remarkably well adapted to the need for satisfying groups other than the poor, as well as the need for a concealing mechanism to mask this fact.

Shifting Priorities But Not Official Policy

The government's approach to the issue of 'priority-sector' lending also relied upon tactical skill. Banking regulations stipulate that 40 per cent of financial institutions' total outstanding credit must be allocated to priority sectors, mainly agriculture and small-scale trade and industry. Rather than taking a stand that 'directed credit programmes' lead to allocative inefficiencies, and then 'selling' this reform by persuading farmers and small-scale industrialists that they will be more than compensated by other fiscal and regulatory reforms,³² the government decided to proceed quietly. Officials of the finance, agriculture, and industry ministries loudly proclaimed at every opportunity their undying commitment to priority-sector quotas and their determination not to cave in to World Bank and IMF pressure on this issue.

Unofficially, banks were consistently permitted to fall short of the stipulated targets—a phenomenon that the erring bank officers themselves admit is largely caused by liberalization. A general manager at the Bank of Baroda in charge of priority-sector lending said: 'After the government kicked off its liberalization drive, a lot of credit is being pumped into export finance. So banks have been finding it rather difficult to maintain the level of agricultural disbursements.'³³ This was also partly because the banking sector had been exposed to competitive pressures. As another bank executive admitted, 'At a time when we have to worry about staying afloat, we are just not prepared to take such risky assets in our books.'³⁴ In fact, 22 of the 28 nationalized banks failed to meet their targets in 1993.³⁵ As of March 1993, only 33 per cent of gross bank credit was directed to priority sectors, considerably less than the target of 40 per cent.³⁶ No action was taken against the banks.

The Reserve Bank of India, the agency responsible for setting targets and monitoring compliance, was aware that slippage on priority-sector lending would take place. According to one official, this was tacitly permitted because the banks had already been subjected to considerable shocks that year as a result of new accounting procedures instituted to prepare Indian banking for a more open-market economy.³⁷ In order not to upset the banks too greatly, it was decided to allow them, temporarily, to reduce their commitment to 'directed credit'. The calculation was that changes then being made to the definition of 'small-scale industry'—allowing larger firms to qualify—would in future years make it possible for banks to increase lending to this 'priority sector'. In other words, a behind-the-scenes compromise permitted one interest group (banks) to withstand the costs of policy reform at the cost of another (the small-scale

sector), until such time as the latter could be redefined in ways that would privilege yet another group (slightly larger firms). Through such means was the charade of continuity maintained.

In fact, several changes to the priority-sector guidelines were quietly introduced. New banks were exempted from priority-sector quotas for their first three years in business. For the first time, a firm's export-orientation made it eligible for priority status, thereby increasing the size of the 'target' group for directed credit and making it easier for banks to meet their quotas. The rules regarding which housing loans would qualify as priority-sector lending were also relaxed. Previously, only housing loans of Rs 5000 or less made to members of scheduled castes or scheduled tribes counted under the priority-sector heading. The limit was raised to Rs 200000 per loan, and the restriction to scheduled castes and tribes was withdrawn.³⁸ 'Indirect lending' was also permitted to count towards meeting the banks' quotas, meaning that loans to state electricity boards for rural electrification projects,³⁹ for instance, could be treated as agricultural loans, as could lending for high-tech agricultural activities such as tissue culture and greenhouse-based floriculture.⁴⁰ Retail trading, usually considered less deserving than other sectors, increased its share of priority-sector lending substantially between 1990 and 1994.⁴¹ This was unsurprising, given that the ceiling for qualification was hiked from Rs 25000 to Rs 200000.⁴² The government permitted some commercial banks to close loss-making branches,⁴³ and private domestic and foreign banks were allowed to meet priority-sector obligations by parking funds with the National Bank for Agriculture and Rural Development (NABARD). Even with these crucial (unpublicized) concessions, priority-sector lending as a percentage of net bank credit fell from 42.4 per cent in 1990 to 35.3 per cent in 1994.⁴⁴ The priorities changed—especially as banks began to focus their efforts on loans above Rs 200,000—but the official commitment to directed credit remained untouched.⁴⁵

This division was mirrored institutionally in the RBI's bureaucracy: the department of rural planning and credit would publicly prod the banks to increase lending to agriculture and the small-scale sector, while the department of banking operations and development was itself encouraging the scaling back of such lending practices.⁴⁶

Through the Back Door: Indirect Approaches to State-owned Firms and Labour

The approach to reforming state-owned firms and the industrial relations regime has relied upon similarly indirect methods. Even some foreign observers

have begun to recognize that the government has not only faced political constraints but has also attempted to overcome them through relatively unfrontational tactics. As one put it:

It would be nice if privatization were speeded up, but the government is allowing companies to compete against state-owned companies, and that's a back-door way of doing it. China has followed a similar policy of ignoring some very tricky issues, and concentrated on getting private investment to increase.⁴⁷

In fact, compared to some of the other means the government has employed, subjecting public-sector firms to competition is a relatively above-board approach. Automobile manufacturer Maruti, for instance, has remained nominally a government enterprise, though the Japanese firm Suzuki has slowly been permitted to increase its joint-venture equity participation from 26 per cent, to 40 per cent, and then to a controlling 50.2 per cent. Former finance minister Madhu Dandavate termed this 'back door' privatization, and considered it consistent with the government's general policy of 'double-faced liberalization'. That he is right is less significant than the fact that protests such as his failed to generate the political backlash that he and others clearly expected.⁴⁸

Another example of the skill with which Indian politicians have practised reform by stealth is the coal sector. The long history of trade-union militancy in this sector has made governments particularly wary of taking decisive action. Disruption in the supply of this vital input has the capacity to cause serious economic disorder. The existence of powerful political patrons behind the monopoly supplier, state-owned Coal India Limited (CIL), added an extra measure of caution to the statements of reformers and political managers in Narasimha Rao's circle.⁴⁹ Diverting coal supplies to clients willing to pay a premium above the state price was over the years a lucrative source of illegal income for politicians with connections at various levels of CIL's operational hierarchy.⁵⁰ During the first four years of reform, the result was a spate of government denials that the coal sector would be thrown open to the private sector.⁵¹ Even limited disinvestment of CIL's shares to raise resources was deemed too sensitive to risk.

