

# **Neoliberal Politics: A Study of Restructuring of the Indian State**

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By

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## **Declaration**

I declare that the dissertation entitled “Neoliberal Politics: A Study of Restructuring of the Indian State” has been prepared by me under the guidance of Dr. Sudheer Singh Verma, Assistant Professor, Department of South and Central Asian Studies, School of Global Relations, Central University of Punjab. No part of this dissertation has formed for any award of any degree or fellowship.

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## ABSTRACT

### **Neoliberal Politics: A Study of Restructuring of the Indian State**

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Neoliberal Politics refers to 'economic rationalism', which is based on the efficiency of market forces and characterised it by minimal government intervention. It emerged in contrast to the welfare state model, in which the state takes responsibility for protection and socio-economic well-being of its citizens. On the other side, the neoliberal politics claims that the well-being of human can be forwarded by liberating individual entrepreneurial freedoms and skills through private property rights, free market and free trade within the institutional framework. In post-independence era, Indian founding fathers constitute the developmental state structure for the welfare of the citizens. With the passage of time welfare state's institutional inefficiencies, government's unfinished distributive programmes, and slow economic progress induced the government towards neoliberal politics. Hence, in the wake of neoliberal politics in the 1980s, the Indian government has begun to transform the developmental path. Hereafter, the government has started to the institutional restructuring of the state and constituted new institutions for private entrepreneur lead development. As a result, the developmental state system has been restructured in order to free market system. With this background, the study has made an attempt to relook democratic socialist character of the Indian state and its journey from close to open market (1950 to 2014). After analysing the associated impacts on the democratic process and social welfare imperatives, the study concludes that the neoliberal politics has restructured the state institutions from the commanding control of the market system to the regulation based market system.

(Name & Signature of the Student)

Name &Signature of supervisor

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(Name and signature of student)

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## List of Abbreviations

Sr. No.	Descriptions	Abbreviations
1	All India Congress Committee	AICC
2	The Association of Indian Engineering Industry	AIEI
3	The Associated Chambers of Commerce and Industry of India	ASSOCHAM
4	Bharatiya Janata Party	BJP
5	Confederation of Engineering Industry	CEI
6	Communist Party of India	CPI
7	Department of Industrial Policy and Promotion	DIPP
8	Directorate General of Foreign Trade	DGFT
9	Foreign Direct Investment	FDI
10	Foreign Exchange Management Act	FEMA
11	Foreign Exchange Regulation Act	FERA
12	Foreign Investment Promotion Board	FIPB
13	Federation of Indian Chambers of Commerce & Industry	FICCI
14	International Monetary Fund	IMF
15	Liberalization Privatisation and Globalization	LPG
16	Memorandum of Understanding	MoU
17	Micro, Small and Medium Enterprises	MSMEs
18	Ministry of Corporate Affairs	MCA
19	Monopolies and Restrictive Trade Practices Act	MRTP Act
20	National Manufacturing Competitiveness Council	NMCC
21	Non-Governmental Organisations	NGOs
22	National Green Tribunal	NGT
23	Other Backward Classes	OBCs
24	The Organization of the Petroleum Exporting Countries	OPEC

25	Prime Minister	PM
26	Public Sector Undertakings	PSUs
27	Securities and Exchange Board of India	SEBI
28	Tariff Authority for Major Ports	TAMP
29	Telecom Regulatory Authority of India	TRAI
30	United States of America	USA
31	World Trade Organization	WTO

# Chapter 1

## Introduction and Review of Literature

### 1.1 Introduction

Politics is an act of collective decisions and these actions relate to every person in society. These decisions may be formal or informal associated with organised state or social relations. The state provides the political platform to take collective decisions. A state, as Aristotle defined, “an organized political community,” concerns with the people for establishing equal relations among political, economic, social and cultural elements of society. Niccolò Machiavelli, who used the word ‘State’ first time, argued, “the order or orders of the state must be subject to change” because “all human things are in motion” (Mansfield 854). Hence, the state constitutes a new form of political authority and socio-economic system with the passage of time. Max Weber defined the modern state in terms of governments’ power, such as the modern state has legitimacy, the monopoly of the means of physical violence and territoriality.

Therefore, society’s socio-economic development with the passage of time shapes nature of the state. As a result, the ruling classes construct the politics on different ideological notions according to socio-economic situations of the country and their interest in the welfare of the individuals. However, ideologies prepare the ground for taking decisions and actions, which help to go in the right direction. Ideologies define the social relations and propose notions of the well-being of the people according to their underlying assumptions such as liberalism, socialism, marxism, realism and so on. Therefore, social scientists analyse the state theoretically according to the practical activities of that time ruling government. Thus, on the basis of socio-economic relations and ideologies, the nature of the state has been changing since the formation of the state from ancient time to modern times.

In the 20<sup>th</sup> century, a welfare state primarily concerned about regulating and distributing of equitable natural resources among its citizens for the development of society. Therefore, after the economic crisis of the 1930s, the governments believing in market liberalisation implemented the Keynesian economic policies<sup>1</sup>

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<sup>1</sup> Keynesian economic policies assert that free market have no self-balancing mechanism and a market economy is often experience inefficient macroeconomic outcomes, therefore, Keynesian

with the mixed economic approach. However, in 1970s policies of the welfare state faced the challenge from neoliberal policies because of subsequent failure of the state adopted programme based on Keynesian economic policies. Because at that time, high social expenditure increased fiscal deficit and falling tax revenues produced stagflation<sup>2</sup> in the economy. Consequently, internationally and domestically a serious crisis of capital accumulation, the rise of inflation and unemployment moreover affected the economic system (Harvey 16). All these events had weakened the claims of the welfare state, which was based on the Keynesian economic policies.

After that, the State started to adopt the neoliberal policies as an alternative to the mixed economic approach. Neoliberalism stresses on 'economic rationalism' which is based on the efficiency of market forces and characterised it by minimal government intervention. In this context, as the Professor John Quiggin (1997) explained that neoclassical economists' assume that a simple model of perfect competition and the free market would be viable for development. So, the state should have to adopt the neoliberal policies based on the rule of law, individual private property rights, and the institutions of freely functioning markets and free trade (Harvey 64).

Further, as Stuart Hall (2011) explains that the neoliberal narrative argues; advocates of the welfare state falsely saw its responsibility for intervening in the economy, redistributing wealth, universalising life-chances, protecting the socially vulnerable, attacking unemployment, improving the condition of oppressed and marginalised groups and addressing social injustice. These welfare policies have eroded personal responsibility and the overriding duty of the poor to work (Hall in The Guardian 2011). On the other side David Harvey (2005) illustrates neoliberal idea claims; the well-being of human can be forwarded by liberating individual entrepreneurial freedoms and skills through private property rights, free market and free trade within the institutional framework. The state plays the role to maintain this institutional framework for appropriate of these practices and to

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policies advocate intervention of the government in the economy by public policies. Source retrieved from (<http://www.imf.org/external/pubs/ft/fandd/2014/09/basics.htm>).

<sup>2</sup> Stagflation is a stage where slow economic growth, high rate of inflation and relatively high unemployment stagnant the demand in country's economy. Source (<http://what-when-how.com/social-sciences/stagflation-social-science/>).

guarantee the quality and integrity of capital (Harvey 2). Hence, on the basis of neoliberal policies, most of the countries started to restructure the state in line with neoliberal politics in the 1980s.

## **1.2 Historical Background of the Indian State**

Ancient writings characterised the state at that time in India in different ways. The main sources of the state functioning during the ancient time were defined in Sukra Niti, Ramayana, Mahabharata and Kautilya's Arthashastra. Sukra said that King should have to follow the Niti for the systematic function of the state. Therefore, rulers adopted the Nitisastra as a science for regulating the social, political and economic functions of the Kingdom. Sukra Niti defined the state institutions, customs and welfare of people with regard to duties, functions and general rules of the morality of princes, crown prince and other state dignitaries, furthermore political part of the Sukra Niti explained the state council, ministers, jurisprudence and international law (Nagar 104). The Ramayana defined certain functions of the state such as the protection of its subjects against the external aggression, maintenance of the common law of ancient customs and usage of land, protection of the Dharma land in which state and society survived and levying of taxes (Uma 115). On the basis of these functions of the state, Valmiki characterised the Rama as ideal King. The Mahabharata was considered as the basement of ancient Indian religion, politics, economics and culture by the scholars. The Shantiparva part of the Mahabharata defined the political theory of the state which explained the political, ethical and philosophical advice. The main function of the state in Mahabharata was to safeguard the property, maintain law and order along with the state function. Shantiparva defined the main aim of man's life, such as Dharma, Artha, Kana and Moksha (Garg 80). These were the divine theories of the state and theories mainly focused on monarchy rule which had developed during that time in small kingdom's form.

Kautilya in his well-known work Arthashastra defined the state as an organic entity by seven elements in Saptanga theory. The seven elements were svami (King), amatya (Minister), janapada (Land), durga (Fort), kosa (State Reserves), danda (Army) and mitra (Allies) (Sharma 31). These seven elements of the state, despite their distinct identities, stood in the closest relation for mutually serviceable and established the state as an organism. Kautilya advocated the state control over

economic and business activities for stable and prosperous treasury, because if Kingdom had not been sufficient reserves, then people would disconnect and this might lead to “resentment, revolt and revolution” (Kohli 129). He, as an advisor of first Mauryan ruler Chandragupta, campaigned for the establishment of the Maurya Kingdom during 317–293 B.C. Therefore, with the help of Kautilya Niti Chandragupta successfully established Maurya Empire. The nature of the state was bureaucratically centralised by an efficient hierarchy of officers because Kautilya believed for the betterment of the kingdom and people intervention of the state would be effective. As a result, people participated in bureaucracy to provide the services only, but they had not powered of decision-making.

After the fall of Maurya Empire small monarchies or chieftainships emerged and there were two large kingdoms the Satavahanas and the Kushanas entered into feudatory<sup>3</sup> relations with small kings (Sharma 380). Gupta Empire emerged on the ruins of the Kushanas Kingdom and Chandragupta first became the first ruler of Gupta dynasty. In the Gupta Empire, the state nature developed in the feudal form because the feudatories managed most of the administration. Gupta state did not regulate the economic activities at large scale. Therefore, rulers did not appoint many officials as Mauryas did (R. S. Sharma 239). The Gupta rulers initially granted the land and villages to priests and temples; later these grants were also extended to royal officers; therefore, these decisions reinforced the decentralisation of administrative authority (Jha 153). These feudatories provided the military assistance to the Empire because they had the right to keep the military for Kingdom protection. The land grants paved the way for the growth of feudal society; thereby the caste system developed being categorised in four Varna practices. The changing social structure resulted in less participation in the state functioning.

In the early medieval period, after the fall of the Gupta Empire, in the Northern and Southern India, many small kingdoms emerged, such as Rajputs in North and Pallavas, Pandyas, Cholas and Chalukyas in South. In all these monarchies, the state continued to advance the feudal pattern of political relations. However, the feudal form of small kingdoms adopted the decentralisation of administration and

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<sup>3</sup> Feudatory means those persons who controls power at local level and they have a subordinate relationship with the king. Source (Romila Thaper 2003, Early India: From the Origins to AD 1300).

revenue collection practices to run the state (Farooqui 31). These kingdoms according to their territories divided into subdivisions which were again split into macro regions and villages for administrative control. During that time all the people had not participated in the local body institutions because of village assemblies were dominated by the higher caste and class sections and these institutions mainly kept the interests of temples, upper castes and to some extent artisan class.

In the mid of tenth-century Muslim invaders from Central Asia started military raids in the northern part of India, a popular name among of them was Mahmud of Ghazni. After a long period, Muslim rulers conquered the battles over the small Indian Kingdoms, Qutb al-Din Aibak first Muslim became the ruler of the Delhi Sultanate. From 1206 to 1526 Delhi Sultanate as the Muslim Kingdom ruled the Indian sub-continent. However, when Sultans established the rule, they did not bring with them any perfect administrative machinery. Therefore, they evolved the practical system according to then the Indian socio-political structure with their previous experiments and knowledge (Farooqui 96). Therefore, Delhi Sultanate rulers with the understanding of conditions and help of dominations of feudal lords also continued to rule through layers of the feudalism. Firuz Shah Tughluq took measures to develop the agriculture by constructing canals for irrigations because agriculture was the primary source of wealth, instead of that during Sultanate period state had also developed the silk and cotton 'kharkhanas' (factories) (Sen 127). Delhi Sultanate also liberally encouraged the trade and industry for economic development. In the Sultanate era, society was a mix of different castes, races and creeds of people. In the organisational apparatus of the state, the Muslim official generally entrusted to military duties and Hindu origin officials were involved in financial administration and local governments because they had knowledge at grass root level (Farooqui 103). After Feroz Shah Tughlaq rule, some former elite groups of Rajput, Chauhan and Gahadawalas were attempting to reassert their earlier power and prestige at local level autonomous bodies.

The insecurity of Northwest borders because of frequent invasions and internal rebellions of the nobles added to the general chaos and weakened the central authority further. Therefore, after a period, Delhi Sultanate could not sustain the empire and it started to disintegrate. In 1526, the first Mughal ruler Babur defeated

the Ibrahim Lodi, the last ruler of the Sultanate, in Panipat battle. Subsequently, Mughal Empire began in the Indian sub-continent. Sher Shah Suri, the Mughal ruler, had started to restructure of the state administrative machinery by eliminating the autonomous rule of the feudatories to some extent and established the direct central officials. They had introduced the system of government officials, for directly collecting the revenue from the farmers in place of the layers of feudatories existing between the King and the farmer. Further, Akbar established centralised government structure for the development of provincial administration with detailed rules and written regulations for provincial and district administration (Sen 176). Akbar also introduced the mansabdari system, according to this system mansab (rank) was awarded to the officials as his status in the official hierarchy.

In the Mughal period agriculture was the main occupation of people and the major source of income for the state. However, under the Mughal state new institution jagirdari was emerged because of Emperor granted Jagir (Land) to higher officials instead of their salaries, consequently, these officials developed as the Jagirdars or feudal lords (Farooqui 282). This system led to excessive exploitation of peasants, so that peasantry class started to revolt against the jagirdari structure. There were frequent revolts upraised in the Marathas, Jats, Sikhs and Satnamis against the state system. Apart from agriculture, Mughal emperors also encouraged production in the state Kharkhanas or industries and India started to supply goods in domestic markets and export to foreign markets (Farooqui 283). Though the Mughal rulers had established the modern centralised state machinery, clearly it has further strengthened the feudal classes in the form of Jagirdari, Mansabdari and Zamindari systems. Moreover, the regions which were not under the direct rule of the Mughals, feudatories continued to rule with the support of the rural feudal classes.

After the death of Emperor Aurangzeb, Mughal Empire started to decline because of the fight for the throne between his sons, besides that, the court incompetence, inter-regional religious conflicts, greedy factionalism and traditional invasions weakened the Mughal regime (Kohli 225). At the same time, the British East India Company had been already well established on the two coasts of India by the end of the seventeenth century and also seeking to spread its arms across the Indian sub-continent. Gradually the company politically established her rule over the

Indian sub-continent. Whereas, Acts of the British Parliament, time to time enhanced Crown's powers over the company's administration in India. The fundamental nature of the colonial state began to "increase the Company's profit, enhance the profitability of its Indian possession to Britain and maintain and strengthen the British hold over India" (Chandra 86). Consequently, colonial state restructured the state policies which were more exploitative, even though during imperial rule many institutions of democracy had developed. Instead of that, under the colonial rule, the basic structure of the state did not change because it continued the same essential policies which were pursued by the previous feudal rulers.

