

'COMMENTARAO' IN "THE TELEGRAPH" OF August 5 2013

"Power from the party

The UPA's division of tasks has economic consequences"

S L Rao)

When the separation took place in 2004, it looked plausible: an econocrat as Prime Minister and the Congress President nominating him for the job. Today it is acknowledged that Sonia Gandhi is the most powerful person in India. What effects has it had on economic policies?

In my column on August 2 2004, I had written: "The President of the Congress has Cabinet Minister status and spends government funds but is responsible to neither Prime Minister nor Parliament. Instead he seems to be subject to her authority....There is clearly an absence of political leadership in the Congress, even a failure... It is not surprising therefore that there is a sense of political drift. The political and administrative responsibilities of the Prime Minister are separated. People sense this dichotomy. The problem is soluble. This separation of political and administrative powers with the Prime Minister must stop. Ministers must have one boss, the Prime Minister. Chief Ministers especially of Congress ruled States must know that the Prime Minister is the one they must look up to, not anyone outside government. Bureaucrats must not be scurrying to other persons to feed information about what government is doing. They must remain in awe of the Prime Minister and his office."

Looking back, the separation of the Congress Presidency from the Prime Minister during Nehru's time worked with some friction. But it was clear that the superior was the Prime Minister. This was also the case during the NDA government when the BJP President was not above the BJP Prime Minister. Today's Congress must accept the same relationship.

Sonia Gandhi came first into political prominence, as a Director in one of Sanjay Gandhi's many failed ventures, then featuring as the

(unproven) star beneficiary in the Bofors scandal over illegal commissions paid for the purchase of Bofors guns. An Italian, Ottavio Quatterochi, an intimate friend of the Prime Minister's family, was the proven recipient. The casualty was Rajiv Gandhi, who as Prime Minister lost stature and influence. He was assassinated during the ensuing elections. Sonia Gandhi was a shattered and grieving widow with no interest in entering politics. However, she responded to the insistence of many Congressmen. They saw her as the glue that could hold the Congress party together, and attract votes. In the event, the government and the Prime Minister get the blame for misconceived policies pushed by the Congress President.

Indian politicians (except a few like the minuscule Swatantra party) always looked Leftwards for their economic policies. Jawaharlal Nehru admired the early Soviet economic progress under centralized planning. He was supported by the Bombay Plan prepared by eminent industrialists. This asked for a key government role in developing basic and key industries and infrastructure. Indira Gandhi increased the role of the state by nationalizing banks and insurance, taking control of declining textile mills, and even trying to take over the wholesale trade in grains. She also had appealing slogans of social welfare measures. Rajiv Gandhi liberalized the economy modestly, did little in social programmes, and then mired in scandal, and did little.

In economic policy, it took Narasimha Rao as Prime Minister to realize that state control and direction of national resources had outlived its utility. It was blocking entrepreneurship and efficiency. He eliminated industrial licensing, import controls, high central direct and indirect tax regimes. He was not able to bring about administrative reform. Neither could he introduce individual accountability in government, nor reduce procedural bottlenecks. His tenure saw significant improvement in economic growth. This also helped improve the macroeconomic fundamentals, reduced the government deficit, raised tax revenues in the gross domestic product, significantly improved the current account of the balance of payments, and made India the admired growth model, combining democracy with economic growth. But he kept the party subservient

to him. There was never any doubt as to who ruled-it was the Prime Minister.

The Vajpayee government continued on the same economic track. Vajpayee's road construction initiatives stimulated the economy farther. He introduced relatively modest spending social welfare initiatives in education and health services. There was a new BJP President each year, all subservient to the Prime Minister.

Sonia Gandhi appointed her nominee, Manmohan Singh. He had no political base whatsoever, a diffident personality, but a clever government operator who held every key economic position in government. While he executed economic reforms for Narasimha Rao, his record as Prime Minister does not show that he is a reformer at heart who truly believes in an open economy with tight regulation and government accountability. But he is Prime Minister only by designation, not by real power. He is subservient to a perennial party President.

Dr Manmohan Singh has followed the directives of Sonia Gandhi and her advisors. To give it a semblance of correctness, a National Advisory Council of which Sonia Gandhi Chairperson, was created. It is the overarching policy making body.

Since she is the real head of the government, we must look at her political education. It can be traced to her early days in Communist dominated Italy, where her father was a blue collar worker and thus left leaning. She has the classic communist beliefs in redistribution of incomes, (except to a select few), massive government expenditures, and a lack of faith in growth as the means to reduce poverty.

As Mrs Indira Gandhi's daughter in law, living with her, she was exposed closely to Indira's instinct for power by making promises to poor and vulnerable groups, and building caste and communal coalitions. After she became the Prime Minister's boss in the UPA, in the National Advisory Council, an extra constitutional body that derives its power solely from her Chairmanship. It enabled her to make policies that the Prime Minister must accept and implement. In her economic understanding, she (and the NAC) does not recognize the importance of economic growth in raising government revenues that could be used for the betterment especially of the poor and vulnerable. Social spending has priority over the macro economy.

She learnt from the 'garibi hatao' slogan (without content) of Mrs

Indira Gandhi. But Sonia Gandhi during UPA 1, was able to use the huge revenues because of high growth during UPA 1. High tax ratio to GDP enabled her to push for the national employment guarantee scheme. Since elections came soon thereafter we got UPA 2. It has made the Congress go all out for rural votes as a source of electoral victory. After that she has primed the same pump for NREGA, other schemes, and now the vastly expensive food security.

The NAC does not recognize the leakages and the huge costs of these social schemes. Result: record government deficits and continuing inflation. UPA 2 delivered inflation but less growth and tax revenues.

Her government has displayed little interest in attracting investment, making the energy sector viable, introducing measures to control the scams that gave away national resources, in enhancing the accountability of Ministers and the bureaucracy (presently non-existent) , in improving urban governance, and a holistic coordination within government.

The explicit separation between Prime Minister and the party President has been a failure. The issue is not the caliber of the party President or her Prime Minister. Simply put, government should be boss, not the party, on policies.

Our present dismal economic situation can be corrected. It requires pain for crony capitalists, thieving bureaucrats and politicians, and for a while, high prices of energy and energy intensive products, and even higher taxation. It can also leash the rampaging politicians and bureaucrats and their crony businessmen friends.

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