Nevertheless, a quiet start was made towards deregulation. It began with a bidding process that resulted in 20 private firms being short-listed to set up coal washeries. The most significant move, however, was the decision in 1994 to allow firms investing in power generation, steel, and cement projects to establish 'captive' coal mines—a step which was the result of intense lobbying by a group of firms that ultimately included those bidding for the coal washery projects.⁵²

Permission was to be granted only to those firms which could justify the need for a captive supply on the basis of projected productivity gains from vertical integration. According to Pranab Bardhan, the process of 'indirect' liberalization in the coal sector subsequently took other forms consistent with this logic. CIL had its monopoly further undermined when the Government of India permitted certain businesses to import coal if the supply from CIL was 'erratic', which it almost always was. This is another means of building a constituency for future policy reform.⁵³

This type of policy modification has three important implications. First, the criteria in such ad hoc policies are notoriously imprecise, leading to decisions being made on a discretionary basis. This allows a new source of corrupt income to emerge. Second, because this happens at the same time as the old system of CIL favouritism is still relatively intact, a period of overlapping patronage defuses opposition from within the political and bureaucratic elite.⁵⁴ Third, and most important, the overlap period helps to nurture an actual, concrete 'proto-constituency'—the firms with captive mines—capable of contributing to the battle for more direct forms of reform at a later stage. It is a process which relies on systematic obfuscation about future intentions, if not outright deceit.

This state of affairs is also very significant for our understanding of why traditional approaches to modelling the political economy of economic reform do not produce the expected results. Most models envision the substitution of a constituency of 'winners' from reform for those groups who 'lose' in the redistributive process. Yet this often—perhaps even in a majority of cases—does not take place. To reiterate, the reason is that the winners are always *potential* winners, most likely dispersed and poorly organized because of the extreme uncertainty that they will actually reap the promised benefits. The costs to the usually well-organized losers, on the other hand, appear very real indeed. When, as in the case of the coal sector in India, the winners have been able to taste some of the rewards, they are a more potent source of support to reformers, who likewise are that much more inclined to believe that they can effect a relatively costless substitution of their support base. The potential losers, for their part, are more likely to have been lulled into a false sense of complacency as a result of their apparent ability to prevent the government from taking the most serious steps towards reform.

The result of this strategy of 'back door reform', then, is to strengthen the government's political position when the economic logic reaches its ultimate conclusion and a decision on more substantial deregulation and privatization becomes unavoidable. As the Economist Intelligence Unit put it: 'The question

must inevitably be raised soon as to why the nationalized company is needed at all and why prices should be set administratively.⁵⁵ Allaying the apprehensions of powerful figures about what the future might hold for the sectors in which they have interests is not easy. An economist who has served on the boards of several public-sector firms argued that it requires 'an approach reeking of business as usual'.⁵⁶

It bears reminding that this capacity can rely substantially on tactics of obfuscation. Even the sale of shares in public-sector firms 'is a kind of privatisation by stealth'.⁵⁷ With most of the attention focused at the national level, state governments have seized the limited opportunities to take action. By early 1995, for instance, Orissa, Meghalaya and other states were 'quietly selling off state electricity distributors and generators'.⁵⁸ The communist-controlled government of West Bengal also preferred 'to privatize quietly, often through under-the-table deals'.⁵⁹ The West Bengal State Electricity Board's Kasba gas turbine, for instance, was effectively sold to the R.P. Goenka industrial group in the guise of a leasing arrangement. In this and other instances, chief minister Jyoti Basu has used his personal popularity with the electorate as a lever with which to pressure the leaders of his party's affiliated trade union to take a more 'pragmatic' approach to foreign investment, privatization, and tax reform.⁶⁰

Perhaps the best example of reform by stealth is in the area of industrial-relations policy. State governments have been waging a guerrilla war on this front, taking action in isolated incidents and sapping the power of unions to resist encroachments upon their rights. This has taken place without alterations to official policy. The central government can claim to have left India's labour-relations regime intact. Indeed, India still has some of the most pro-worker labour laws in the world. Implementation is another matter.

Several means have been employed for bringing about the sort of flexible labour environment that a market economy is deemed to require. Voluntary retirement schemes (VRSs) have been among the most popular. The government originally devised the VRS framework as an integrated programme for redeploying surplus labour, and one or two retraining centres were opened with great fanfare. Companies opting for the VRS route are officially required to abide by specified procedures, including extensive consultation with unions. These are routinely ignored. By September 1996, 85,000 workers in state-owned firms had been retrenched through one or another VRS—there were many more in the private sector—but only 2,000 had been given retraining. The number actually redeployed through the VRS machinery is anyone's guess.⁶¹

The strong sense of complicity between government and employers has contributed to an atmosphere in which trade unions perceive few options other than to make massive concessions. Even business leaders recognize the change of attitude. P.K. Dutt, vice-president of the West Bengal Chamber of Commerce and Industry, stated in 1994 that 'without a shade of doubt, the attitude of the unions and politicians has turned around'.⁶² While the increasing willingness of workers to opt for VRSs is cited by industrialists as evidence that labour has woken up to business realities, trade-union leaders argue that it is the 'uncertainty' created by government betrayals that causes workers to lose hope and take what they can get.⁶³ The point is that even a 'non-policy' can generate results by creating an impression that unofficial continuity might be worse than official change.⁶⁴ This is especially true in a climate in which unions have been subjected to divide-and-rule tactics by both national and state governments.⁶⁵ Moreover, the tendency for union leaders to be secretly in league with governments has led to divisions between rank-and-file members and their representatives.⁶⁶ Government decisions which discriminate arbitrarily among different classes of employee have even served to sow discord among workers within firms which have initiated a VRS.⁶⁷

Another way in which governments made progress on 'back door' labour reform without having actually to reform labour legislation was by allowing firms to substitute their regular employees with contract employees. As one account put it, '[w]hen it became clear that there may be no legal Exit Policy, contract employment ballooned'.⁶⁸ While the law states that employers are permitted to hire workers on a contract basis only in certain types of seasonal jobs, governments have turned a blind eye to the abuse of this provision.⁶⁹ The contract labour approach is complemented by the corporate restructuring techniques used by many firms to skirt labour laws.⁷⁰ A study conducted by the All-India Management Association found that the absence of labour-market reform had not prevented firms from using restructuring as a way of closing unviable production units.⁷¹