However, it had made changes in the land revenue policies in order to exploit the people. Under the permanent revenue settlement Zamindari, Ryotwari and Mahalwari system were established for collecting land taxes. Despite that, the British also introduced the commercialisation of agriculture policy, wherein crop production was produced for the market instead of domestic consumption. These new settlements in the land and promotion of cash crops adversely affected the socio-economic position of the peasantry and the existing rural framework. In contrast, most of the taxes and income derived from the Indian people did not spend on the welfare of India by the British regime, instead of sending the profits to their homeland (Chandra 98). The unequal trade policy of import and export of the colonial state was opposed to the domestic industry and this policy ruined the indigenously developed industrial set up in an extended period.

For implementing coercive policies, the British established the centralised structure of the state with relatively bureaucratised, which clearly demarcated public and personal realms. On the other hand, limited parliamentary constitutional set up was established on the basis of the laissez-faire policy and the British officials entered into a variety of ruling alliances with traditional Indian elites, who were already the dominant section of Indian society (Kohli 228). Conversely, Indian nationalist leaders integrated various social classes into politics in response to the colonial state actions. At the end of the nineteenth century and the first half of the twentieth century, the national leaders were playing an opposition party role in the state. However, they had not opposed the imperial rule directly, because most of the western educated leadership of the national movement belonged to the elite

class. The colonial state with Indian elites initiated religious and social reforms to change the society, while rural society responded against it. During the colonial period, the state institutionalised its structure in different departments according to British Parliament Acts. Political parties and organisations led the national movement by constitutional means and revolutionary way against the colonial rule for the independence of the country. Therefore, the masses from different regions were mobilised against the oppressive imperial rule on self-rule slogan. The Congress Party was the main leading force of movement under the leadership of Mahatma Gandhi was giving an argument for a democratic welfare state system for all the people. After a relentless struggle of the people for freedom against colonial rule, the British transferred the state power to Indian people on 15 August 1947.

However, the policy-makers after independent had stressed the role of the state in carrying out developmental activities. They considered India as a developmental state. Therefore, India adopted the developmental state policy with the mixed economic approach. India formulated state welfare programmes under the umbrella of the mixed economic approach. All welfare programmes were based on the significant investments through the public sector and with some sectors remaining open to private capital. The main reason behind to state-led developmental programmes was to transform the discriminating caste-based society and exploitative social structure (Ahmed 40). The principal objective of the development programmes was to change the discriminating caste based society into more egalitarian society. For this, government policies mainly focused on much state intervention in economic development and constitutional democracy.

In the 1970s, economic rationalism and free market economy became the debating point between supporters of free market economy and state intervention in the economy all over the world. The neoliberals were advocating that the free market was the best way of development because the state did not have the capacity to get all information about economic activities. Therefore free market and free trade could give freedom of self-governing to every individual. Consequently, USA, UK, China and other advanced and developing countries' governments started to adopt the neoliberal policies. So that, the state was restructured in such way that would encourage the free market and free trade

practices. In 1980 Indira Gandhi adopted the idea of economic rationalism. Therefore, the government has started the path of development with the growth of the economy through more private investment and market expansion. After that, the government began to give the priorities for economic growth as a state goal; supporting big business to achieve this aim and taming labour as a necessary aspect of this strategy (Kohli 1255). After that, PM Rajiv Gandhi attempted a decisive shift 'from state control to a liberal model of development' (Kohli 199). The New Industrial Policy allowed the new private investment flow into public sector industries, which would have also improved the productivity of the hitherto heavy industry economy. Manmohan Singh and Montek Singh Ahluwalia, the economic advisors of then Prime Minister, played a significant role in restructuring the state. In 1990-91, the economy of India was in serious trouble, the value of the rupee plunging down to a new low level, the current account deficit at an all-time high and inflation running at nearly a ten per cent annual clip. At that moment, the world was also changing in which India was operated. So, reforms became more acceptable. In the context of reforms Montek Singh Ahluwalia, the special secretary of Prime Minister, stated that bolder steps should have taken in the process of liberalisation. State and bureaucratic control should have replaced with the market economy mechanism as like developed countries (Ahluwalia 42). In June 1991, Manmohan Singh as Finance Minister of P.V. Narasimha Rao regime, in his first budget, announced a policy shift for opening the economy to domestic and global market forces. Then Liberalization, Privatisation, and Globalization (here after LPG) process have been started. Thus, the already begun process of restructuring the state has led to adopt the full path of neoliberalism, so that the government could adopt the LPG policies without any reluctance.

### **1.3 Review of Literature**

In the post-cold war era, Neoliberalism has been dominating in the world politics. It has initiated a change, which has been observed as a transformation of the structure of state from the social democratic policies toward the free market, free trade, and individual entrepreneurship. The government has changed policy direction, because of policy makers observe the socialist state structure and a mixed economic policy cannot give desirable output. Therefore, neoliberal policies are adopted to fulfill desirable objectives stated in the Constitution. The available

literature on neoliberalism and restructuring of state has been reviewed under the following thematic heads are–

- A) An Evolution of Neoliberalism as a Phenomenon;
- B) State and development; and
- c) India's move towards Neoliberalism.

### **1.3.1 Evolution of Neoliberalism as a Phenomenon**

Neoliberalism has emerged in the first half of the 20<sup>th</sup> century. It propagates the freedom from the regulation of the state. This idea has produced an alternative policy framework against the dominated thoughts of the New Deal and Great Society liberalism, British social democracy, Keynesian economic policy, socialism and social democrats. At that time debate was going on the free market and intervention of state for development of society. This debate is still continuing among the many international scholars, one who supports the state intervention policy and other one favour free market economy. On the study of Neoliberalism, Yahya M. Madra and Fikret Adaman (2014) explain the neoliberal theory become the amalgamation of different theories in after the World War Second. There were two main schools of thought differently propagated the free market idea in Europe and America, German Ordo-liberals and Chicago and Austrian neoliberals. As Wendy Larner (2000) explains the how neoliberalism is defined in three ways as Policy, Ideology, Governmentality. Larner illustrates that each of these explanations of neoliberalism has different implications on the restructuring of the welfare state. These process and for the predicting of political strategies that might further aspirations for social justice and collective forms of well-being. The imperative for this examination arises from his growing conviction that numerous critical commentators have underestimated the consequence of neo-liberalism for contemporary forms of governance. They have been largely unable to engage in the formulation of an effective "post-social politics."

However, Morton Schoolman (1987) explains the moral sentiments of neoliberalism. Schoolman points out essential tensions between individualism and community have played themselves out in the history of the welfare state. This was because of liberalism's practical entanglement with the welfare state is as

inevitable as liberalism's philosophical entanglement with the community. Daniel S. Jones (2012) historically trace out, how Neoliberalists change the world on the basis of neoliberal politics. The leading advocates of neoliberalism were Friedrich Hayek, Milton Friedman, and Ludwig von Mises. They also developed the theoretical base of neoliberalism. Hayek created "a kind of neoliberal international" with the help of millionaires and their foundations and established a transatlantic network of academician, businessmen, journalists, and activists. With the support of this neoliberal international, at the time of stagflation in the 1970s, neoliberals provide the free market and free trade an alternative policy framework against the Keynesian mixed economic policy. After that, Margaret Thatcher and Ronald Reagan took power in the Britain and the USA respectively, then rest of the package of neoliberalism soon followed: massive tax cuts for the wealthy persons, deregulation, the crushing of trade unions, privatization, outsourcing and competition in public services. IMF and World Bank financial institutions of the world also have played a role in favour of neoliberalism. They compel the sovereign governments to reform in economic policy structure at the time of taking credit and loan.

David Harvey (2005) critically argues that free market idea is started practice by Volcker, Reagan, Thatcher, and Deng Xiaoping. This minority idea which has long been in circulation and they make it majoritarian. Neoliberal theorists F. A. Hayek and Milton Friedman construct the consent in support of the market economic model through the establishment of a transatlantic network of academician, people in business, journalists, and activists. Neoliberal activists have selected in government advisory boards and committees to advising policies framework. They also have considerably influenced by international institutions such as the IMF, the World Bank, and the World Trade Organization (here after WTO) that regulate global finance and trade. Neoliberalism reshaped the class formation in society and advanced the capitalist relations overall the world. After that, multinational corporations get more power by using the state apparatus for capital accumulation. Thus, the state also is used as a tool by big businesses for creating a market where it does not exist. This creates the unequal geographical development and enhances the inequality between rich and poor.

### 1.3.2 State and Development

Political scientists concern on their study about state's role in carrying out development equitably. Their work on the state and development illustrates Indian politics, economy, and social relations. V. Krishna Ananth (2010) explains the evolution of the political arena from a historical perspective. He argues the two general elections (1952 and 1957) and the Congress party registers the landslide wins under Jawaharlal Nehru. He constructs a national political culture that is essentially modernist and egalitarian. For this Congress Party, under Jawaharlal Nehru, could present its idea of the economic development of a socialistic pattern of society. Waquar Ahmed (2009) explains India adopted an indigenous variant of Keynesianism, or a 'mixed economy' approach to development, with significant investments in the public sector, yet with some sectors remaining open to private capital. However, V. Krishna Ananth (2010) illustrates C. Rajagopalachari, one of the architects of the Swatantra Party, and several leaders of Congress party Morarji Desai, Nijalingappa, Neelam Sanjiva Reddy, Brahmananda Reddy and Lal Bahadur Shastri were a known advocate of the free market philosophy. These also were questioned the Nehru's socialist model of development. There is Stanley A. Kochanek (1987) in "Brief Case Politics in India" argued a group of Indian business class, Parsi, Gujarati, and Tatas supported the Swatantra Party (1959-1974) against the Nehru's socialist model of development because of protecting their interests. Then, Paul R. Brass (1994) explicated government promise that the private sector would play complementary roles in a mixed economy and the enterprise shall be encouraged to grow with as much freedom as was possible within the framework.

In the mid-1960s, by wars with China and Pakistan has increased the defence expenditure leads to a fiscal deficit. Paul R. Brass (1994) argued the decline in foreign aid and internal resource mobilisation create major public sector crisis. Subsequently, V. Krishna Ananth (2010) explains that time newly elected Prime Minister Indira Gandhi in 1966 wanted to resolve these problems. For that, she accepted the IMF and World Bank resolution of the devaluation of the currency, high priority to agriculture against the heavy industry for self-sufficient in food production. On the contrary, she also admitted to socialist rhetoric and passed a law for nationalization of banks and the Monopolies and Restrictive Trade

Practices Act (here after MRTP Act) in 1969, which was imposed to curbs on the expansion of private capital. In the 1971 election, Waqar Ahmed (2009) argued Indira Gandhi's give the popular slogan '*Garibi Hatao*' because the survival of electoral democracy in India depended on the support of the poor and deprived castes provide help to win the election. Liberation of Bangladesh and war with Pakistan increased the spending on defence for importing arms. In the Persian Gulf, the various nations came together to form a cartel. The Organization of the Petroleum Exporting Countries (here after OPEC) increased oil prices fourfold overnight led to a severe crisis for the Indian economy. Further V. Krishna Ananth (2010) illustrate Indira Gandhi regime adopted the 20 point programme as the solution to this crisis. Then, she again restored the IMF and World Bank agenda of reforms and imposed the national emergency.

As Jyotirindra Das Gupta (1979) argued, in 1977 the Janata government came into power with the commitment to decentralised development. The government was more concerned about the rural area instead of big capitalist industry. By adopting these policies, industrial production has declined this become, the more reason to worry. Stanley A. Kochanek (1986) argued the Janata party succeed only in restoring political power but failed to provide the economic and social stability because of the Janata government did not succeed in achieving economic progress. Furthermore, Party factions led to collapse the Janata Government. Although, there are many scholars examine the Indian perspective of development after independence in the different context of the framework.

### **1.3.3 India's Move towards Neoliberalism**

After the upheaval of Janata Government and decline of economic growth Indian state started their move toward Neoliberalism. Atul Kohli (2009) explained Indira Gandhi as the PM of India again restored her political power and formed the government in 1980. However, she has abandoned her popular rhetoric of "Garbi Hattao" and followed the path of development with the growth of the economy through more private investment by the market forces. Atul Kohli (2006) argued government decide to adopt the three components of the new model of development, and these were; prioritisation of economic growth as the state goal of supporting big business to achieve this aim and taming labour as a necessary aspect of this strategy. IMF gave the loan and put forward policy changes for the

economic growth. Then direction toward the liberalisation has started with the modification of policy structures. In 'Politics of Economic Liberalization in India,' Kohli explained the government, at that movement, withdrew some necessary controls from large companies to expand and allowed them to enter areas which reserved for the public sector. The MRTP Act, that effectively curb the growth of the big business has diluted. Then large companies could expand in core industries as chemicals, drugs, ceramics and cement. This way Indira Gandhi regime has started the process of liberalization.

As Waquar Ahmed (2009) critical argued, the Indian bureaucrats and politicians exercised the control over all business/economic decisions. They have exclusive rights to decide upon investment, production, technology, location, prices, imports, exports, financing and foreign capital. However, gradually, this system has changed in an exchange relationship between business and government. By these reasons as Jorgen Dige Pedersen (2000) stated that the business elites expressed loyalty to the state controllers of the economy, in order to attain 'favour,' by contributing party funds and rewards to bureaucrats. After adopting liberalisation process, Atul Kohli (2009) explained government started to cut in subsidies of the public distribution system, but corporate taxes had been relaxed. Indira regime also to some extent opens the economy of foreign goods and investors. These increased budget deficits and the size of the public debt also grew.

After the assassination of Indira Gandhi in 1984, Rajiv Gandhi became the PM of India. Rajiv Gandhi sustained the policy changes, which was initiated by Indira Gandhi. He stimulated a little faster in certain areas, and a little slower in others. Francine R. Frankel (2010) argued, in the 1985-86 budget, was presented by the Finance Minister V P Singh, which did not mention the socialist word. This was the Budget which introduced the liberalization process through altered MRTP Act and Foreign Exchange Regulation Act (here after FERA) and more tax concessions to the corporate and urban upper-middle classes. Further, John Harriss (1987) argued Rajiv Gandhi government also allow tax breaks for exporters and investments in 25 main industries like machine tools, industrial machinery, electrical equipment and electronic components, became essay by removing licensing restrictions. On the other hand, fund allocations to rural employment and anti-poverty programmes were reduced. Stanley A. Kochanek (1986) stated that

through this budget change, the objective of the government was to generate growth rate of the economy and controlling corruption and black money by lowering taxes. Atul Kohli (2009) even though Indian big industrial businessmen favour of liberalisation, mainly in the expansion of capital, corporate tax reduction, and dilution of MRTP, but they opposed the trade liberalisation. Waquar Ahmed (2009) argued as the representative of a new breed of entrepreneurs, Confederation of Engineering Industry (CEI) pressured the Government of India for permit expansion of the domestic capital of all sizes and also foreign capital. The stated objective of the CEI was to work towards the globalisation of Indian industry, with a business philosophy in favour of deregulation, de-control, and de-licensing in all areas. The economic advisors of Prime Minister Rajiv Gandhi, Manmohan Singh, and Montek Singh Ahluwalia were main supporters of neoliberal policies. They played the main role in the Government for facilitating this transformation.

Amit Bhaduri & Deepak Nayyar (1996) illustrated supporters of liberalisation argues in support of the suggested policy through the global institutions, like the IMF and World Bank, they wanted to serve the agenda of these institutions. Opponents of liberalisation left and intellectual section, defend the state intervention in the economic field as the protectionist way. They said that the government should follow the path, which was adopted by South Korea and Japan, they were against the Latin American and Sub-Saharan African countries in response to the debt crisis in the 1980s way out a solution. All these countries were under similar IMF programs of 'stabilization' coupled with World Bank programs of 'structural adjustment'. Consequently, Waquar Ahmed (2014) explicated through liberalisation process growth rate has increased but it also enhanced the fiscal deficit and external debt. By external debt balance of payment crisis occurred, because of the Middle East crisis surged oil prices, import of advanced technology for new industries, and Gulf crisis affected the remittances. Atul Kohli (2009) argued this be also the decade in which India's economy made a breakthrough; it moved beyond the "Hindu growth rate" to a more speedily growing economy.

At the end of the 1980s, as Robert L. Hardgrave & Stanley A. Kochanek (2006) explicated PM V. P Singh's government implemented the Mandal Commission

Report on job reservations for Other Backward Classes (here after OBCs). North Indian states' general category people start a protest against government decision and Hindu extremists threatened to storm of the Babri Masjid in Ayodhya. This political jolted correspondingly affect the economy, which was already in a disordered state. Then the government has decided the need to approach the IMF for support. Waquar Ahmed (2014) argued the reforms become more acceptable during the 1990s, because of the world in which India operated also transformed and that time the Indian capital split politically, nevertheless with a major faction at least willing to experiment with a more open economy. The economic situation becomes poorer because of a sharp decline in exports to Russia. This also raised the issue of maintaining and upgrading defence forces, which was linked to the national security. Further, this related to foreign exchange because without a result of improving export earnings and maximizing other sources of foreign exchange government could not import advanced arms.

At that time as Lawrence H. Summers & Lant H. Pritchett (1993) argued every country move to open their economy and reduce the role of the state in managing and regulating economic activity. Multilateral financial institutions, World Bank and the IMF, exertion the countries in particular situations in reforming their economic policies with structural adjustment and stabilization program. Atul Kohli (2006) illustrate Indian decision-makers, including Manmohan Singh and Amar Nath Varma, arguing that external considerations be important considerations for India. These concerns must have created a new sense of urgency for "liberalisation." However, P.V. Narasimha Rao came to power as Prime Minister of India in June 1991 and he appointed the Manmohan Singh as Finance Minister. Then Montek S Ahluwalia (2016) argued Manmohan Singh have little time for showing confidence. So, by M document and his own The Indian Institutes of Management Bangalore convention address he took the steps toward reforming economic structure. In his Budget speech, he broadly described two tracks one was reducing the fiscal deficit and stabling balance of payments. The second one was implementing structural reforms, aimed at improving efficiency and thereby stimulating growth. Thus Indian economy opened for accessing global integration with the free market system.

## **1.4 Knowledge Gap**

After the reviewing wide-range of literature on neoliberal politics, major studies focus on the neoliberalism as world phenomena and liberalisation process in India. These mainly sheds light on the Keynesian economic policy and crisis of the 1970s stagflation. Studies also highlight the neoliberalism as an alternative to the mixed economic model of welfare. In the Indian context, studies focus on liberalisation of Indian economic policy reforms from the central planning framework. In these studies, very little work finds out on the restructuring of the Indian State and how economic rationalism matters. The very little literature is available on neoliberal politics impacts on social welfare activities during this period. The literature on neoliberal politics impacts on the democratic process is also less available.

## **1.5 Research Questions**

The Indian State has been restructured after adopting neoliberal policies in the 1980s and the 1990s. After that, the democratic socialist nature of the state has been changed into the neoliberal state. To know about the reasons behind the restructuring of the Indian state in the wake of neoliberal politics this study has focused on these research questions: What were the reasons for the failure of the democratic socialist state in India? How policy makers restructured the state with the neoliberal policies as an alternative to the socialist state in India? How has a restructuring of the state impacted the welfare activities and democratic process in India?

## **1.6 Hypothesis**

The study has been based on the following hypothesis.

Economic rationalism as an engine of economic growth has become a driving force for policy makers to consider the neoliberal state as an alternative to a socialistic state in India.

## **1.7 Theoretical and Operational Definition**

Restructuring of the Indian state in the wake of neoliberal politics has concerned with shifting the economic policy and institutional structure of India. As a result of the unfinished implementation of the developmental state, the balance of payment

crisis and international financial institutions were pushing to open the economy to domestic and foreign market forces. As well as during that period internal socio-economic and political situations of the country and global changing political and economic dynamics in the direction of the free market economy are demanding in a change of the state structure. The government of India takes crucial decisions toward a restructuring of the state under these conditions for further development according to circumstances of society. After adopting neoliberal policies, the state has changed its nature and perspective in order to market lead development.

This study considers economic rationalism as an independent variable by measuring it with individual entrepreneurship and productivity of goods, which leads the development and restructure the state institutions as dependent variables. The base of selection of these variables depends on the changing nature of the state after liberalisation process.

### **1.8 Rationale**

The idea of Neoliberal politics, after the 1970s, has entered into the political and economic activity of the countries. It proposed free market as an alternative to the Keynesian mixed economic system. That was the time of stagflation crisis, so policy makers started to adopt neoliberalism policy agenda as a solution to the crisis. Then governments of countries began to restructure state which was well-suited to neoliberalism. This has affected all over the world time to time. In India, the period of the 1980s was very critical because of the economic crisis and political and social conflicts. The Indian government took the steps towards liberalisation to tackle the economic crisis, the decisions of the government was influenced by neoliberal politics. Thus, the Indian government's move toward a market economy was a pragmatic step for involving private players in development accomplishments.

### **1.9 Scope of the Study**

India is a geographically largest country in South Asia and has many diversities. A large population of India is affected by every decision of the government. This study has highlighted the neoliberal politics led to restructuring Indian developmental state institutions and its impact on welfare activities and the democratic process. This study also has limits that it is mainly focused on

changing state relations till 2014. The scope of this study provides the help in understanding the changing nature of the state. This study also gives the evidence to understand the emergence of Indian neoliberal state. Moreover, the study has been an attempt to understand the argument of the liberalisation process adopted by the Indian governments and its impact on carrying out development activities in keeping an objective of welfare of society. This study remains to confine only with available government records and scholars produced research materials. The present study does not incorporate questionnaire, interviews from any source.

### **1.10 Research Methodology**

Political philosophers have propounded a theory of neoliberal politics. Some countries such as the United States of America, France, and the United Kingdom in the world established a political system based on neoliberalism. India has also implemented neoliberalism after the restructuring of the state. Neoliberal politics further advance the state relations toward the free market economy. The study has been conducted by implying qualitative methodology, because of qualitative methodology provides the understanding about the phenomenon, the situation and event. Methods of inquiry of the study have been deductive in nature. In the deductive investigation, the existing theories of research studies have been testified to what others have done and it tests hypotheses that emerge from those theories. The analytical approach has been used in the study. The study has used the deductive method and analytical approach in chapter second, third and fourth of the dissertation. The data has been collected from the primary as well as secondary sources.

Primary sources are those sources which are the first-hand experience and secondary sources are not based on the first-hand experience. As the primary sources, the study includes the government economic surveys, Budget, and Budget speeches, planning commission reports, Lok Sabha and Rajya Sabha debates and multilateral institutional reports.

The study used the secondary sources to know about the policy analysis of the government. The secondary sources are second-hand information in the context to describe, interpret, analyse, examine, summarise, etc. The secondary source has been collected from different books, which provide the detailed analytical

information about the state, politics and policies, journals and e-journals, which provide the current and explicit information about political issues and policy debates, and articles of newspapers provide current information about policy making and execution of the government. The study includes some important books and edited books like 'A Brief History of Neoliberalism' by David Harvey (2005); 'The political economy of development in India' by Pranab Bardhan (1998); The Oxford Companion to Politics in India: Student Edition by Niraja Gopal Jayal and Pratap Bhanu Mehta (2014) and so on.

## Chapter 2

### Democratic Socialism and Development in India

#### 2.1 Introduction

Democracy is still an ongoing centre point of the argument as a well-being of people since ancient time. The state and its institutions, historically evolved to provide the conditions for the welfare of the people in society. For that condition, modern states integrate different ideologies<sup>4</sup> like Liberal, Marxist, Nationalist, and Socialist, to bring wellbeing to people in society. These all ideas depend on the political formation of state for establishing equality, liberty, and justice. The democratic socialist state is one of such political formation of the state. The democratic socialist state combines the idea of liberal democracy and socialism, which advocates the social ownership and control of the economy (Busky 7). With the combination of these ideas 'Democratic Socialist State' has emerged. This State, as Philip Pettit (1987) defines, work as an agent in three different ways:

First an agent capable of systematically furthering an institutional goal like equal dignity. The second is that the state can coherently seek to promote that particular goal, being capable of dealing respectfully with the persons for whom it wishes to procure respect. And, the third is that the state is the agent which ought to be assigned responsibility for the maximisation of equal dignity (544).

Political Scientists have understood Democratic socialism differently. According to Prof. B. Dattaray (1965), Democratic Socialism includes the ideology of Marxism, a significant amount of Gandhism and version of Fabianism (22). He further explains that the political objectives of the democratic socialist state are achieved through non-violent, peaceful means and by the parliamentary government. Democratic socialists do not consider the violent means to overthrow the capitalist state as Marx advocated for establishing a socialist state. They believe the development of society and the individuality of each human being lies in the values of 'liberty, equality and solidarity' (Schwartz and Schulman 2012). Therefore, they considered the statement in Frankfurt am Main (1951) on socialism in the international socialist conference, "socialism can be achieved only through democracy,

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<sup>4</sup> Ideology is a set of political ideas and beliefs of a group of people or individuals about the economic, social and culture of the society. Source (<https://www.collinsdictionary.com/dictionary/english/ideology>)

Democracy can be fully realised only through socialism". According to these values, democratic socialists wanted to organise a new social order that might lead to establishing an egalitarian society.

Socialism and democracy have an eternal relationship as S. N. Rath (1965) explains, "socialism becomes democratic when it prefers democracy to other forms of government and also when it insists on the democratic method of achieving the socialist objective of a social order informed by equality, freedom and fellowship" (153). Democratic Socialism puts together equality, fellowship, and freedom, in relation to constitute a socialist society. In this socialist society, social democrats advocate every individual can enjoy freedom, equal opportunity, and there should not be any exploitation by one man to others and vice-versa. Politically, they believe in the elected government and the rule of law with the constitutional values. Social democrats considered the freedom of speech and expression, freedom of assembly and association or union, freedom of movement and religion as the fundamental principles of democratic socialism. For them, these principles would become the necessary traits for establishing a socialist society.

Social Democrats have adopted the economic policy from the different variations of socialism because the socialism does not have any fixed or single pattern of the economic system (Sinhna 160). Socialist propagated various models of the economic system in different ways. As S. N. Rath (1965) illustrates that:

Utopian socialists defined economy would be work under small communities of cooperation; Marx elucidated economic system would be 'nationalisation of the means of production, distribution, and exchange' under the Dictatorship of the Proletariat; Syndicalists and Guild Socialists explains economic policy would be run under the workers' control and Fabians stressed State and municipal ownership and control of the means of production (150).

The democratic socialist states have followed these economic models according to their original conditions. The adaptation of these economic models also depends on the will of a political party for establishing the socialist state. Although, democratic socialists have most of the time favoured a peaceful transition towards the socialism. Therefore, they do not support the Marxian radical path to set up a socialist state.

Mostly Asian and African social democrats approached differently for establishing parliamentary and constitutional democracy from the European social democrats. Their struggle against colonialism has differentiated them to adopt a different approach than the European democratic socialists (Sinhna 159) because they could not use only constitutional and parliamentary means to establish the socialism. It has been possible due to their mass democratic struggles, say for instance the Indian freedom fighters adopted the non-violent techniques as non-cooperation and civil disobedience for establishing a democratic socialist state. After independence, the Indian political leaders and policymakers adopted the mixed economic policy with state-led development practice to the establishment of the democratic socialist state in India. However, the policy, which was approved for the development of the democratic socialist state, practically did not establish democratic socialism. The chapter has attempted to address certain questions relating to democratic socialism in India such as: what were the reasons for the failure of the democratic socialist state in India? What were the practical difficulties, which did become the hindrance to establishing democratic socialism?

## **2.2 The Nature of the Indian State after Independence**

India would become a democratic socialist state was the vision of national movement leaders with their different ideas after independence. This approach was developed under the influence of British 'Democraticism' and Russian 'Socialist Regime' (Singh 144). These Ideas have been differently followed by the various national political parties such as Indian National Congress, Congress Socialist Party, Communist Party of India and other political and social organisations for establishing the socialist state. It was because every political party in her way wanted to implement its ideology concerning the nature and functions of society and the state (Devi 136). Pandit Jawaharlal Nehru, in the Congress party, known as the prominent supporter of socialism, wanted to achieve the goal of socialism gradually through democratic and parliamentary means (Viswanathaiah 91). He advocated conditions of India be suitable for the evolvement of the socialism (Devi 137). Therefore, he suggested democratic socialism would be the best possible remedy for Indian social structure.

The Congress Socialist Party and the Indian Congress Party, both were inclined with each other's and had the objective to attain the complete independence and

establishment of the socialist state (Haithcox 26). Similarly, Communist Party of India (here after CPI) also supported 'the anti-feudal and anti-imperialist' struggle for establishing a socialist state in India. CPI stated that goal of socialism could be achieved through democracy by peaceful and parliamentary means. Other socialist organisations of India also emphasised on the secular democracy, unity of the nation and economic development with equity.

National Movement leader of oppressed caste people Dr. Bhimrao Ambedkar advocated the 'state socialism' while drafting the Constitution for Sovereign India. He criticised the capitalism and argued in support of nationalisation of land and basic Industries called this 'state socialism' (Omved 305). He opposed the simultaneous coexistence of both systems of Capitalism and Brahmanism because the lower caste/class people have had the victim of these both system's evils such as economic exploitation and social oppression. He put forward 'state socialism' against the economic exploitation. He argued that in the Indian society, we have witnessed exclusion of some section of groups in the hierarchical arrangement (Thorat; 298). For that, he recommended the inclusion of these section of individuals in the socio-economic, cultural life and democratic polity. While delivering the closing speech in the first Constituent Assembly of India in November 1949, he said that with political democracy, there should be a social democracy which would recognise the liberty, equality and fraternity for the life of people (Ambedkar 219). B. R. Ambedkar stressed on equality, but it would not be at the cost of liberty and fraternity.

On the other side, mass leader of the Indian national movement M. K Gandhiji opposed the idea of forming a socialist state in India after independence. He propagated his alternative ideas for establishing the 'Swaraj' in India. He wanted to transform the society, but he did not want to uproot traditional values of village sufficient economy. His idea of socio-economic development based on the Swadeshi, and village manufacturing industries like Charkha and khadi (Ishii 303). Gandhiji advocated the decentralisation state from the bottom to upward through the panchayati raj system. He was against the socialism and criticised the socialism, not only regarding class war but also in terms of industrialisation of the state (Haithcox 22). He said, through the trusteeship of wealthy people, the state

can attain the equality among the society. He wanted the welfare of poor people through this trusteeship system which would be based on peaceful transition.

However, a Gandhian model of small-scale production and decentralisation was against the interest of the Indian industrial class. Therefore, eight leading Indian industrialists proposed their plan in 1944/45 for the development process in India after the Independence under the name of 'Bombay Plan'. This plan was an attempt of the Indian capitalist class to incorporate their interest in the framework of the socialist economic model without diluting the core interest of the capitalist class (Ananth 25). Hence, they proposed state intervention in the economic development of the country in this plan and objected stable economy to raise the living standard of people by doubling per capita income within fifteen years (Lokanathan 681). They knew that this framework of economic model would set definitely in the vision of Jawaharlal Nehru's modern India. On the other hand, the Jawaharlal Nehru did not recognize this plan at that time, but later this had been a part of common consensus among the policy makers for future development of India.