With the assistance provided by cooperative state governments and trade unions affiliated to state-level ruling parties, companies have become skilled at combining this array of indirect tactics. It is worth citing one such case to provide a taste of the possibilities that have been opened up by governments which nevertheless refuse to take concrete action on labour-market reform. Industrial giant Hindustan Lever Ltd. (HLL) decided to close down Indian Perfumes Ltd. after acquiring the firm as part of a large corporate merger. Since industrial-relations laws presented an obstacle, it was decided that taking action

on the grounds of health, safety, and environmental problems at the plant would suffice. The state government regulators, on orders from their political bosses, were willing to oblige. Still, labour regulations required that scheduled output not be stopped, so production was shifted to a new site where subcontracting was used to lower costs. But since there were still more than 100 salaried workers in the unit—the minimum required for the no-closure provisions to apply—HLL offered workers VRS packages, 85 of whom accepted, fearing that waiting might get them nothing, given the state government's clearly pro-management stance. This pushed the workforce well below 100, freeing the firm from the shackles of India's officially tough, but unofficially malleable, labour-relations regime.⁷²

Given such de facto labour reform, it is perhaps no surprise that the World Bank's Country Economic Memorandum for 1996 and its Country Study for 1997 made less noise than usual about the need to reform labour legislation. In September 1996, a western diplomat remarked that foreign investors visiting India no longer considered labour-market reform a top-priority issue.⁷³ The government's sins of omission had, for the time being, begun to produce the intended results by other means.

THE MIRROR IMAGE: CONTINUITY MASQUERADING AS CHANGE

The types of skills that support the tactics outlined above have been practised by ruling parties in India from across the ideological spectrum. But the task of managing the politics of economic reform was (and is) considerably more difficult for those non-Congress governments, at the centre and in the states, which campaigned on an anti-liberalization platform. They must effect new reforms while simultaneously undertaking efforts to undo some of the reforms introduced under Congress rule, or at least *appear to be doing so*. In this sense, they must cloak continuity (with earlier liberalizing policies) in the garb of change (reverting to illiberal policies).

Policy Decoys and Political Camouflage

One way that such governments reduce their vulnerability to charges of betrayal by their supporters is by pursuing 'decoy' policy measures which can be portrayed as evidence of their commitment to resisting reform. These help to make the overall thrust of policy reform more ambiguous. The cancellation of the Enron power project by Maharashtra's incoming Shiv Sena-BJP government

in 1995 is a good example of a high-profile symbolic issue which arguably helped to distract attention from the many liberalizing steps taken by its ministers.⁷⁴

While such decoys are useful, some policies require additional political camouflage. In Maharashtra, one of the most controversial concerned land reform. The preceding Congress government under Sharad Pawar had pushed through an amendment to existing legislation to raise the ceiling on individual holdings, and relax norms on the transfer of agricultural land to corporations. While it is in no party's political interest to press too hard for the repeal of legislation prohibiting the sale of agricultural lands to corporations, the Shiv Sena-BJP government in Maharashtra nevertheless wanted to pursue this option. Again demonstrating the federal learning effect, it stole a page from the playbook of its Congress counterpart in Madhya Pradesh, which had found creative ways of facilitating corporate farming without subjecting itself to the bruising political battle that would have accompanied an attempt to amend existing legislation. In June 1995, the Madhya Pradesh government, on an ad hoc basis, began awarding exemptions from the land-ceiling laws for contract farming and agro-development projects.⁷⁵ In the process it found a new role for a troubled public-sector firm, using the Madhya Pradesh State Agro-Industrial Corporation, which owns vast tracts of land, as a joint-venture partner for private-sector investors.

While continuing its public denunciations of the Pawar government's land-reform amendments, which had yet to become law because they were still awaiting the assent of the President of India, the Maharashtra government proceeded in the same way that Pawar had, by acting quietly to circumvent the existing legislation. It even went a step further than Madhya Pradesh's government, allowing individual company directors to buy plots within the land-ceiling limits. The plots were then sold to individual investors, such that no individual held more than the law allowed. Maxworth Orchards (India) Ltd. used this method for developing 15,000 acres of land. The land is owned by individuals, but managed by the company. Both states were thus able to skirt the spirit of the law, and avoid opening themselves up to damaging public debates over the propriety of corporate farming. 'Selling' the benefits of this type of reform to the rural electorate is not considered smart politics.⁷⁶

Part of the skill in performing this delicate balancing act comes from choosing issues that can be portrayed as evidence of a commitment to economic nationalism but will not unduly constrain future policy choice. During the last year of the Narasimha Rao government, the commerce and finance ministries

studied the feasibility of introducing more stringent 'local content' regulations for manufactured products—rules which would require specific product sectors to contain a stipulated percentage of locally produced parts. One reason why this particular policy appealed to astute political managers was that it would have had little impact.⁷⁷ It was designed as window-dressing. In the automotive industry, the targeted sector, a marked move in the direction of increased local content was already being propelled by economic exigencies. The decline of the rupee's value against the dollar (down by more than 16 per cent between mid-1995 and early 1996) had inclined many joint ventures to increase the indigenous content of their assembled products as a way of reducing production costs. DCM Daewoo Motors Ltd., for instance, was pressing towards total in-house production. It hoped to have 90 per cent of its components (in value terms) produced locally by 1997–8.⁷⁸

Such politically low-cost 'indigenization' strategies were followed by both United Front and BJP economic strategists, allowing both governments to make good on their economic nationalist rhetoric without taking difficult decisions. This is in the tradition of the Narasimha Rao government, which preferred to introduce reform measures by stealth rather than trumpet them loudly. In fact, it is the mirror image: the tactic is to accentuate fairly insignificant areas of governmental resistance to the neo-liberal agenda, even as market forces are heading inexorably in the same direction. It is wrapping the logical culmination of existing economic trends in the garb of deliberate policy change.

The objective of such manoeuvres is to find policy solutions with an optimal political cost-benefit ratio, which, given the complexity of the constraints facing India's reformers, is not an easy task. Proponents of the local-content strategy, for instance, had to calculate whether the rupee's slow decline against other major currencies was likely to continue. They were swayed by the fact that gradual slippage suits increasingly powerful economic lobbies: a cheap rupee means that exporters will find their products easier to sell in foreign markets, while firms producing for the local market will find greater protection from competing imports, provided they are not too reliant on imported production inputs. Moreover, all this can be done without antagonizing the multilateral lending institutions, since it implies neither an explicit subsidy to exporters (a major drain on the budget in the pre-reform days) nor higher direct tariff barriers against foreign imports. These kinds of creative (and undeniably sly) solutions to the political difficulties associated with implementing economic liberalization are a speciality of India's politicians.