The 1930s's devastating effects shake the economic system of the USA and the European countries, because of their free market economic model of development had failed. However, great depression did not affect the planned economic development process of the Soviet Union. As a result, socialism attracted the newly independent countries. Besides, economist John Maynard Keynes then proposed a model which supported state intervention in economic activity against free market as an alternative for the development. Later this model established the welfare state under mixed economic approach. Therefore, American and European countries adopted it for development. After Second World War many countries of Africa, Asia and Latin America, freed from the colonial rule and new elected governments' of these countries also adopted the programme based on Keynesian economic policies for development country. In India, Lord Wavell, Viceroy of India, welcomed the Bombay Plan in his legislature speech of in 1944. The Bombay Plan model was based on mixed economic approach and supported the state intervention in economic activity, then he said that government would be considered it as the future solution to the problems of India (Lokanathan 680).

Constituent Assembly was made for the formulation of the Constitution of India in 1946. In the constituent assembly, all these ideas were discussed by members of the assembly. After lengthy discussion and debate, a constitution for an independent India has developed as the supreme law of India. The preamble of the Constitution declared India as a 'Sovereign Democratic Republic' country. It would be brought social, economic, and political justice; liberty of thought, expression and worship; and equality of status and opportunity. Article 39 of the constitution advocates the State through her policy secure all the citizens, men and women equally. Therefore, the ownership and control of the means of production will be distributed as best to sub-serve the common good. In a democratic country, all have the right to basic means of livelihood. Thus, Congress party made a slogan of 'Socialised Democracy' rather than the 'Democratic Socialism' (Suda 106). These were the major ideas about the nature of the Indian state in post-Independence. However, during the initial period when Jawaharlal Nehru became India's first prime minister then practical nature of the State was to welfare of the people and he started development through a mixed economic model led by the state government. Later in the 1980s government shifted from state-led development toward free market growth economy, this policy change also altered the state nature. How was the nature of state changed in post-independence, it has been explained with the development process.

### **2.3 Development process in India**

In 1927, Jawaharlal Nehru came back from Europe, he said, "political freedom and independence were essential and these were the steps of right direction; but without social freedom and socialistic structure of society and the State, neither country nor individual could develop" (Nehru 128). This speech determined that Jawaharlal Nehru had faith in socialism and with this opinion, he came forward to make India a socialist state after Independence. Thus, he put forward this idea in 1946 Constituent-Assembly election manifesto where Indian National Congress promised to the people for the establishment of a socialistic pattern of society and removed of economic inequality (Ananth 32). In order to that relation after the Independence, Jawaharlal Nehru and Vallabh Bhai Patel emerged as the architectures of the Indian State, creators of the party and the government structure (Brown 56). Subsequently, the newly established constitution of India

established the strong central of the state. It gives the legitimate power to the general election winning party to form the government for running the country and this government adopted the developmental process based on the mixed economic model.

### **2.3.1 Nehruvian Era (1947-64)**

Most of the countries had started to adopt the Keynesian mixed economic model in their development policies after the Second World War. Indian state also took the mixed economic approach to achieve the goal of a socialistic pattern of society. However, Indian state was started the mixed economic plan for its development as per its distinct characteristics. It was because of the Indian conditions were not conducive for socialist framework development, and policy makers initiated with the mixed economic approach. For them, in this approach, the state would play a significant role in economic and welfare activities for the people.

For the development of society, the ruling government has used the state legitimate power. This legitimate power of the state has been exercised by the educated elite, business groups, and proprietor class in India (Mohanty 721). Thus, they have started to apply state power for the development and democratic process. In early post-Independence era, the Indian National Congress Party became the dominant party and established her control over the instruments of the state power. In the political state power, social elites and landlords found the Congress party as a platform for their vested interests, and they had no any interest in socialism (Ananth 39). However, Jawaharlal Nehru was aware of that, whereas he agreed with them for coexistence in order to build the party structure.

At independence time, the resources of the country were in private hands such as all agricultural land, small-scale industry, and a substantial part of trade and industry (Hajela 12). On the contrary, Jawaharlal Nehru had argued for the establishment of the socialistic pattern of society for a long time. Consequently, this led political dispute about the role of the state in economic planning. In this dispute one side, landlords and industrialists argued for productivity and growth and on the other side Jawaharlal Nehru and his ally politician emphasised greater redistribution for establishing socialism through the intervention of the state

(Mukherji 1). This dispute led the development planning issue in which debate revolved around the role of public and private sector in development.

In 1948, under the chairmanship of Jawaharlal Nehru, Economic Programme Committee of the All India Congress Committee (here after AICC) presented the report in assembly regarding the future economic development plan of India. This report stated, "Democracy extends from the political to the social and the economic spheres" and this report also defined the role of the state and private sector in industrial development. The business class and conservative forces within the party had vigorously opposed the report's recommendations (Chenoy 16). After their opposition, Jawaharlal Nehru's took a softer stand toward state reserved area for the industrial development. In 1948 Industrial Policy Resolution recommended that the state ownership would be reserved only in three existing industries such as munitions, atomic energy and railroads. Beside that, the state would establish six new public undertaking units in areas of coal, iron and steel, aircraft manufacturing, shipbuilding, telephone and telegraph and minerals (Mitra 149). Along with it, the government extended the period to takeover other private industries from five years to ten years (Chenoy 16). In this way, the government under the mixed economic system introduced the development plan for the country and established the ruling class coalition.

The Nehru government started the development process with the vision of an economically self-sufficient country by industrialisation and growth in agriculture through mixed economy. According to policy measures, the state would play the dominant role with public investment to improving the living conditions of the general population and uniting diverse regions and identities. Therefore, for the well-being of all the segments of society and equitable progress policy makers mostly focused on three major areas, as Meera Nanda (2009) defined:

Building industrial infrastructure so as not to be reliant upon imports; creating institutions of higher education which could produce the scientific and technical workforce needed for the economic take-off; and bringing about land reforms that would redistribute land to sharecroppers and landless agricultural workers (24).

Moreover, on the basis of Economic Programme Committee recommendation, the Planning Commission of India was established by the government in March 1950.

The Planning Commission described key objectives of development in the first five-year plan document as it would work on:

- 1) make an assessment of the material, capital and human resources of the country
- 2) formulate a Plan for the most effective and balanced utilisation of the country's resources
- 3) define the stages in which the Plan should be carried out and propose the allocation of resources for the due completion of each stage
- 4) determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the Plan in all its aspects<sup>5</sup>

The planning commission document also described that there was no doubt the success of the planning depended on the classes in positions of power, but these privileged classes would be respected the democratic system and appreciate the rapid developmental changes. This document added, “a rapid expansion of the economic and social responsibilities of the State will alone be capable of satisfying the legitimate expectations of the people” and there was no need of “complete nationalisation of the means of production or elimination of private agencies in agriculture or business and industry.” But, the development plans of the government created the suspicion, how India could achieve the goal of a socialistic pattern of society with these policies in which the privileged classes’ interest was included.

On the other way, the government was also facing numerous difficulties of the caste system, language, regional identities and these were creating problems in order to the consolidation of the country into a single nation-state. For uniting the nation, policymakers advocated the strategy of balanced growth for the industrial and agricultural development (Ahmed 40). For the establishment of democratic socialism, Prime Minister Nehru set the primary goals such as the alleviation of poverty, eradication of exploitation, removal of the barriers in the field of growth, and reducing inequality. (Suda 108). To achieve these goals policy makers prepared the plans that the state would work in the area of production and distribution (Singh 146). Prime Minister Nehru wanted to attain these goals through democratic way with “the willing cooperation of all sections of the society including

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<sup>5</sup> First Five Years Planning Commission Document. Source (<http://planningcommission.gov.in/plans/planrel/fiveyr/welcome.html>).

capitalists” (Suda 108). This way the government further started the development plan.

Constitution defined the role of state intervention in establishing social justice and preventing the concentration of power. Therefore, the state began developmental activities under the umbrella of the mixed economic approach. All developmental programmes were based on the significant investments through the public sector and with some areas remaining open to private capital. The planning commission defined that infrastructure, agriculture and industrial development would be the major three areas for public investment. In the first five year plan (1951-56) the state mainly focused on two areas, infrastructure and agriculture, for public investment (Kapila 33). The government mobilised the sources through revenue from the tax system, public sector, household savings, and savings inflow from abroad and after that these resources were allocated in the form of investment to essential projects for development (McCartney 56). Besides, the Jawaharlal Nehru government also started to establish the state institutions with public investment to achieve the goal of the socialistic pattern of society.

In developing countries similar to India, as Matthew McCartney (2009) explained, “the state would likely to play the most important role, through promoting the banking system, taxation/subsidies, influencing the rate of profit and influencing patterns and levels of the flow of foreign capital” (65). After the establishment of public sector institutions, the Indian government seemed the inflow of foreign capital along with domestic capital in support of development would be worthy of the country. Indian business class' representative body, the Federation of Indian Chambers of Commerce & Industry (here after FICCI) supported the governments' liberal policy movement towards foreign capital and looked it as complementary not as competitive for the improvement of the economic situation (Chenoy 17). Prime Minister Jawaharlal Nehru also wanted to execute his idea of industrialisation of India with the collaboration of the private sector and foreign capital. Therefore, Congress party on March 1955 at its Avadi session one side declared the session to the achievement of ‘Socialistic Pattern of Society, on the other side in the industrial policy resolution party dropped the Industrial Policy Resolution of 1948 agenda, which specified the private industries would be nationalised after ten years (Ananth 43 and Chenoy 18). Here a question arose on

Congress party's Avadi session decisions that by changing these policy directions could Jawaharlal Nehru government achieve the socialistic pattern of society in the country.

Moreover, according to the industrial policy resolution 1956, the Government of India classified industries into three categories; in the first category, seventeen industries would be developed under the exclusive responsibility of the State; in second category twelve industries would be established by the state initiative and the private sector would supplement the efforts of the state; in third category industries would be left to initiative and enterprise for the private sector. On the basis of these categories, the second five-year plan has been started by the Planning Commission with the idea of industrialisation of the country. P.C. Mahalanobis was the principle architect of the plan. The central core idea of the plan was, as Paul R. Brass (2008) illustrated, "a move toward more capital-intensive, fast-paced heavy industrialisation, led by the public sector" (275) to make India a modern economic state. The Planning Commission referred the principle objectives of the plan:

1. a sizeable increase in national income so as to raise the level of living in the country;
2. rapid industrialisation with particular emphasis on the development of basic and heavy industries;
3. a large expansion of employment opportunities; and
4. Reduction of inequalities in income and wealth and a more even distribution of economic power.<sup>6</sup>

The requirement of capital for the establishment of heavy industry led to dependence on foreign capital and imports (Chenoy 18). However, policymakers countered it with their argument that import-substitution in the long term managed to produce machines and further that machines would produce other machines, therefore, the ultimate goal of self-sufficiency could be completed (Brass 275). Instead of that, the governments' policy of import-substitution and trade restrictions would protect the domestic market and large public sector. Then in future public sector would provide the capital goods, intermediate goods and infrastructural facilities to private industry, which would be managed by the Indian business class

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<sup>6</sup> Second Five Years Planning Commission Document. Source (<http://planningcommission.gov.in/plans/planrel/fiveyr/welcome.html>)

(Bardhan 40). PM Jawaharlal Nehru with these policies led the country to further development process for accomplishing the goal of a socialistic pattern of society.

The second five-year plan mainly stressed on heavy industrial development for primarily capital goods production through the public investment. By this idea, PM Jawaharlal Nehru presumed that centralised planning and industrial enterprise would break the feudal bonds (Ananth 48) as similar it has happened in European countries. Furthermore, he seemed India would become a modern industrial society and a military power, but his and Mahalanobis planning strategy did not correctly assess “the resources, social structure and immediate needs of people” (Brass 275). However, the government has continued with the previous plan strategy in the third five-year plan with the perspective of long term growth.

For the development and constitutional democracy, the government policies mainly focused on state intervention and market control. Besides, with due respect to the social justice, the institutions for the welfare of the people was created by the state. Hence, the government took the responsibility for providing education, health care, safe drinking water and other facilities which were the core needs of society (Kapila 38). These institutions would be further played a significant role in the development of society and increased the growth of the economy. There were many institutions established by the government under the different ministries to regulation and allocation of funds for the developmental projects. These projects more developed in third five year plan and planning commission stated that:

The socialist pattern places special emphasis on the needs of the small producers and envisages a rapidly growing co-operative sector, particularly in agriculture, medium and small scale industry, trade and distribution and many fields of social services. The co-operative organisation is vital both for social stability and economic growth.<sup>7</sup>

There has been a progressive taxation system levied for funding the welfare policies. Under a progressive taxation system, a heavy tax was collected from the rich people and thus become the tool of distribution of wealth and this would be played an active role in the prevention of concentration of wealth (Suda 109). Besides that, for the rural development ‘Community Development Programme’ was started in 1952 to transform the social and economic life of villagers. This

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<sup>7</sup> Third Five Years Planning Commission Document. Source (<http://planningcommission.gov.in/plans/planrel/fiveyr/welcome.html>)

programme aimed to develop the multi-purpose cooperative societies, rural unemployment, education, health care, road connectivity, the promotion of cultural activities and other types of people's institutions. Further, this programme became the part of 'Panchayati Raj' as a Balwantrai Mehta Committee in 1957 recommended the formation of the administrative structure under Panchayati Raj for rural development (Mitra 153). This was the scheme of 'democratic decentralisation' to the establishment of three tier Panchayati Raj system, for instance Gram Panchayat at the village level, Panchayat Samiti at the block level, and Zila Parishad in the districts. The state took all these initiatives for the establishment of a socialist pattern of society.

After a decade of Independence, opposition to the socialist pattern has emerged within some leaders of the Congress party, Morarji Desai, Nijalingappa, Neelam Sanjiva Reddy and Brahmananda Reddy, started to support the free market idea that was propagated by C. Rajagopalachari's Swatantra Party. Lal Bahadur Shastri in 1964 as prime minister has also supported this idea against the socialist model of India (Ananth 44). Furthermore, a group of Indian business class, Parsi, Gujarati and Tatas endorsed the idea promoted by the Swatantra Party (1959-1974) against the Nehru's socialist model of development (Kochanek 1285). Then government allowed the private sector to "play a complementary role in mixed economy" (Brass 275). The enterprise should be encouraged to grow with as much freedom as was possible within the framework.

In the 1960s, wars against China (1962) and Pakistan (1965) forced India to divert resources from developmental activities towards defending borders. At the same time, foreign aid subsequently was started to decline and balance of payment crisis emerged. Because, India was building the heavy industrial base in steel, chemicals, machine tools, cement, etc. and for these industrial buildings, India had depended on the finance capital of the socialist and capitalist countries (Brass 276). These events have created a major crisis in the public sector. Albeit that in third-year plan agricultural production also came slow down. The reason behind that was the planning policies of the government has diverted to the industry and the failure of the monsoon, but agricultural slowdown was reversely affected industrial development. These economic upheavals have created the problems in front of the government and people of the country for further development.

That was the time to stand in unity for further development of the country, but the death of first PM Jawaharlal Nehru gave another political jolt to the country. That was the economic and political challenging situation in front of the country. Lal Bahadur Shastri, as the prime minister of India, was selected by the Indian Congress party would lead the country. The present situation across the country was not the similar as it was when Nehru became the prime minister (Ananth 61). This was the time as Krishna Ananth argued that the Nehruvian socialist idea of development had been beginning to be questioned. It was happening because of Lal Bahadur Shastri preferred the free market idea of development, instead of state intervention planning policies. However, in his short term of as the Prime Minister of India he could not take big decisions of policy change as critics inside and outside the party accused him for relinquishing the pursuance of social democratic model (Chandra et al. 271).

The scholars had analysed the Nehruvian era of development as the central planning development with the mixed economic approach. Whereas, his and Indian Congress party had the aim to achievement of democratic socialist goals, but this was not attained during Jawaharlal Nehru's prime ministerial tenure. Despite that, under his leadership country took a step toward development in the period of his government initiatives. In the Jawaharlal Nehru's policy for the establishment of democratic socialism mostly many times appeared in the lack of hard steps against the dominant classes. The fundamental reason behind that was the ruling class coalition of India. In which major industrial houses, big farmers, professionals, civil servants, and other 'white-collar' workers supported the Jawaharlal Nehru idea of the mixed economy, because of these classes were understood that the state was required to provide the infrastructure development (Nanda 24). These trends showed Jawaharlal Nehru wanted to establish the socialism in the form of Fabian and Guild Socialism. After his death, Indira Gandhi, his daughter, emerged as the decisive leader of the country and took the steps further development process.

### **2.3.2 Indira Gandhi Regime (1966-77)**

While Indira Gandhi became the prime minister of India, the country was passing through the crisis. Agricultural production had been slow down by two-year drought (1965-67), industrial recession, war with Pakistan, and foreign aid also had

declined (Kothari 345), these issues were creating difficulties in the development plan of the government. At that moment, world financial institutions, International Monetary Fund, and World Bank suggested the plan to the government of India for tackling this crisis. However, these institutions had their vested interest to impose the agenda of reforming the economy for financial aid because they wanted to invest in India. Similarly, the American administration has had the chance to take advantage of that situation of India as an allied partner of the United States of America (here after USA) block and India would open his economy to American finance capital (Ananth 69). In this situation, the Indira Gandhi government agreed with the multilateral financial institution's recommendations because she wanted to immediate solution of the problems. In contrast, she had not considered any other option and started the programme of high priority to agriculture (against heavy industries), relaxation in import restriction, and devaluation of the rupee. Prime Minister Indira Gandhi's these decisions questioned her government policy to the attainment of socialism in India.

Under the two five year plans agriculture growth was developed in the better way against the pre-independence years. Public investment in agriculture has increased in the third five-year plan in the form of irrigation, subside seeds, fertilisers and diesel, and for financial help as a loan, cooperative societies were established. Along with this, all the state governments started the social welfare activities to endorse and extend the "co-operative movement in the rural areas" instead of "the abolition of the Zamindari system" (Suda 109). In 1967 Indira Gandhi regime started the implementation of the World Bank proposed plan for agriculture development in the form of "Green Revolution." The government wanted to achieve sufficient food production and modernise the Indian agrarian economy (Mitra 152). When green revolution was adopted, then high-yield variety (HYV) seeds, fertilisers, pesticides, machinery and institutional credits were provided to farmers by the government. On the other way, green revolution policy emerged as an alternative of land reform agenda and it relaxed the rich peasantry because that class was Congress party's major supporters in state politics.

1967 general election was a major challenge for the Congress party and Indira Gandhi because the election for state assemblies also simultaneously had been conducting. That time Congress party's claim to power came in grave threat first

time (Ananth 74). The results of election severely affected the Congress party, but the party successfully captured the power in Lok Sabha with 284 seats out of 520 seats (Chandra et al. 287). In nine states assemblies, Congress party lost to the opposition parties' joint front. In this election, Congress party's defeat in nine states and substantially came down in Lok Sabha seats influence the ongoing economic policy. On the other side right-wing parties, Bharatiya Jan Sangh and Swatantra Party strength in Lok Sabha seats went up. This political change also affected the economic development policy of the country in future. At that moment, economic growth was continuing slowdown, corruption and black money was going up day by day, and planning was also in crisis (Chandra et al. 294). On the other hand, the political instability inside the Congress party split the party that further divided the party between left and right on ideological basis. This ideological division affected the future orientation of the party's economic and political policy.

After the fourth general election of 1967, Indira Gandhi started her regime toward the socialist pattern of society, but not a serious conviction to the idea, in contrast it, socialism was more of a tactical move of her. Because of PM Indira Gandhi began to associate with a lot of left-leaning Congressmen and P. N. Haksar, a leftist by commitment, was appointed as PM Secretary (Ananth 92). Therefore, Mrs. Gandhi began with her changed political strategy and move towards Leftist. At that moment, David B. H. Denoon (1998) argued, "she got rid of Ashok Mehta and Subramaniam in short order and made various highly publicized efforts to improve ties with the Soviet Union" (50). Although, the demand for nationalising banks was accepted that was raised by the Young Turks of Congress party and supreme body of the party known as the Syndicate. These organisations argued about the nationalisation of banks, "the banking sector was not working rapidly enough in spreading credit availability across the country", but Finance Minister Morarji Desai opposed it. Whereas, PM Indira Gandhi took stand for it and nationalised the banks. In that way, the policy had returned to the state-centric and the state started the dominant controls by calling it 'social control' over banking.

PM Indira Gandhi wanted to prove her commitment about the socialistic pattern of society. Her government moved towards it and passed the Law MRTP Act in 1969, which imposed "curbs on the expansion of private capital." While most of its

provisions were stated null and void by the Parliament over a period (Ananth 92). In 1969, the Indira Gandhi government also launched the Fourth Five Year Plan with a double investment outlay and this was the plan which has been delayed three years at the time of political and economic crisis in the country. With the addition of that, the government introduced the policy to abolish poverty programme. But the governments' commitment to eradicate the poverty was questioned by the Paul Brass, as he argued, "it was not feasible or realistic to envision the elimination of extreme poverty and inequality in India without major structural changes in society" (290). The main weakness in that programme was the formulation and implementing in the multi-level social and political system of India.

In 1971 general election Indira Gandhi gave the popular slogan 'Garibi Hatao' to catch the votes of landless labourers and Schedule Castes and Tribes. She knew very well about the voting behaviour of people and the survival of democracy in India depended on the electoral support of the majority of individuals, mostly these individuals belonged to poor and deprived castes and classes (Ahmed 40). The election result proved it and Mrs. Indira Gandhi won with a two third majority in the Lok Sabha. Now Mrs. Indira Gandhi as Prime Minister became the unchallengeable leader. This was a time where she could deliver her promises to the voters, especially the poor people. But, at that time, Indira Gandhi again postponed her assurances about the fulfilments of the people by Bangladesh crisis (Chandra et al. 302). This crisis led to war with Pakistan because the Mukti Vahini forces of East Pakistan were helped by the Indira Gandhi regime by the Indian army to liberate the Bangladesh. In this war defeat of Pakistan made more strengthens the Indira Gandhi against her opposition. However, the war increased defence expenditure that further led to the fiscal deficit. Besides, PM Indira Gandhi signed the 20-year Treaty with the Soviet Union for "Peace, Friendship and Cooperation with terms of mutual assistance in the event of either of the countries facing military threat" (Ananth 108). The other reasons of this treaty were also a bilateral relations of trade and defence security, because of India import the maximum arms from the Soviet Union.

After the war, the Indira Gandhi government wanted to deliver their promises to people and initiated with the abolishing poverty, which was leading slogan of the

general election, by distributing surplus land to landless labours. However, this initiative could not get successful results because of in constitutional provisions land came under the state subject and state politics was dominated by the landowning class. Only in West Bengal and Kerala states made possible to transfer the sufficient land to poor people. As a substitute of that, some state governments have started to promote Green Revolution, which led to the establishment of “capitalist farming” (Brass 279). Therefore, an anti-poverty programme of the government could not leave an impressive impact on the poverty abolishment. On the other side, the Indira Gandhi government nationalised the insurance and coal industry in 1972. Although, FERA act was passed in 1973 for the restrictions on foreign investment and to check foreign companies functioning. As a result, opposition parties and foreign big business house’s resistance emerged towards these decisions of the government and further that resistance became the part of anti-Indira Gandhi movement.

In 1973, the popularity of PM Indira Gandhi had begun to decline (Chandra et al. 311). For the reason that after two years of power, Indira Gandhi governments’ could not adequately fulfil the promises to people. The government's very less intent towards rural and urban poverty and inequality increased the social problems such as class and caste oppression. Even though two years of 1972-73 Monsoon rain failure led the drought in most part of the country and India was also sheltering and feeding a million refugees from East Pakistan since 1971 (Ananth 116). Hence, these problems created the food grain shortage in the country and as the result of that, the prices of food items went up. Subsequently, by drought, the decline in agriculture production and power generation harmed the industrial manufacturing goods. Thus, this paved the way to industrial downturn and escalated the unemployment. At international level, the oil producing Persian Gulf nations entered into a cartel then OPEC countries hiked oil prices fourfold overnight in 1973 (Chandra et al. 312). This increased the petroleum products and fertilizer prices and it more enlarged the budgetary deficit. Whereas the government’s finances were already in an unstable state and this situation led to the severe economic crisis.

In that situation, the Indira Gandhi government also had no any strong political argument to tackle the worsening political, economic, and law and order situation.

The Congress party was too incapable to deal with local and state level political crisis. Opposition political parties were raising these issues and accusing PM Indira Gandhi, son Sanjay Gandhi's involvement in Maruti car manufacturing corruption case (Ananth 98). In that condition, the opposition of the Congress party and PM Indira Gandhi were increasing in entire sections of society such as middle classes were raised price and corruption issues, by the threat of land reforms rich peasantry also against the government, strikes of workers and protests of the students raised slogans against central government policies, and big business houses opposed the move of nationalisation and anti-monopoly actions of government. These matters were also uniting opposition parties without respect of ideological similarities against Congress party. In the same way in the 1974 student movement, which was led by the veteran Gandhian socialist Jayaprakash Narayan (JP) against the Bihar government of misrule and corruption and this later emerged as the JP movement against the Indira Gandhi government. At that moment conditions were not favouring Indira Gandhi government, then her government decided to impose the internal emergency in the country. However, the decision of imposing emergency clearly showed that how much PM Indira Gandhi committed toward the establishment of a socialist pattern of society and democracy.

On 26 June 1975 Internal Emergency has declared to control the political opposition. Attacking on opposition PM Indira Gandhi in her speech to announce the Emergency stated, "in the name of democracy, it has been sought to negate the very functioning of democracy" (Indira Gandhi 312). She wanted to decimate the political opposition, and higher judicial decisions should be in support of the government. Her focus on the judiciary was because of Justice Sinha in his judgment on 12 June 1975 declared Indira Gandhi's election from Rae Bareilly null and void (Ananth 146). This was too one of the primary reason for the proclamation of emergency. For that during emergency 39<sup>th</sup> constitutional amendment bill was passed by Indira Gandhi government. Then, the higher judiciary powers became invalid to decide on the election petitions against the speaker of the Lok Sabha and the prime minister. Furthermore, extensive changes have been brought in the Constitution by 42<sup>nd</sup> amendment. For tackling the socio-economic crisis, PM Indira Gandhi came out with twenty point programme. This

programmes major points were: to abolish bonded labour, prevent tax evasion, increase production, bring down prices, income tax exemptions up to 8000 and liberalise investment procedures. Through these measures, some extent economy crisis improved, but could not solve the problems completely.

During emergency time role of PM Indira Gandhi appeared only as the decimation of political opposition beside of establishing the socialistic pattern of society, she only added the words Socialism and Secular in the preamble of the constitution. During that moment Four opposition parties merged into the new Janata Party for March elections (Chandra et al. 331) and Indira Gandhi's Congress party was successfully defeated in Lok Sabha elections by new Janata Party and its allies. As a result, on night 21 March 1977 emergency was withdrawn (Ananth 183). Janata Dal led coalition to make the government.

### **2.3.3 Interlude Period of Janata Dal Regime (1977-80)**

In 1977, after independence, the first time non-congress party came to power in Lok Sabha and Morarji Desai became the Prime Minister of Janata Dal coalition government. The Janata government announced the decentralised development in planning strategy. Consequently, government renounced the Jawaharlal Nehru vision of large scale Industrial development, modern agricultural and advance technology development (Chandra et al. 333) for the economic growth. Opposed to Nehru vision, plans were prepared for small scale industry and rural development by the Morarji Desai government. However, this move of government affected the economic development of the country, due to government's strong opposition to the capital-intensive industries (Gupta 400). As the result that industrial growth came down as the comparison of agriculture by the decentralisation plan of government. These ideas of decentralisation became the part of Sixth Five-Year Plan, which was launched by Janata Dal government to boost the small scale industrial production and agriculture. The government wanted to promote domestic industrial development and economic self-reliance, to achieve this goal government had to require a big capital partnership. On the contrary, the policy of the government had been the reverse effect on big corporate investment. But, the government did not get success in rural development and labour intensive industry policy measures, because there was no considerable record showed progress in inflation, unemployment and poverty

(Gupta 399). Accordingly, as Kochanek (1986) observed that the Janata Dal coalition succeeded only in restoring political power, but failed to provide the economic and social stability (1285).

During the Janata Dal regime, there was no single effort has been taken toward the establishment of a socialist pattern of society in India. The reason behind of could be ideological because Janata Dal coalition came into power with the ideological right wing partnership. They were the leading opponent of Jawaharlal Nehru's socialist idea, even though they supported the free market idea. Whereas during their short period and political instability of the coalition of Janata Dal could not bring significant change in the country. In 1980 general election Janata Dal could not acquire the power in Lok Sabha instead of that Mrs. Indira Gandhi's Congress party again came into power.

In the 1970s, all over the world, a debate for a free market economy and state intervention in the economy was going on. The supporters of neoliberal were arguing economic rationalism and free market could provide the best conditions for allocating resources. Besides, they were propagating that the market was the best way of deciding what to produce, how to produce and they also gave stress on the self-governing individual and freedom. At that time international scenario was also moving toward Neoliberalism. The USA, UK and China were adopting free market policies and international financial institutions with the neoliberal idea suggested that better development of society possible in open economic system. Furthermore, they were also advocating human welfare could be best achieved through the expansion of the free market and free trade. As of it, the state should be restructured in such way, which encourage these practices. In 1980 Indira Gandhi government orientation was also influenced by the idea of economic rationalism. In this international environment, Indira Gandhi government started the path of development with the growth of the economy through more private investment and market expansion instead of state controlled economy.

#### **2.3.4 Shifting Path of Development in Indira Gandhi Regime (1980-84)**

When Indira Gandhi as PM came into power, then shifted her politics and policy measures toward more pragmatic. With this change, her government moved in the direction of a new model, which could be achieved through, "prioritisation of

economic growth as a state goal; supporting big business to achieve this goal; and taming labour as a necessary aspect of this strategy” (Kohli 1256). This is the reason, the critical observers noted that PM Indira Gandhi’s this shift was more pragmatic and less ideological as compared to her pre-Emergency position. They also called this move by the Indira Gandhi government was “right words” means towards right-wing politics. Whereas, she upheld the rhetoric of socialism and nationalism remained as for earlier it was. But at times, the poverty reduction programme went on the back foot and on that place growth oriented politics came into the front.

After the establishment of OPEC, the Indian trade deficit was increasing because of oil price hike; this led to enhance the oil import bill. On the contrary, export growth was declining to continue, by this foreign exchange reserves also started to decrease. To balance the trade deficit, the Indian government took a loan from the IMF in 1981. However, the IMF imposed the “conditionalities” (McCartney 165). As the loan agreement of Special Drawing Right (SDR) 5 billion completed with the IMF, the Indira Gandhi government took a significant policy decision as Atul Kohli (1989) illustrated, “during 1981-82 steel and cement prices were decontrolled; manufactured imports were liberalised and controls on both entry and expansion of national firms were relaxed” (308). This orientation showed that the government was adopting economic policies in the direction of liberalisation.