The Impure Motivations of Opposition Politics

A decided lack of transparency was also integral to the means by which the Shiv Sena–BJP government in Maharashtra went about systematically undermining the sugar cooperative sector. This refers primarily to a reversal of one of the means-ends relationships stressed in the first part of this chapter. Instead of using decidedly untransparent tactics of intimidation to threaten groups into supporting liberalization, the Shiv Sena–BJP government has used the language of liberalization to justify regulatory changes that it hopes will threaten a substantial segment of this Congress party bastion into joining its ranks. The key element in this still-unfolding plan is the government's standing threat to formalize a phenomenon that Sharad Pawar had merely, on occasion, turned a blind eye to—allowing sugar-cane farmers to sell their cane to cooperatives other than those of which they are members. The government claims that such a move would be consistent with the notion of fostering a free market that would benefit farmers. It also, of course, knows that it would mean the death of many cooperatives.

The threat to implement this proposal is combined with clandestine offers of financial support,⁷⁹ as well as protection from various environmental regulations and corruption investigations, for groups that lend backing to the ruling-party alliance. A prominent Congress MP from the sugar belt calls this strategy 'a classic carrot and stick approach. The [Shiv Sena-BJP] combine is trying to woo the belt with tickets [that is, party nominations for local, state, and national elections], licences, seed capital and, of course, punitive action.'⁸⁰ The Shiv Sena–BJP government's hand is strengthened in pursuing this strategy by the lack of sympathy for the sugar sector among the Maharashtra electorate at large. Moreover, Congress indignation at the government's tactics rings hollow, especially when most people regard the Shiv Sena–BJP offers of favouritism as little more than an extension of what Congress state governments have done for decades. As for the intimidation, we have seen that Sharad Pawar played that game, as did one of his predecessors. As chief minister in the mid-1980s, S.B. Chavan, who did not emerge into politics through the sugar-cooperative route, attempted to counter his rivals in the party by clamping down on corruption and irregularities in cooperative elections. Because he operated from within the Congress Party, Chavan's efforts were fairly easily thwarted.⁸¹

The logic of democratic competition has unleashed a more capable enemy in the form of the Shiv Sena–BJP government. It has, moreover, been able to cloak its political intentions in the guise of promoting economic efficiency. While

some of its other tactics would not find a place in a World Bank manual on good government, the Manohar Joshi administration's attack on one of the main strongholds of its political enemies is, as a secondary effect, helping to introduce a greater degree of market orientation. This is certainly true in the case of the cooperative banking sector in Maharashtra.⁸² Jayaprakash Mundada, minister for cooperatives, cited market-friendly motivations, rather than political self-interest, for the government's decision to split the state's Congress-dominated cooperative banking system by creating a state-level urban cooperative bank free from the predations of the rural banks:

We have only tried to bring about some competition which is both necessary and healthy. It will help streamline the functioning of the MSCB [Maharashtra State Cooperative Bank]. After the urban co-operatives' apex bank began to function, the MSCB hiked its interest rates on deposits from 12 to 15 per cent.⁸³

Similar motivations underlie the Shiv Sena-BJP government's efforts to replace the Bombay Industrial Relations Act of 1948. The Maharashtra Harmonious Labour and Industrial Relations Bill is designed primarily to undermine the hegemony of the Congress-affiliated Rashtriya Mill Mazdoor Sangh in the textile industry, and to replace it with BJP and Shiv Sena unions.⁸⁴

Economic Reform, Identity Politics, and Political Discontent

A political system's capacity to cope with issues which are not, strictly speaking, related to the politics of economic reform can nevertheless have a decisive impact on the political sustainability of adjustment programmes. A potent combination of economic dislocation and the assertion of identity politics, for instance, has the potential to disrupt political and economic life in any socially or ethnically heterogeneous state. As one commentator remarked, while 'China's super-charged economic growth and the spread of modern commercial communication and transportation links are widely supposed to be further integrating the country...this dynamism has the potential to fuel ethnic and linguistic divisions'.⁸⁵ As uneven capitalist development intensifies, the Chinese government's capacity to promote a 'unified multinational state' through official programmes aimed at fostering the economic development of its 55 'minority nationalities'—those not from the majority Han group—has come under severe strain.⁸⁶ Moreover, the burgeoning of cultural identity among different subsections within the Han grouping, which accounts for 91 per cent of the population, has at least part of its roots in the growth of voluntary associations that have arisen alongside private-sector initiative.⁸⁷

A useful way to conceptualize the interaction between reform-related and identity-based politics is to assume that every government has its breaking point—as variable, uncertain, and self-defined as it may be. If this is true, then we cannot assume a clear division between reform-related strains and those stemming from other political pressures. This is not to say that the pressure emanating from different issues—such as economic reform and identity politics—can be plugged into a simple formula in which the reform-related stresses are added to identity-issue strains to arrive at a political-pressure quotient. In some cases, the salience of one type of issue diverts attention from the other. The destruction of a sixteenth-century mosque in December 1992 by Hindu nationalist extremists in the north Indian town of Ayodhya certainly stole some of the limelight from less dramatic reform-related events of that period, like changes to import-export regulations. But the 'distract-and-reform' process does not always unfold so neatly, and it is certainly not always a conscious strategy. Even the Ayodhya incident subsequently entered into the government's calculations of what new reform measures were possible. Referring to a failure to reduce the government's food-subsidy bill in 1993–4, the finance minister alluded to this issue:

There were extraordinary circumstances. Last year our country's energies had to be devoted to the more important issues, which came in the wake of Ayodhya, to see that this country's cohesion is not destroyed by the divisive forces which suddenly appeared much stronger than they later turned out to be. If we had let a cat loose among the pigeons in that atmosphere, it could have been misused by our opponents to strengthen themselves. I think there were valid political reasons, therefore, for raising procurement prices while a decision on issue prices was deferred.⁸⁸

What is necessary is to avoid overload of the type that would undermine a government's willingness to gamble on its ability to contain the political disruption that might accompany further reform. This, in turn, requires an ability to assess when identity issues are additive (requiring a resort to stealthy means), divertive (furnishing an opportunity for major new reforms), or potentially overlapping (making them susceptible to an attempt at integration).