Indira Gandhi’s government move toward liberalisation politically also might not be costly because her advisors calculated that alliance with big capital would help the Congress Party. This argument had provided more justification reason in favour of liberalisation, then her government decided to support the pro-business policies and this might lead to growth and Indira Gandhi’s advisors also calculated that inflation would come down and it gave the benefit of the poor electorate (Kohli 1255). During this phase, in India's political culture, “Hindu chauvinism and pro-business” was emerging dominant forces in the politics. PM Indira Gandhi politically, with her pragmatic orientation, wanted to build her party support in the Hindi heartland. By this new political position, she was serving her two purposes as Atul Kohli (1989) observed, “an emphasis on communalism that has great appeal in the Hindi heartland; and a more pragmatic attitude to build up her support with the industrial and commercial groups” (309). Meanwhile, rising Hindu

religion based political party 'Bharatiya Janata Party' (BJP) mobilising people on the communal lines for establishing her government. For that, Congress Party also did not want to lose her dominance over the Indian politics. According to this strategy, Indira Gandhi moreover forwarded her plan toward right wing politics.

Besides, Indian government amended the MRTP Act in 1982. This act has effectively restricted the growth of big business monopolies. After this amendment, big business houses could expand their business, and they could enter in the areas yet reserved for the public sector. The Indira Gandhi government argued that this amendment be required for encouraging exports and attaining high "productivity and output" (Oza 1697). The FERA restrictions on foreign capital were also relaxed by the government for upgradation of technology, development of backward regions, and enhancing greater competition between foreign multinationals and large Indian companies (Kochanek 1292). To encourage investment, tax relief has been given to big business houses by the government. Even though the income tax slab also increased to keep up with consumer demand. At that moment, the government shifted her source of revenue from direct tax to indirect tax such as services tax, excise and customs duties. All of this policy shift ideas of Indira Gandhi government depended upon the situations and decision makers. Because the government has always concerned with the decision makers for consideration of policy measures. These individuals were bureaucrats and political leaders, who entered their idea of liberalisation in policy making. Most of these persons influenced from the neo-liberalism, because they directly associated with the international financial institutions such as the World Bank and IMF. Instead of that, the international and national scenario was also conducive for flourishing neo-liberal idea in politics and economic policy framework.

During the first half of the 1980s, the Indira Gandhi government abandoned her commitment to redistribution. Because, the government had shifted her model of development toward "growth first" (Kohli 1257). This change tilted her government policy process favoured the large companies and against the labour class. This was the beginning to restructure the state's role in the economy toward growth promotion and the free market. By this Indo-US relations were qualitatively improved. India's tilt towards the US and West became politically significant, and

this move more consolidated the new economic policy regime. Whereas, there was no any sharp political reaction against Indira Gandhi's move toward liberalisation of the economy. Because there were some factors, as Atul Kohli (1989) observed, "the scale of change; the conscious attempt to maintain an image of continuity as well as to depoliticize economic decisions" (311). Although, that time regional political issues were attracting more attention of national politics, such as Punjab and Assam rather than the economic policy. Indira Gandhi was effectively succeeded to get benefit from both the situations and the efficient management of policy changes.

### **2.3.5 Rajiv Gandhi Regime (1985-1989)**

After the death of PM Indira Gandhi, her Son, Rajiv Gandhi became the Prime Minister of India in 1985. Rajiv Gandhi continued the policy changes, which was initiated by former PM Indira Gandhi as Atul Kohli (2006) argued, "the growth-first, pro-business, and anti-labour shift initiated by Indira Gandhi continued under her successor, Rajiv Gandhi" (1257). Rajiv Gandhi government, further, introduced the changes in taxations, industrial licensing, control of monopoly and foreign capital, import/export rules and planning objectives. Rajiv Gandhi's government's new economic approach more toward the deregulation, easier access to foreign technology and import liberalisation. This was a break from Jawaharlal Nehru 1950s policy plan and Indira Gandhi's rhetorical emphasis on planning, socialism and self-reliance. Rajiv Gandhi, moreover, opened a space for policy discourse with the introduction of neo-liberal ideas. This new discourse was the steps of the developing an agenda for liberalisation. On 25 January 1985, in his first speech as Prime Minister, Rajiv Gandhi said,

Our education policy, our industrial policy and our trade policy must be such that they look ahead to taking India into the future with the rest of the world. We cannot pretend to be equal to other countries when we are operating systems which are 20 years or 10 years out of date... (Shastri 33).

In a while, Rajiv Gandhi entered the office of Prime Minister, the Narasimham Committee submitted its report in January 1985. This committee examined the principles of a possible move from physical to financial controls and recommended the abolition of control over capital issues, easing of capital goods imports, foreign

collaboration, and a marginal easing on the foreign exchange front.<sup>8</sup> Furthermore, committees submitted their reports, such as the Arjun Sengupta Committee on public sector reforms, Abid Hussain Committee on trade policy reforms, and Chakravarty Committee on the monetary and credit policy reforms. All committees recommended the economic policy reforms inevitable need for growth.

Although, the PM Rajiv Gandhi's inner circle advisors were stressing on change with new beginning rather than continue with the past because all were friendliness to neoliberal ideas. Most of the scholars have marked this competent group of managers, economists and bureaucrats as a 'technocratic.' These new professionals became advisors in the Planning Commission, the Ministry of Finance and the Prime Minister's Secretariat. All of these argued about demand constraints on industrial growth were marginalised in policy-making bodies. Because, for a successful economic policy and economic reforms, an autonomous state was a necessary condition. This argument's foundation based on the statist position as Jorgen Dige Pedersen (2000) defines, "successful reforms require a strong and dedicated political leadership supported by a core group of technocrats (a change team)" (267). Rajiv Gandhi government has a full majority in parliament proved it and the government implemented the liberalisation policies with full strength.

The 1985-86 budget was the first time became the primary product of new beginnings. That was also the first time; socialism word was not mentioned even once in the finance minister's budget speech (Kohli 312). The focus of the budget mainly in a series of significant changes, as Stanley A. Kochanek explained, "especially in the field of taxation, and emphasized the need for closer coordination of fiscal, industrial, and trade policies in order to facilitate modernization and more rapid economic growth" (1287). By Rajiv Gandhi governments' three-fourth majority in parliament, the opposition parties did not have the capacity of producing any substantial resistance against policy changes. Even though, business class and upper middle class were appreciating government's this move. However, a merely small section of left parties, other opposition parties, and pro-socialist intellectuals were criticising the decisions of the government by saying as

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<sup>8</sup> By Shaji Vikraman in Indian Express, July 22, 2015. Source (<http://indianexpress.com/article/explained/the-years-of-v-p-singh-and-the-start-stop-push-to-reforms/>)

“pro-rich” government. However, these voices were drowned under the euphoria of a new beginning (Kohli 313). Furthermore, Planning Commission outlined the broader objectives according to this policy process to India for the year 2000.

A new Ministry of Programme Implementation has been created to reduce the decisive role of the Planning Commission. In November 1985, the "New Fiscal Policy" was announced, as Atul Kohli (1989) argued, “it replaced import quotas with tariffs and laid out long-term patterns of taxation, assuring the corporate sector that no negative surprises were looming on the horizon” (314). Despite the deteriorating balance of payments, by increasing imports of capital goods, the liberalised import policy was not reversed by the government. Even though, in 1986-87 budget finance minister announced some more customs and excise relief to national firms (Kohli 314). Meanwhile, in September 1985, Ministry of Education has been converted into the Ministry of Human Resource Development, from that time citizens were considered as a “resource” and the National Policy on Education (NPE) in 1986 was introduced. Moreover, by New Industrial Policy 1986 (NEP), Rajiv Gandhi’s government, allowed the private investment flow into public sector industries, because the improvement of the productivity of the hitherto heavy industry was the argument of the government.

Two apex industrial bodies such as the Associated Chambers of Commerce and Industry of India (here after ASSOCHAM) and FICCI represented the major Indian market forces. Both have existed before the independence. While ASSOCHAM represented British and other foreign-controlled industrial enterprises before independence, after that it has mainly supported the interest of the Tata industrial house and FICCI basically acted as the representative of Indian-controlled large industries and mostly supported the interest of the Birla industrial house. These bodies lobbied to uphold the dominant position of these business groups. While in the 1980s after the easing of restriction laws of MRTP and FERA many private entrepreneurs entered the Indian market in manufacturing and service sector. These large groups of private investors started to influence the government policies. For representing this new breed of entrepreneurs, The Association of Indian Engineering Industry (here after AIEI) emerged in 1974. The AIEI represented the foreign and Indian engineering companies (Pedersen 269) differently against the long-standing two big industrial bodies because FICCI and

ASSOCHAM biased toward the dominated houses only. In 1986, AIEI changed her name as the Confederation of Engineering Industry (CEI) and had started to become a prominent actor exercising influence on the government in a direction that favoured domestic capital of all sizes and also friendlier towards foreign capital. The stated objective of the CEI was to work towards the globalization of Indian industry, with a business philosophy in support of deregulation, de-control, and de-licensing in all areas (Ahmed 44). Whereas, in India, there was no unified business community which represented her interest in front of government because of Interests of various sections of the business community was not similar. However, irrespective of their divergence interest, all of these bodies of business houses favoured toward the opening of the economy for market forces.

Along with the industrial class, urban elite and middle-income class got to benefit from the Rajiv Gandhi's economic policy changes such as a reduction in taxes and the abolition of the Compulsory Savings Deposit Scheme programmes (Kohli 318). These sections of people, mainly worked in non-agricultural sectors, who did not get much benefit from agricultural subsidies, that's way their mindset was against the state control development (Ahmed 42). Therefore, this section of people initially became the supporters of liberalisation policies. Despite, in number this urban elite section was in the minority, but they have the capacity and power to influence the formulation of India's economic policy. Because, this elite section dominated over the Indian media opinion and intellectual space, via this they made the consent in support of liberalisation policies. Additionally, from the elite section mostly trading class religiously inclined with the Hinduism, and that time BJP argued in support of internal trade liberalisation and external protectionism. Because of its members have the interest to access the domestic market. On the contrary, it opposed the worker's struggle and trade unions, even though promoted the chauvinistic nationalism (Gopalakrishnan 8). Whereas, elite strata of society in positions of consumption patterns represented the increasing presence of "foreign values" (Pedersen 273) in their argument and practice. Consequently, to enhance the liberalisation process and to open the economy, one hand internal factors of the Indian economy and market forces were pressuring, on the other hand external events and international financial institutions were also pushing for restructuring the economic policy. As Atul Kohli precisely argued, "the liberalization agenda has

thus originated as much in the changing power and interests of the business community, as in the changes within the state, i.e., in the coming to power of new leaders with new ideologies” (317). The state itself can only reduce the functions of the state. Therefore, In Rajiv Gandhi regime with the liberalisation process started more extensively the state restructuring under the influence of neoliberal approach.

### **2.3.6 V. P. Singh and Chandra Shekar Regime (1989-91)**

In the 1989 general election, Rajiv Gandhi, Congress (I) had lost to attain the majority in the Lok Sabha. Non-congress party's unity formed the National Front's government under the leadership of Vishwanath Pratap Singh. He became the Prime Minister of India in December 1989. PM V. P. Singh's Janata Dal Party got substantial support from amongst the Other Backward Classes (OBCs) in the election, because of his party appealed to people if Janata Dal came to power then the Mandal Commission report would be implemented. The Mandal Commission recommended 27 percent reserve quota in government jobs and seats in educational institutions for historically deprived classes. As the PM V.P. Singh declared his election commitment to implementation of the Mandal Commission report, then high caste people's wrath against the government decision has been started. Because of they did not want to share their jobs and positions which were "literally monopolised over the years" (Ahmed 46) by them. Instead of that, Hindutva communal forces were mobilising their Hindu religion community people ideologically against caste and class struggle mobilisations and were promoting notions of "harmony" (Gopalakrishnan). Moreover, corporate sector announced that they were against the quota system and they would not implement the reservation policy, if any, legislation would be passed by the government (Ahmed 43). Therefore, upper caste and class people seemed to the private sector as a safe field to attain jobs without any reservation. Thus, in turn of neoliberal policies, these upper caste and class people came in support of private corporations. This support, further, favoured the neoliberal policies of global capital after 1991 balance of payment crisis. On the other hand, V.P. Singh government's Industry Minister Ajit Singh announced the New Industrial Policy, which introduced agro-based and small-scale industry would be developed with the help of foreign investment and big industries (Shastri 42). This clarified it did not essay to back

the process of liberalisation or withdraw the concessions already made by the previous government. Instead of that, V.P Singh government did not take any progressive step in the economic direction, but he merely entangled with political issues. While during his time prices started rising, foreign exchange reserve went to a dangerous level, and economy further worsened the government adopted the IMF support.<sup>9</sup>

After that, Chandra Shekar formed the government with the support of Rajiv Gandhi, Congress (I) party in November 1990. The previous government of V.P. Singh collapsed, because of her dependency on opposite ideologies parties such BJP and Left Parties and beside of that, he was also facing a political crisis within the Janata Party. When Chandra Shekar as PM started the work, economic situations of India were going toward debt defaulters list. PM Chandra Shekar's then economic advisor Dr. Manmohan Singh suggested that India's gold reserves could be exchanged for loans from the IMF and other institutions (Ananth 390). But Chandra Shekar government also could not survive a long time, in March 1991 Rajiv Gandhi's Congress (I) party drew back her support and government came into the minority. Consequently, Chandra Sekhar resigned from PM office and the President declared the dissolution of Parliament. Meanwhile, the economy of India was in serious trouble, the value of the rupee plunging to a new low level, the current account deficit at an all-time high and inflation running at nearly a ten percent annual clip. This crisis further pushed the Indian state for restructuring itself under neoliberalism toward Liberalisation, Globalisation and Privatisation.

### **2.3.7 P V Narasimha Rao Regime (1991-1996)**

In June 1991 P V Narasimha Rao formed the minority government. That time balance of payment crisis was the main challenge in front of the Rao government. In this atmosphere continued deteriorating the economic condition of the country, which provided an inevitable condition to a paradigm shift in economic policy structure. Because due to the rapid increase in imports by import liberalisation policy, government's external borrowing at high interest rate, Gulf War 1990 was impacting petroleum prices and non-resident Indians remittances and abroad living

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<sup>9</sup> By Shaji Vikraman in Indian Express, July 22, 2015. Source (<http://indianexpress.com/article/explained/the-years-of-v-p-singh-and-the-start-stop-push-to-reforms/>)

Indians had withdrawn their millions of dollars from Indian banks deposits in 1991 became the leading factors of the economic crisis. Whereas, the minority government of P V Narasimha Rao took the decision about structural reforms in economic policy under the influence of international financial institutions, market forces and internal conditions. Therefore, P V Narasimha Rao appointed the Dr. Manmohan Singh a technocrat as finance minister because he was well regarded in international financial circles (Ahluwalia 44). Finance Minister Manmohan Singh and younger generation politician and that time Commerce Minister, P Chidambaram supported the structural adjustment programme initiative (Shastri 45). Along with them, Montek Singh Ahluwalia, as the special secretary to PM P V Narasimha Rao, put forward his argument regarding the process of liberalisation, he said that now it has become necessary to take a further shift in policy which had already started in the 1980s. Despite that, CEI, in April 1991, floated the “theme paper,” which advocated the radical moves in India’s economic policies in the direction of a more open and competitive economy (Kohli 1363).

Meanwhile, the collapse of the Soviet Union, which was India’s major trading partner, created the internationally suitable situations for neoliberal politics. Because in the world politics, there was no strong country left who could ideologically take stand against the neoliberalism. Therefore, the IMF and World Bank with the commitment of neoliberal ideology advocated the structural adjustment programmes in response to a debt crisis stabilisation and improvement of the balance of payment (Bhaduri and Nayyar 33). At that moment, international relations started to turn towards the unipolar world under the hegemony of the US neoliberal politics. Because after a stagflation crisis of the 1970s advanced countries of Europe and the US had adopted the neoliberal policies. Even China also started to open his economy for foreign market forces in 1978. Instead of that, after the debt crisis, developing countries of Latin America and Africa had been already implemented this suggested programme of the IMF and World Bank in the 1980s.