Indeed, the substantive divide between identity politics and economic reform is not always so great. The identification of many caste groups with traditional occupations provides a potent focal point for projecting resistance to reform. This is true among small traders, who often use caste associations to organize lobbying efforts and general strikes to protest against increases in sales tax. The large percentage of landless labourers who come from the 'scheduled', or ex-untouchable castes is another example of the power of social identity to

infect the political struggles that emanate from changes in economic policy. As one analyst of the political fallout of the 1994–5 budget observed, '[p]olitical workers realize that it will be easier to convince a Harijan [scheduled caste] or a tribal about his own economic disabilities as a [low-caste] *chamar* rather than as an agricultural worker.⁸⁹ Since Indian politicians generally conceive of electorates as mosaics of caste and community 'vote banks', this linkage between social and economic identity is a source of much worry.

An example of how these factors affect the political management of economic reform is the issue of 'reservations' in government employment for members of 'backward castes'. There is great concern among political representatives from these communities that the shrinkage of the state associated with liberalization will marginalize reservation policy as a tool of political mobilization. Some even suspect that one of the motivations behind the privatization of the economy is the desire among more privileged castes to remove decision-making from the public 'political' realm at precisely the moment when backward castes have begun to assume unprecedented state power.⁹⁰ In the two years prior to the initiation of the current programme of economic reform in 1991, India's two most populous states, Uttar Pradesh and Bihar, elected governments headed by backward caste chief ministers heading explicitly backward-caste-oriented parties.⁹¹ In 1990 and 1991, the country had witnessed a serious backlash from upper-caste activists against the V.P. Singh government's attempts to broaden the scope of reservations for lower castes, the first substantial attempt to make this an issue of national scope.

Because of this deep suspicion among backward-caste political leaders, Indian reformers have been forced to guard against the possibility that 'reservation agitations' will be transformed into emotionally charged political movements against economic reform. Finance Minister Manmohan Singh told the annual session of the Confederation of Indian Industry that the process of reforms could be affected by the apprehension of the scheduled castes and tribes that their opportunities will shrink as the public sector diminishes, stating that '[i]f this thought acquires momentum, it will hurt the process of reforms.'⁹²

Appealing to a shared sense of regional identity in order to justify politically difficult policy reversals has proved to be an effective tactic in other states as well. Rajasthan chief minister Bhairon Singh Shekhawat couches his government's embrace of market-oriented policies in terms of defending the state's people from nefarious forces outside the borders of Rajasthan. The New Mineral Policy of 1994, for instance, was required because 'the centre had left the states to fend for themselves.'⁹³ In addition, the Government of India's failure during the

years of central planning to help set up industries in Rajasthan had made it an unattractive prospect for private investors as well. As a result, Rajasthan's 'indigenous entrepreneurs'—the Marwari community, members of which head some of India's best-known industrial houses—were forced to leave their 'hometown'. This has undermined the 'integrity and self-reliance of Rajasthan's culture', according to Shekhawat. Helping them to 'come home to Rajasthan' was how Shekhawat described his efforts at liberalization. This, he argued, was just one part of his larger effort to rebuild the people's pride in Rajasthan.⁹⁴ To understand the associations of regional pride in Rajasthan's current political climate, one must take into account the Rajasthan BJP's strategy of mobilizing religious identity around a regionalized form of Hindu nationalism, one which holds a special place for Rajasthan in the national Hindu reawakening and tends to emphasize the political dominance of the Rajput caste.⁹⁵ Regionalism, Rajput revivalism, and Hindu nationalism have become very closely intertwined. In such a climate, efforts to justify support for liberal economic reform with claims of restoring Rajasthani pride and the integrity of its indigenous culture—an appeal to regional identity—tap into a stream of associations that includes issues of religion- and caste-based mobilization. It deflects political criticism by, in Nandy's terms, 'showing dissent to be a part of orthodoxy'.

Pushing through reform measures involves a broad range of underhanded tactics, only a small sampling of which have been outlined in this chapter. It is important to emphasize that many of these would not be out of place in a western democracy. For instance, in April 1995, in an effort to rally votes to defeat an opposition-sponsored budget-related motion, which would have amounted to a vote of no confidence, Congress Party managers reminded first-time MPs who might be flirting with dissidence that they would lose their pensions if the government failed to complete four years in office.⁹⁶ The variations on this theme are almost endless. In the same month, it was revealed that, 'in a notable instance of lack of transparency', the Foreign Investment Promotion Board (FIPB) allowed Indian firms to circumvent a law which prevents royalty payments to multinational firms by permitting them to pay American and British wholly-owned subsidiaries what it termed an 'R&D access fee'.⁹⁷ The FIPB also signed agreements with two American firms for the extraction of methane gas from coal beds, though the government had not previously published guidelines or announced its intention to attract foreign investment in this sector.⁹⁸ In April 1994, representatives of service industries were outraged by the finance minister's authorization of an unpublicized circular by the Central Board of Direct Taxes which brought them into the tax

net for the first time. When contacted by reporters for comments on this 'quiet' move, many service industry companies had not even heard of the circular. Those that had were amazed at the flouting of 'recognized norms of consultation', particularly as they had been involved in the pre- and post-budget discussions with the finance minister.

Most studies of democratic governance capacity, especially those preoccupied with the contrasts between new democracies and their authoritarian predecessors, fail to recognize the vital importance of these types of tactics in allowing adjustment to become politically 'consolidated'. The architects of the good-government agenda have instead advanced a vague, sanitized, and ultimately unconvincing version of how transparency (implicitly equated with formal democracy) will assist reformers by facilitating the 'selling' of reform to a vibrant, well-organized civil society. The sort of manipulative and obfuscatory tactics employed regularly in the implementation of reform are, however, a much truer representation of the political reality in India. Above all, they are an integral part of the democratic political process wherever liberal democracy is practised successfully, whether in the developed or developing world.

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1. An oft-cited case of 'successful' decision-making, based upon inherently ambiguous cues, and yet subsequently attributed to political skill, is the Cuban missile crisis. See Graham Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston, Little, Brown, 1971).
2. Guillermo O'Donnell, 'On the State, Democratization and Some Conceptual Problems: A Latin American View with Glances at Some Postcommunist Countries', *World Development*, vol. 21, no. 8 (1993), p. 1376.
3. Michael W. Bollom, 'Capturing Ideas: Institutions, Interests and Intellectual Property Rights Reform in India', paper presented at the Annual Meeting of the American Political Science Association, Washington, DC, 28–31 August 1997.
4. 'In a premeditated ploy to bypass parliament, [the government] waited for parliament's winter session to end and then, just days later, took brazen recourse to ordinance raj to amend the patents and customs laws . . . [which were then] presented to the president for his signature at the very last moment.' See 'By Stealth', *Economic and Political Weekly*, 7 January 1995, p. 3.
5. Teleological reasoning, which is based upon the fallacy that the inevitability of a given end-state 'requires' the emergence of a corresponding process in order to facilitate its achievement, is not uncommon in political analysis. A good overview of this pitfall can be found in Jose Serra's critique of Guillermo

O'Donnell's attempt to 'explain' the rise of authoritarianism in Brazil with reference to the structural requirements of capitalist development. See Jose Serra, 'Three Mistaken Theses Regarding the Connection between Industrialization and Authoritarian Regimes', in David Collier (ed.), *The New Authoritarianism in Latin America* (Princeton, Princeton University Press, 1979), pp. 99–164. For another good example, see Theda Skocpol, 'Wallerstein's World Capitalist System: A Theoretical and Historical Critique', *American Journal of Sociology*, vol. 82, no. 5, March (1977).

6. Robert A. Packenham, 'The Politics of Economic Liberalization: Argentina and Brazil in Comparative Perspective', Working Paper No. 206, Kellogg Institute for International Studies, University of Notre Dame (April 1994), p. 9.

7. Ashis Nandy, *At the Edge of Psychology: Essays in Politics and Culture* (New Delhi, Oxford University Press, 1990), p. 51. This may not be a peculiarly Indian trait. It may, in fact, even have been reinforced by the encounter with the British. Eric Hobsbawm has argued that most of the major changes to British economic, social, and political life since 1750 involved a marked preference for maintaining the form of old institutions, but with a profoundly changed content. *Industry and Empire* (Harmondsworth: Penguin, 1968), p. 18.

8. Leila L. Frischtak, 'Governance Capacity and Economic Reform in Developing Countries', *World Bank Technical Paper No. 254* (Washington, DC: The World Bank, 1994), pp. 23, 24

9. *Ibid.*, p. 25.

10. For instance, his speech to a seminar on 'Panchsheel and Global Diplomacy' in New Delhi in June 1994 (*Asian Age*, 28 June 1994).

11. *Hindustan Times*, 20 April 1994.

12. *Sunday*, 27 March–2 April 1994, p. 14. As one commentary pointed out, the emphasis on continuity, which Rao called 'the middle path', was much closer in style to Indira Gandhi's approach to reform in the early 1980s than to Rajiv Gandhi's brash attempts at liberalization in the second half of the decade. *Business India*, 11–25 April 1994, p. 51.

13. This was most forcefully articulated in his budget speech to parliament for fiscal year 1992–3. See *Times of India*, 1 and 2 March 1992. Singh also claimed in other speeches that liberalization would correct urban-biased development policies, and thus rectify the Nehruvian overemphasis on industrial development by bringing India closer to a Gandhian vision. See the report on his speech at the National Institute of Advanced Studies, *Asian Age*, 5 July 1994.

14. This phrase was suggested by Sanjaya Baru, editorial page editor of the *Times of India*. Interview, 29 April 1995, New Delhi.

15. S. Guhan, 'Centre and States in the Reform Process', in Robert Cassen and Vijay Joshi (eds), *India: The Future of Economic Reform* (New Delhi, Oxford University Press, 1995), p. 101 (emphasis added).

16. Interview with Narendar Pani, acting resident editor, *Economic Times* (Bangalore edition), 18 April 1995, Bangalore.
17. In order to quell speculation that India was considering the abolition of food subsidies in response to international pressure, Civil Supplies and Public Distribution Minister A.K. Antony told a press conference: 'Whatever may be the constraints, there is no question of reducing or abandoning the food subsidy because food security is as important as national security, if not more.' *Asian Age*, 9 July 1994.
18. It also masks the fact that much of this subsidy—indeed a rising proportion—goes to pay for storage costs, which have been increasing as rising prices have reduced offtake by consumers. According to Partha Pratim Mitra, Controller of Accounts in the central government's power ministry, while the 'total food subsidy between 1984–85 and 1994–95 grew at an annual average rate of 19.5 per cent...the consumer subsidy went up by about 9 per cent during this period.' See his 'Economics of Food Security: The Indian Context', *Social Action*, vol. 46, July–Sept. (1996), p. 281.
19. See 'Illusion of Plenty', *Economic and Political Weekly*, 15 October 1994, p. 2073.
20. For instance, another example of adjustment's burdens being shifted on to the poor involves the activities of the National Cooperative Development Corporation (NCDC). 'In the context of adjustment,' argues Raghav Gaiha, 'the level and pattern of assistance by NCDC...[indicates that] the share of cooperatives for the weaker sections in total assistance declined from about 10.5 per cent in 1991–92 to 7.5 per cent in 1992–93.' See his 'Structural Adjustment, Rural Institutions and the Poor in India: A Comparative Analysis of Andhra Pradesh, Maharashtra and Karnataka', paper prepared for the UN Food and Agricultural Organization, 27 September 1994, p. 78.
21. *Frontline*, 26 January 1996, p. 79.
22. Ashok Gulati and Shashanka Bhide, 'What Do the Reformers Have for Agriculture?', *Economic and Political Weekly*, 6–13 May (1995), p. 1091.
23. Anne Krueger told an Indian journalist that, in the area of economic reform, 'the main thing...is for the government to make its intentions very clear'. While this might hold true if the only objective were to reassure 'entrepreneurs waiting to see if the reforms are there to stay' (ibid.), it ignores the political logic which must simultaneously inform policy implementation.
24. *Deccan Herald*, 24 March 1994.
25. Mick Moore, 'Economic Liberalisation versus Political Pluralism in Sri Lanka', *Modern Asian Studies*, vol. 24, no. 2 (1990), p. 352, fn. 20.
26. See Robert S. Jenkins, 'The Politics of Protecting the Poor During Economic Adjustment in India; The Case of Maharashtra', in Usha Thakkar and Mangesh Kulkarni (eds), *Politics in Maharashtra* (Bombay, Himalaya Publishing, 1995), pp. 195–212.