By considering these international and domestic political and economic dynamics, Finance Minister Manmohan Singh prepared the structural adjustment and economic reform agenda. Therefore, P V Narasimha Rao minority government decided on a paradigm shift on the fiscal, trade, and industry side; initiated the

complete transformation of the economy. Consequently, on 24 July 1991, Finance Minister Manmohan Singh's in the budget speech announced structural reforms were inevitable and there could be no adjustment without pain. As a result he recommended open the in reserved public sector industries for private investment, removed compulsory licensing for the industry and quantitative quotas on imports, gradually reduced tariff levels on imports, lifted restrictions on majority foreign investment in industries, allowed foreign companies to borrow funds in India, announced current account convertibility to pay balances on the current account export and import trade accounts, allowed the new businesses to expand their operations, raise public deposits and taking over existing businesses and now foreign financial institutions have to permission to make direct portfolio investments in India's two stock markets (Frankel 591). After giving the details of economic reforms programme plan in the budget speech, he at last quoted the Victor Hugo's statement, "no power on earth can stop an idea whose time has come"<sup>10</sup> in the context of neoliberal politics.

The finance minister's proposed economic policy resolution was passed by an overwhelming majority in Parliament. Because, as the largest opposition party BJP's floor leader Jaswant Singh supported the New Economic Policy resolution with the argument, "it reflected the BJP's thinking" (Ananth 390). However, only Left parties and Janata Dal opposed the resolution, but these parties strength was in the minority in the Parliament. So that, the Rao government through next budgets furthermore restructured the economic policy without any strong impediment from opposition parties regarding economic reforms. As a result, the government accelerated the process of delicensing all industries, allowed foreign investments in capital market by foreign portfolio institutions, liberalised the FDI rules, permitted the upto 100 percent foreign occupation in the major sectors, brought down the trade import tariff to 25 percent in 1995 and further lowered the corporate and personal taxes (Varshney 154). These policy changes were effectively implemented by the Rao government because, during that time, politically rising Hindu nationalist politics was a primary issue than economic reforms for opposition parties.

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<sup>10</sup> 1991-92 Budget Speech of Shri Manmohan Singh Minister of Finance, 24th July, 1991. Source (Indiabudget.nic.in/bspeech/bs199192.pdf).

However, one important thing could be seen in economic policy restructure; the government opted the soft approach towards some sectors such as agriculture, labour laws and privatisation of the public sector (Varshney 158). The reason behind choosing a soft approach for changing the policy structure in these sectors was the government did not take the political risk because these sectors connected with a large population. On the contrary, the government opted the back door route for structural reforms in these sectors. Therefore, the government gradually increased prices of the PDS items and did not take action against banks for not completing the set 40 percent 'priority-sector' credit target mainly to agriculture and small-scale trade and industry (Jenkins 180). The government adopted in the layers disinvestment procedure for selling her share in PSUs and for flexible labour laws "Voluntary Retirement Schemes" (Jenkins 184) had been started in public sector enterprises. Furthermore, the government in financial reforms had given the permission to private banks including foreign joint ventures in 1993 and broadened rupee full convertibility on current account in 1994. These policy changes represented the neoliberal political agendas.

The development process since the 1950s clearly showed that the establishment of a socialist pattern of society had been slowly going out from policy agendas and debates. Hence, the study concludes that there has not been grave concern appeared in the government decisions to bring socialism in India. However, at the time of Independence policy planners of the Indian state started with the mixed economic policies and also argued for the further development of the country toward the achievement of a socialistic pattern of society. Instead of that, adopted plans slowly go in the direction of economic rationalisation and the free market. As a result, the study of forty five years of development process showed, the governments could not succeed in the goal of attainment of a democratic socialist state in India.

## Chapter Third

### Neoliberal Politics and Restructuring the Indian State

#### 3.1 Introduction

Most of the social scientists, particularly political scientists and sociologists, mainly attempted to address the question about; what is 'a state'? Ralph Miliband (1969) defines the state, "these are the institutions the government, the administration, the military and the police, the judicial branch, sub-central government and parliamentary assemblies, which make up the state...." (54). Furthermore, political sociologist Max Weber argues, the modern state has legitimacy, the monopoly of the means of physical violence and territoriality. He identifies the state, "the state could not be defined regarding its goals or functions, but had rather to be understood in terms of its distinctive means" (Pierson 6). Oxford Dictionary of Politics, Iain Mclean and Alistair McMillan (2009) illustrates, "the state a distinct set of political institutions whose specific concern is with the organisation of domination, in the name of the common interest, within a delimited territory" (507). Therefore, it has become difficult to define the state in this modern society where we trace the relation of individuals, institutions and organisations which could not be termed in abstract form. Whereas, Bob Jessop (1990) describes the state as recognising the complexity of it, "the state comprises a more or less distinct ensemble of multifunctional institutions and organisations which have at best a partial, provisional and unstable political identity and operational unity and which involve a complex over-determined dynamic" (339). Along with these illustrations, on the base of class analysis Marxists argued, "the state is a reflection of the economic base of society and that its interventions are a reflection of needs of the economy and/or of the balance of economic class forces" (Jessop 9). The state, as in the modern state form, has acquired its present complex form through history since the ancient time. However, scholars and activists define the state in the context of their time and space and existing socio-economic relations.

Ancient Greek philosopher Aristotle described the state, "State is prior to men" and man by nature 'political animal' which means the state is an essential condition for the existence of human civilisation. The earliest state was in the form of tribal state, which was based on 'obedience and command' of the permanently settled

peoples chiefs and the advisory council of tribes. Scholars have defined it as pre-state societies or primitive form of social organisation and later these organisations have developed into the form of state. As the civilisation spread across the regions, 'city state' has emerged in European peninsula. These city-states were recognised as an earlier democratic form of government units. At this time people lived in the division of slaves and freemen, but slaves had no right to citizenship as like freemen. In the Medieval era, the state power was controlled by feudal lords, which holds the big estates. The king, in the political organisation, has the position as a super-lord at the top and this was beginning of the Christian era as parallel to state authority which later became the dominant power in medieval time. Karl Marx recognised it the establishment of 'feudal mode of production'<sup>11</sup> (Wood 1). In feudalism, peasants' personal dependence became on the landlord for extra-economic compulsion in this economic system. Thus, the majority population in society was divided into two classes- peasants (serfs) and Lords, despite these main two classes other classes existed. By the passage of time, the population has increased, new inventions in techniques of tools which assisted in more production and discovery of new natural sources pushed the transformation of the socio-economic and political structure of the state and society. However, a new artisan class and the trader class has emerged which later grew in the form of the bourgeoisie. Renaissance as a cultural movement spread across the Europe and other continents with new thinking in art, architecture, politics, science and literature. Thus, these all aspects led to the modern state and the dissolution of the feudal system.

While, the feudal traditions and customs were begun to loosen, on that state of affairs Machiavelli argued, "the order or orders of the state must be subject to change" because "all human things are in motion" (Mansfield 854). Therefore, the state has developed toward a new form of political authority and socio-economic system. With this development central objective of the state as David Held (2000) illustrates, "the nature and limits of political authority, law, rights and obedience" (12) became visible in a new form. In these conditions, a new idea of greater

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<sup>11</sup> Such a system of economy, "the feudal lord sown demesne occupied part of the land" and peasant's worked on that land gave rent in form of kind or money to landlords. Whereas, in this socio-economic structure "large-scale feudal landed property was the basis for the exploitation of peasants by the lords". Source retrived from. (<https://www.marxists.org/subject/economy/authors/pe/pe-ch03.htm>).

freedom for the individual has emerged which wanted to a new political system for establishing individual liberty and less intervention of state authority. This concept stands for specifying the state itself as less political interference and freedom in personal, family and business life (Held 13). Consequently, the state transition has started from monarchy to constitutional monarchy and democracy. With the growth of democracy, liberty, equality, sovereignty and the rule of law, the government adopted these principles for the development of society. There were geographical conditions also conducive in such a way for the evolvement of new forms of social relations and accumulation of wealth. New social relations and expansion of market economy gave the birth to 'capitalist mode of production'<sup>12</sup> and the nation state.

The nation-state, in the form of a sovereign state, has emerged in the eighteenth century with the industrialisation and urbanisation. The modern nation-state was ruled in the name of equal citizens of the nation with a written constitution as an independent state (Wimmer, Feinstein 764). Nation-state, which was the need for the quickest market system expansion and provided common "language, territory, historically developed a homogenous culture of people and economic system" (Rejai and Enloe 141) as necessary conditions for the growth of capitalist relations in that particular circumstance. Whereas, these conditions developed in the capitalist mode of production relations made a relationship between political autonomy and national identity for political sovereignty and national integration. Further, this form of the state established parliamentary republic democracy and political power of legitimate authority was exercised through an elected government. Thus, the government started to enforce the state policy and maintain the mechanism to regulate the state system by the written constitution. On the contrary, industrialisation developed, market economy encircled production and distribution system, and the reinvestment of capital to make more profit by the capitalist class (Fulcher 14) led to the uneven economic development of society.

When in the nineteenth century, the exploitation of the working class has increased in the capitalist state, then opposition to capitalism has emerged in the

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<sup>12</sup> Capitalist mode of production is the central theme of Karl Marx to analysis of capitalism in which he explains private ownership on the means of production, with this ownership surplus has been extracted by owning class for the accumulation of wealth from wage labours work. Source (<https://www.marxists.org/glossary/terms/c/a.htm#capitalism>).

form of a trade union, working class movements with the Marxist ideology for the establishment of 'socialist state.'<sup>13</sup> After that, politics have developed around the Marxist and liberal ideologies for making society, where every individual could enjoy liberty, equality and justice. Further, these thoughts shaped the politics of the country, which led the state policies and economic developmental goals for the well-being of the citizens. Thus, Politics to govern the nation-state has begun to sharpen on what should be the role of the state in the activity of economic sphere and how much the state intervention would be necessary. Socialists advocated the state intervention and established the planned economic policies instead of a free market economic model. So that, most of the governments adopted the Keynesian mixed economic structure. The Indian policy makers advocated for establishing a socialist pattern of society with Keynesian model. However, the Keynesian economic model of the state intervention with mixed economic policy faced a crisis in the 1970s and at that time neoliberal suggests a free market economic model. Therefore, to adopt the neoliberalism restructure of the state became essential for all the countries including India. The chapter has attempted to address certain questions relating to the restructuring of the state such as- How have policy makers restructured the state with the neoliberal policies as an alternative to the socialist state in India? What are the major changes implemented by the government for restructuring the Indian state?

### **3.2 Understanding Neoliberal Politics**

The neoliberal idea emerged in the late 1930s, which proclaimed the freedom from regulation of the state. This idea has produced an alternative policy framework against the dominated thoughts of the New Deal and Great Society liberalism, British social democracy, Keynesian economic policy, socialism and social democrats.<sup>14</sup> Conceptually neoliberalism assumes that governments cannot lead to economic growth and social welfare. Instead of that, welfare state governments

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<sup>13</sup> Socialist State is that form of state in which all the means of production will be state owned and there will no private property. As Karl Marx advocates there will be dictatorship of proletariat class and this state will exist in transitional period of capitalist to communism then in communism will be a classless and stateless society. Source (<https://www.marxists.org/archive/fromm/works/1961/man/ch06.htm>).

<sup>14</sup> New Deal and Great Society liberalism, British social democracy, Keynesian economic policy, socialism and social democrats all support the state intervention in economy and oppose the political philosophy of laissez-faire state. Source (Masters of the Universe: Hayek, Friedman, And The Birth Of Neoliberal Politics by Daniel Stedman Jones, 2012).

with trying to help the people make the world not as good as for everyone, including the poor. Therefore, an alternative to the welfare state, neoliberalism advocates the free market, the private companies and individuals are best able to produce economic growth and social welfare. As David Harvey (2005) observes the argument of neoliberal, “government intervention was the problem rather than the solution, and that a stable monetary policy, plus radical tax cuts in the top brackets, would provide a healthier economy by getting the incentives for entrepreneurial activity aligned correctly” (54). However, till late 1960s neoliberal idea could not become the principal part in the government’s policy framework because it was in the minority. Conceptually, it started to dominate after the failure of Keynesian fiscal policy and effect of the stagflation crisis in the 1970s.

The concept of neoliberalism has originated in correspondence to welfare state policies. As Gérard Duménil and Dominique Lévy (2005) argue, “neoliberalism is an ideology of the market and private interests as opposed to state intervention” (9). It creates a new social order which depends upon individual freedom and market forces. Basic tenets of neoliberalism share with the classical liberalism, which assurances that “unconstrained market forces will naturally bring prosperity and peace to society” (Nanda 18). The idea of neoliberalism can have understood through five values as Wendy Larner (2000) explains “the individual; freedom of choice; market security; laissez-faire, and minimal government” (7). On the side, Chicago School of Economics stresses the efficiency of market competition and individual role in economic outcomes, because the efficient distribution of resources is possible in the market which provides rationality. As Thomas I. Palley (2004) explains neoliberalism proclaims that in free market, valuable elements of production and labour does not go to waste (Palley). Ideologically neoliberalism intervenes in economic, political, social, and cultural sphere worldwide for connecting larger transformations of global capitalism. It constructs the argument in front of policy makers to forms market friendly governance, rule and control in entire spheres of social life. Furthermore Wendy Brown (2006) argues “neoliberalism casts the political and social spheres both as appropriately dominated by market concerns and as themselves organized by market rationality” (694). Therefore, the underlying assumption of neoliberalism is free market and deregulation, but this does not mean it is “entail the withering away of the state”

(Madra and Adman 706). As David Harvey (2005) argued about the neoliberalism is:

A theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices (2).

Most scholars consider a powerful state is necessary to implement neoliberal policies. Because powerful states can straightforwardly take decisions to privatise public sector undertaking companies, deregulate industry, reduce restrictions on flows of money and foreign trade, and fund cuts in areas of, health, education, and social services. Therefore, the state by enforcing the law and economic policy can achieve free market, free trade, and entrepreneurial rationality. Thus, for this way, the state intervention becomes fundamental to the making of markets on the basis neoliberal tenets. However, neoliberal policies have been implied differently by states according to country's conditions.

Intellectual and political movement on neoliberal principles started under the guidance of Friedrich Hayek, Milton Friedman, and Ludwig von Mises after the second world war. As a result, the Mont Pelerin Society was established by a concerned group of intellectuals from Paris, Austria, Switzerland, Germany, Manchester, the LSE, and Chicago (Jones 47). With the help of society, they got success in creating a transatlantic neoliberal network. This was their determined effort to form "a kind of neoliberal international." Their main aim was to the establishment of a free market system for that they also wanted to restructure the society in a way to market-friendly, because a "market economy can function only in a market society" (Polanyi 60). Consequently, neoliberal ideological influence spread across the world through the corporations, the media and the numerous institutions, which made civil society (Harvey 40). So, they started to use the research organization for directly influencing the think tanks of particular government policy makers. The politicians and people in business were also invited by them to attend conferences, journals, and newspaper debates to make familiar with neoliberal ideas (Jones 165). A climate of belief was created in defence of neoliberalism through neoliberal ways of thinking conversions. Later

these movements effectively succeeded in strengthening neoliberalism through “the capture of political parties and, ultimately, state power” (Harvey 40).