27. Harry W. Blair, 'Success and Failure in Rural Development: A Comparison of Maharashtra, Bihar and Bangladesh', paper presented at the annual meeting of the Association of South Asian Studies, San Francisco, 25–27 March 1988, p. 7.
28. Interviews with a senior IAS officer in the accounts and audits bureaucracy, 9 October 1993, New Delhi; and a middle-ranking IAS officer knowledgeable about the JRY in Maharashtra, 1 March 1994, Pune. See also *The Hindu*, 18 October 1995.
29. For example, see the study conducted by the Institute of Regional Analysis, reported in *India Today*, 15 February 1995, p. 98.
30. This was the phrase used by a middle-ranking IAS officer knowledgeable about the JRY in Maharashtra. Interview, 1 March 1994, Pune. This paradox was further confirmed in the report of the Comptroller and Auditor General of India for the financial year ending 31 March 1994. Though it criticized the Rajasthan state government for accounting irregularities and diversion of funds between programmes, the report also found that the level of employment generated exceeded programme targets. Even accounting for falsification—such as the inclusion of bogus names on employment registers—this was a considerable achievement, made possible in part by payment (in at least two districts) of wages lower than the prescribed minimum. That workers would nevertheless turn out in large numbers suggests that targeting works despite pervasive graft. See *Observer of Business and Politics*, 2 May 1995.
31. Two evaluations of the JRY conducted by central government ministries found that roughly one-third of village panchayats implementing JRY schemes did not possess a copy of the JRY guidelines. It is therefore not surprising that, even according to official records, 18 per cent of JRY workers in 1992–3 were from ineligible economic categories—that is, households with incomes exceeding the poverty line. *Economic Times*, 20 January 1998.
32. This was the recommendation of the Narasimham Committee report on financial-sector reform, which argued that fiscal policy was the least distorting means for achieving redistributive ends. Credit policy, on the other hand, was considered an unnecessarily blunt instrument.
33. *Business World*, 28 July–10 August 1993, p. 89.
34. *Business India*, 25 October–7 November 1993, p. 99.
35. Ibid.
36. 'Banking: Lost Priority', *Economic and Political Weekly*, 18 December 1993, p. 2756.
37. Interview with a senior RBI official, 11 April 1995, Bombay.
38. *Business Standard*, 25 March 1994.
39. *Business World*, 5–18 April 1995, p. 131.
40. 'A Matter of Priority', *Business India*, 3–16 June 1996, p. 106.

41. *Business Today*, 22 April–6 May 1995, p. 36.
42. *Business Standard*, 25 March 1994.
43. 'Monkeying with Rural Credit', *Economic and Political Weekly*, 18 September (1993), pp. 1959–60.
44. *Business World*, 5–18 April 1995, p. 131.
45. 'A Matter of Priority', *Business India*, 3–16 June 1996, p. 106
46. *Economic Times* (editorial), 24 November 1993.
47. This was the view of Malcom S. Forbes, Jr., president and editor-in-chief of *Forbes*, the US-based business magazine. *India Today*, 15 March 1995, p. 133.
48. See Madhu Dandavate, 'Patronage to Maruti: Government's Policy of Double-Faced Liberalisation', *Indian Express*, 1 December 1993.
49. One newspaper editorial argued that over-regulation had 'led to the emergence of unofficial premia on different grades of coal, which was usually realized by the coal mafia. Indeed, many people believe it is because of the mafia that it is difficult to dismantle the present system.' *Economic Times*, 15 January 1994.
50. In January 1997 the Central Bureau of Investigation arrested CIL's former director of finance, Suresh Jha, for misappropriation of public funds. *Asian Age*, 8 January 1997.
51. For instance, *Financial Express*, 18 March 1993.
52. *Observer of Business and Politics*, 18 April 1994.
53. Seminar on 'The Politics of Liberalisation', Birkbeck College, University of London, 17 June 1998.
54. The nurturing of a transitional constituency was also facilitated by the government's decision to allow downstream users of coal to resell it, which was part of a more market-oriented approach to distribution. *Economic Times*, 15 January 1994.
55. Economist Intelligence Unit, *Country Report—India*, 4th Quarter, 1994 (London, 1994), p. 32.
56. Interview, 26 November 1993, New Delhi.
57. Economist Intelligence Unit, *Country Report—India*, 2nd Quarter, 1995 (London, 1995), p. 22.
58. *Ibid.*, p. 23.
59. 'If Government is Frank, PSUs [Public-Sector Undertakings] Only Mean Cash', *Asian Age*, 8 November 1994.
60. Interview with Jayanta Sarkar, correspondent for the *Far Eastern Economic Review*, 26 April 1995, Calcutta.
61. *Times of India*, 6 September 1996.
62. *International Herald Tribune*, 8 September 1994. See also, 'Rethinking Reform', *Business India*, 10–23 April 1995, p. 141, which analyses the AITUC's

questioning of its traditional hostility to economic reform; and 'Labour Turns its Back on Militancy', *Business World*, 1–14 July 1992, pp. 28–33. The secretary of the union at the Maharashtra government-owned MAFCO actually voiced his support for privatization of the company. *Business India*, 11–24 March 1996, p. 100. Perhaps the best example of this trend is the position taken by the union leaders of the public-sector engineering company Jessop, who argued that instead of immediately paying workers the three months' back wages owed them (even though the firm had just been given Rs 58.40 million from the central government), the company should use the funds to improve future business prospects—by buying raw material to keep production going, and taking employment preservation into account when choosing among future business strategies. *Economic Times*, 4 February 1998.

63. *Economic Times*, 17 March 1994.

64. A study by the Maniben Kara Institute reported that of workers who accepted VRS packages, 63 per cent did not do so voluntarily, but due to physical intimidation by hired thugs and employers' threats of illegal lockouts. Reported in Ernesto Noronha, 'Wages of Globalisation', *Humanscape*, March 1998, p. 12.

65. In 1994, for instance, the Maharashtra state government allegedly worked with the management of Otis Elevators to stoke inter-union rivalries at its Kandivli plant in Bombay. *Business India*, 14–27 March 1994, p. 131. At the national level, one faction of the National Federation of Indian Railwaymen deplored the 'blatant partisan attitude of the railway ministry in favour of the small minority group'. *Business Standard*, 25 January 1994.

66. *Business World*, 12–25 January 1994, p. 115.

67. This happened in the case of the public-sector Coffee Board. *Economic Times*, 17 April 1994.

68. Gurbir Singh, 'Who Needs an Exit Policy Anyway?', *Economic and Political Weekly*, 10 June (1995), p. 1360.

69. In fact, the Tamil Nadu state government itself, through its state electricity board, was eventually found by the Supreme Court to have been one of the worst violators of contract-labour regulations. *Business India*, 5–18 June 1995, p. 149. CITU general secretary M.K. Pandhe accused Coal India Ltd. (CIL) of pursuing a concerted strategy of increasing coal production through contract labour. He also criticized the central government for failing to take action against these malpractices, though he admitted that some trade union leaders had themselves become contract labour middlemen, under false names, supplying casual labour to CIL subsidiaries. *Economic Times*, 28 December 1994.

70. For instance, the B.K. Birla group, which planned to transfer a business unit that had experienced chronic labour unrest to a dormant subsidiary. *India Today*, 15 August 1992, p. 57. And in an effort to retrench workers in its

electronics division, Ceat's personnel manager claimed that there were in fact two separate business units, each with fewer than 100 workers, the minimum required for India's pro-labour laws to take effect. *Times of India*, 11 September 1996.

71. *Economic Times*, 1 December 1993. Bush India, to take one example, ceased operations and re-registered as a way of moving its workers on to contract status. *Economic Times*, 7 February 1994.

72. See Mahesh Gavaskar, 'Labouring Over a Capital Task', *Humanscape*, May 1997, pp. 17-19.

73. Interview, 7 September 1996, New Delhi. This was also the view of a senior executive of a major British multinational firm. Interview, 29 August 1996, New Delhi.

74. When the project was subsequently reinstated, the Shiv Sena chief minister claimed to have negotiated a better deal for the state's consumers than had his Congress predecessor.

75. *India Today*, 15 March 1996.

76. Interview with a bureaucrat who previously held senior posts in state agricultural agencies, 12 September 1996, Bombay.

77. This strategy was revealed in an interview with a former policy adviser to the Government of India, 5 September 1996, New Delhi.

78. *Times of India*, 25 February 1996.

79. Some of these inducements have borne fruit. The chairman and entire board of one sugar cooperative quit the Congress and joined the Shiv Sena in exchange for promises of financial support. *The Hindu*, 21 January 1996.

80. *Indian Express*, 24 February 1996.

81. B.S. Baviskar, 'Leadership, Democracy, and Development: Cooperatives in Kolhapur District', in B.S. Baviskar and Donald W. Attwood (eds), *Finding the Middle Path: The Political Economy of Cooperation in Rural India* (Boulder, Colo., Westview Press, 1995), pp. 157-75.

82. Interview with Mayank Bhatt, special correspondent for *Business India*, 9 September 1996, Bombay.

83. *Business India*, 23 September-6 October 1996, p. 132. See also *The Hindu*, 6 January and 24 February 1996.

84. *Indian Express*, 21 June 1996. The Shiv Sena-BJP government, like its Congress predecessor, has resolutely refused to announce a clear-cut policy on the selling of the valuable central-Bombay land owned by textile companies. As a result, a number of firms were permitted, without the announcement of any specific policy, to go into the property-development business themselves. As of April 1995, three major firms had taken this circuitous route, precisely because of 'the absence of a clear-cut policy' by the state government. *India Today*, 30 April 1995, p. 101. Many more had taken unauthorized, but unofficially

tolerated, action by early 1996. An activist working on behalf of displaced textile workers stressed the clandestine nature of what is taking place: 'The mill area is being destroyed quietly and systematically...Crores [tens of millions] of rupees are passing hands in the land deals of Girangaon, most of it in the black.' *Frontline*, 26 January 1996, p. 94.

85. D.C. Gladney, 'Unity vs. Diversity in China', *Asian Age*, 6 March 1995 (originally published in the *International Herald Tribune*).

86. For an analysis of the shifting nature of regional inequality during different phases of the reform period, see Tianlun Jian, Jeffrey D. Sachs and Andrew M. Warner, 'Trends in Regional Inequality in China', *Working Paper 5412* (Cambridge, Mass., National Bureau of Economic Research, January 1996).

87. Gordon White, 'Market Reforms and the Emergence of Civil Society in Post-Mao China', IDS Working Paper No. 6 (Brighton, Institute of Development Studies, 1994).

88. *Business World*, 9-22 March 1994, p. 39.

89. P. Raman, 'Political Fallout of the Budget', *Business Standard*, 7 March 1994.

90. A variation on this theme is the statement by Bihar chief minister Laloo Prasad Yadav, a major political leader of the backward castes: 'Brahminism in this country has been conspiring with US imperialism in implementing the Dunkel [GATT] proposals and reducing the backward classes to slaves.' *Sunday*, 13-19 March 1994, p. 7.

91. Mulayam Singh Yadav became the chief minister of Uttar Pradesh in 1989, and Laloo Prasad Yadav took power in Bihar in 1990. After a period of BJP rule from 1991-2, and a subsequent year of centrally imposed president's rule, Mulayam regained power in December 1993, only to lose it again in 1995. In Bihar, Laloo Prasad Yadav's government served its full five-year term, and was re-elected in 1995.

92. *Economic Times*, 20 April 1994.

93. *The Hindu*, 17 August 1994.

94. Interview with Bhairon Singh Shekhawat, 20 April 1994, Jaipur.

95. This idea has been developed in greater depth in Rob Jenkins, 'Rajput Hindutva: Caste Politics, Regional Identity, and Hindu Nationalism in Contemporary Rajasthan', in Christophe Jaffrelot and Thomas Blom Hansen (eds), *The BJP and the Compulsions of Politics in India* (New Delhi, Oxford University Press, 1998).

96. *The Telegraph* (Calcutta), 25 April 1995.

97. *Financial Express*, 27 April 1995.

98. *Indian Express*, 27 April 1995.