In the 1970s, problems of price inflation, rising unemployment and low growth rate emerged in the form of stagflation crisis in the Keynesian economic policy framework. At that time, the situation became more deteriorate by the collapse of the Bretton Woods international monetary system and the OPEC “oil price shocks” (Jones 219). At the same time, voices in eastern Europe were rising for more choice and freedom against state socialism. Therefore, Political leaders and policymakers have to think about an alternative to a Keynesian economic model. In this policy vacuum neoliberal idea was becoming the substitute of the Keynesian economic policy, because key elements of neoliberalism were striking to most of the sections of society in different ways. As Helga Leitner et al., (2007) observed, “neoconservatives saw an opportunity to promote individual liberty and responsibility. Capitalists saw an opportunity to boost profits by reducing state intervention. States saw an opportunity to address their fiscal crises” (7). Therefore, stress was given on the free market as the solution to economic problems.

The first time neoliberal policies were materialised in Chile in 1973. These policies began under the Chilean economist group after the Pinochet military coup against the elected socialist President Salvador Allende. These economists were trained at the University of Chicago under the “Friedmanite program” (Munck 62). There was, for international monetary system floating exchange rates were adopted because Bretton Woods exchange rate system had been ended. In the mid of the 1970s, Britain and the United States inflation and unemployment were at the peak and political crisis also had grown with economic stagflation (Jones 233). Therefore, politically ‘new right’ was emerging in both countries which were the supporter of the free market. Despite that Milton Friedman was arguing with the policy makers for adopting his monetary policy measure to tackling the stagflation crisis. In 1979, Margaret Thatcher as PM of Britain and in 1980, Ronald Reagan as President of the USA adopted the policy of “new forms of free enterprise.” Meanwhile, by Thatcher and Reagan, as Ronaldo Munck argued, “used a strong state to ‘roll back’ state interference and consolidate free market mechanisms” (63) under the direction of Hayek and Friedman. In Eastern Europe and Soviet socialist

countries, after the poor economic performance in the 1980s, the market economy argument became popular. As Terry Flew observed, “free market capitalism had proven to be a superior political-economic system to those that had been its alternatives”(57). Further, the economy was opened for global market competition, corporate and individual taxes were slashed on the contrary regressive taxes were imposed and tariffs were reduced on foreign investments. Although the state had been restructured according to the free market, free trade, for mobility of capital and labour laws were made ‘flexible’.

Further, the dominant international institutions such as the World Bank, IMF and WTO executed the neoliberal idea across the world to regulate the global finance and trade. These institutions had developed intensive interaction and alliance with developing nations and provide conditions for raising new relations between international companies and governments. After some time, These institutions has started to compel the sovereign governments to reform in the economic policy structure at the time of taking credit and loan. As David Harvey (2005) observed:

The IMF first told countries in Asia to open up their markets to hot short-term capital. The countries did it and money flooded in, but just as suddenly flowed out. The IMF then said interest rates should be raised and there should be fiscal contraction, and a deep recession was induced. Asset prices plummeted, the IMF urged affected countries to sell their assets even at bargain basement prices (97)

Neoliberalism has reshaped the class formation in society and advanced the capitalist relations overall the world. Therefore, multinational corporations get more power by using the state apparatus for capital accumulation. Thus, the state also is used as a tool by big businesses for creating a market where it does not exist. As the result of that after some period this relation created the unequal geographical development and enhanced the inequality between rich and poor.

### **3.3 India and Idea of Neoliberalism**

India, in the early post independence era, adopted the mixed economic model with the understanding of that the market would play the supporting role in the state led development process, because of Indian industrial policy should be protectionist, statist, and regulatory. However, there were certain sectors had been reserved for the public sector, whereas in rest of space private industry could develop, but under the state control policy. According to that policy, the market system

expanded in many sectors during the PM Jawaharlal Nehru era. After a decade of Independence some leaders of the Congress party, Morarji Desai, Nijalingappa, Neelam Sanjiva Reddy and Brahmananda Reddy, started to support the free market idea, which was propagated by C. Rajagopalachari's Swatantra Party (1959-1974). Furthermore, a group of Indian business class, Parsi, Gujarati and Tatas also supported the Swatantra Party's free market idea against the Nehru's socialist model of development (Kochanek 1285). In the Indira Gandhi regime, World Bank and IMF forced the government toward liberalisation for financial aid in the 1960s. After the gradual development of the private entrepreneurs with the expansion of the market economy, the business class began to lobby for a more market-friendly policy of the government.

In the 1970s, a debate between supporters of free market economy and state intervention in the economy was begun all over the world. Economic rationalism was a debating point between the both. The neoliberals were propagating that the market was the best way of deciding what to produce, how to produce and gave stress on the self-governing individual and freedom. Furthermore, they were also advocating human welfare should be best achieved through the expansion of the free market and free trade. As of it, the state should be restructured in such way, which encouraged these practices. In the Indian context, the idea of neoliberal politics started to take shape in emergency time, when the government announced the twenty-point program for development in which economic rationalism was included. In the Janata Dal regime neoliberal idea got more support, because of the Janata Dal party came to power with the backing of right-wing leaning groups. Therefore, ideologically it opposed the Nehruvian socialist idea.

In the 1980s, when Indira Gandhi again established her government after Janata period and implemented the neoliberal idea. Her government introduced policy changes in the industrial sector with pro-liberalisation orientation and relaxed restriction on imports and exports. At that time, the policy maker argument was shifting in support of the free market because of the inefficiency of the public sector was growing, as Atul Kohli (1989) explained, "the failure of socialism provides a major opening for a new beginning" (307) for development policies. Because, during three decades previous governments of India could not have completed the redistributive efforts since independence, which was necessary for

development. A detailed study of what the reasons for the failure of the democratic socialistic state in Indian conditions since independence has been discussed in the second chapter. This way idea of neoliberalism progressed in India.

### **3.4 Policy Changes and Restructuring of Institutions during Indira Gandhi Regime (1980-84)**

In 1980, the Indira Gandhi government came into power again and her government shifted the politics and policy measures toward rationalism. The government started to accept neoliberal policy to some extent for economic growth. Although, she upheld the rhetoric of socialism and nationalism remain similarly as it was earlier. To balancing trade deficit, which was increased by the oil price hike, the Indian government took a loan from the IMF in 1981 under imposed “conditionalities” (McCartney 165). To follow these conditionalities for policy change, the Indira Gandhi government took a significant policy decision. In this resolution government took the major steps such as steel and cement prices were decontrolled; manufactured imports were liberalised and controls on both entry and expansion of national firms were relaxed (Kohli 308). This movement indicated the government was adopting neoliberal economic policies. Indira Gandhi’s government shift towards neoliberal politics was also politically beneficial for her regime because policy advisors calculated that alliance with big capital would help the Congress Party. Their logic was that with the support of pro-business policies might lead to growth, then inflation would come down and it would give the benefit of the poor electorate (Kohli 1255). After that, the Indira Gandhi government took more steps towards liberalisation and started to restructure the state institutions by policy changes.

#### **3.4.1 Amendment MRTP Act in 1981-82**

The Monopolies and Restrictive Trade Practices Act (MRTP Act) has effectively restricted the growth of big business monopolies. Because in the market control economy, the government was being regulated the investment proposals of large business houses, large dominant undertakings, and multinational enterprises by the MRTP Act. The main objective of the MRTP Act was to safeguard the public interest against the precarious effects of monopolies, concentration and restrictive trade practices. In November 1981 and August 1982, the government introduced

two amendments in the MRTP Act to extend its policy of liberalisation and relaxed the administrative rule of the Act. The argument of the government behind the amendment was in 1981 “the amendment is to meet the urgent need to step up export earnings” and in 1982 “the amendment are to encourage exports as well as to remove certain constraints in achieving high productivity and output” (Oza 1697). On the contrary, in August 1978, the Sachar Committee recommended comprehensive amendments in the MRTP Act to enhance the efficacy of the administration of the MRTP Act for achieving the objective to protect the public interest, but the government was unwilling to consider these recommendations. After this amendment, big business houses could expand their business and enter in the areas yet reserved for the public sector. This amendment permitted their entry to expand business in core industries such as “chemicals, drugs, ceramics and cement” (Kohli 1256). Despite that, those companies produced wholly for export were exempted from the MRTP Act section 21. As a result, 100 percent Export Oriented Units (EOUs) were permitted to import accordingly all their requirements, and import of technology was also liberalised.

#### **3.4.2 Changes in FERA Act 1973**

The Indira Gandhi government passed the Foreign Exchange Regulation Act (FERA) in parliament in 1973 to regulate the foreign capital investment in the Indian industries. This Act imposed regulations on foreign payments, which were related to dealings of the transactions, and foreign exchange and securities. The companies, which were regulated under this law, the government referred them as FERA companies. When Indira Gandhi government amended the MRTP Act in 1982 section 21 and 22 which also related to FERA companies, then 27 industries, which were under the FREA act, received the same exemption from licensing as MRTP companies (Kochanek 1292). By this amendment, the restrictions on foreign capital were relaxed for upgradation of technology, development of backward regions and enhancing greater competition between foreign multinationals and large Indian companies (Ibid). This process led to the liberalisation of the economy with neoliberal policies and restructured the established financial institutions.

### **3.4.3 Shift in Tax Policy**

As the government policies shifted towards private investment for the growth of the economy, then to encouragement of private investment the government gave tax relief to big business houses. The argument of the government about this shift had come from neoliberal ideas. Because of neoliberal policy assumed, if there would be a high corporate tax then corporation did not invest and this would affect the growth, so to encourage the investment reduce the direct tax. However, by investment the private industry would increase the production of goods, then corporate tax share would also enhance. On the basis of this argument, the Indira Gandhi government increased the income tax slab to hike the consumer demand for goods. On the contrary, the government shifted her source of revenue from direct tax to indirect tax such as services tax, excise and customs duties. According to this policy measure, government revenue has been started to decline from direct tax. On the other hand, growing expenditure on defence modernisation and infrastructure investment put the fiscal pressure on the budget. Consequently, the government began to cut government spending. At that time government reduced the subsidies from “public distribution system” (Kohli 1257). This policy shift idea of the Indira Gandhi government was the demand of neoliberal politics and decision makers.

### **3.4.4 Neoliberal Policy Architects**

Every government has always discussed with the policy makers for consideration of policy measures. Therefore, in every situation, policy makers have played a significant role in recommending and architecting government programmes. In the Indira Gandhi government, these individuals were bureaucrats and political leaders, who entered their idea of liberalisation in policy making. Mostly these persons were the inner circle individuals of the PM and they were influenced from the neoliberalism because they directly associated with the international financial institutions such as the World Bank. Albeit, most of them had studied in developed countries, mainly the US and the UK. Therefore, they were also indirectly influenced by their educational background.

Abid Hussain, the Commerce secretary of Indira Gandhi government, profoundly influenced by East Asian economic growth. He supported the economic growth idea for change. Montek Singh Ahluwalia, Rakesh Mohan, Arjun Sengupta, Jairam Ramesh, and Nitin Desai all were, before getting positions in Indian government departments, associated with the World Bank. Montek Singh Ahluwalia and Jairam Ramesh entered PMO in 1979 and 1980 respectively. Rakesh Mohan, Jairam Ramesh, and Nitin Desai were the members and advisors of the planning commission in the 1980s. L K Jha had been playing a significant role in policy making since independence. He was now working as an unofficial adviser to the prime minister and he was also Chairman of India's Economic Administration Reforms Commission. He always took the stand in favour of pro-business, because he had good relations with the prominent businessmen of India. These all were the prominent persons at the time of the Indira Gandhi regime, who were playing a vital role to entering their neo-liberal idea in policy making. Instead of that, the international and national scenario was also conducive for flourishing neo-liberal idea in politics and economic policy framework.

During the Indira Gandhi government tenure, above discussed points were the major policy changes who restructured the Indian state. This policy shift showed that the government had abandoned her commitment to the redistribution and the neoliberal model of development had been adopted with the argument of "growth first" (Kohli 1257). Thus, this policy started to restructure the state and redefined the government role in the economy for growth promotion and the free market. After that, Indo-US relations were qualitatively improved. India's move towards the US and West became politically significant and affection of the western world more consolidated the neoliberal economic policy regime. On the other hand, there was no any sharp political reaction appeared against policy shift toward liberalisation in the country. Because, the Indira Gandhi government conscious attempted it, as well as her government, depoliticise economic decisions and scale of the policy change was slow (Kohli 311). Despite that, the government maintained an image of continuous processes. Besides, the Indira Gandhi regime was also effectively succeeded to get benefit from regional political issues of Punjab and Assam, which were attracting more attention of national politics rather than the economic policy.

### **3.5 Policy Changes and Restructuring of Institutions During Rajiv Gandhi Regime (1985-89)**

In 1985, Rajiv Gandhi became the Prime Minister of India. His government sustained the policy changes, which was initiated by former PM Indira Gandhi and further open the economy. In his speech, Rajiv Gandhi argued that if our industrial policy, trade policy and education policy would be operated in the present system, then India could not look ahead in future with the rest of the world (Shastri 33). This argument, moreover, opened the space for policy discourse with the introduction of neoliberal politics. This discourse presented the clear agenda of Rajiv Gandhi governments' steps of the development toward liberalisation of the economy. This open announcement of the PM Rajiv Gandhi showed entirely break up from the Jawaharlal Nehru's 1950s policy plan and Indira Gandhi's rhetorical emphasis on planning, socialism and self-reliance.

Despite that, as like the PM Rajiv Gandhi, his inner circle advisors also belonged to a younger generation and they were stressing on change with new beginning rather than continuity with the past. These economic advisors included individuals such as Arun Nehru, Arun Singh, Montek Ahluwalia, Abid Hussain, Bimal Jalan and Manmohan Singh; and L. K. Jha was considered to have direct access to the PM (Kohli 312). All were friendliness to neoliberal ideas because most of these were associated with the World Bank and some were with multinational corporations. This competent group of managers, economists and bureaucrats, has been marked as 'technocrats'.

Instead of that, a strong state could implement economic policy and economic reforms successfully. This argument's foundation based on the statist position as Jorgen Dige Pedersen (2000) defines, "successful reforms require a strong and dedicated political leadership supported by a core group of technocrats (a change team)" (267). At that time, Rajiv Gandhi had the opportunity of the strong state, because his government had a full majority in parliament. Moreover, this majority also gave the freedom to government from coalitional complications and interest group's pressures. This political freedom produced the possibility to take sharp decisions easy for his government. For that reason, the Rajiv Gandhi's

government, with a two-thirds majority in the parliament, began to implement neoliberal policies with full vigour.

### **3.5.1 Committee Reports and Recommendations for Policy changes and Restructuring Institutions**

M. Narasimham Committee submitted its report about “to examine the principles of a possible shift from physical to financial controls” in January 1985. In this report, for industrial licensing and MRTP control, the committee examined the three possible directions in which reforms could be contemplated.

- (i) Improving the operation of the licensing system by simplifying the procedures and making them more rule-based and less discretionary.
- (ii) Limiting the area of licensing e.g. by delicensing certain industries.
- (iii) Substituting licensing controls by financial instruments such as fiscal and credit measures.<sup>15</sup>

The Committee also recommended the abolition of control over capital issues, easing of capital goods imports, foreign collaboration, and a marginal easing on the foreign exchange front.<sup>16</sup>

Dr. Arjun Sengupta Committee “to Review the Policy for Public Enterprises” submitted its report in 1985. The committee report analysed that the financial profitability of public enterprises had declined continuously in constant prices (Trivedi 56). The Committee, from the point of view of planning and budgetary management, suggested that public enterprises might be grouped as

- (a) Enterprises operating in the core sector.
- (b) Financially viable enterprises in the non-core sector
- (c) Enterprises in the non-core sector incurring losses

The Committee gave the recommendations for improvement of performance Public Enterprises such as organisational restructuring, technology upgradation, and increase public browning for non-core sector enterprises and which suffered from losses should be closed down (Singh 335). Despite that, Sengupta Committee recommended the “Memorandum of Understanding” (here after MoU)

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<sup>15</sup> M. Narasimham Committee Report; To examine principles of a possible shift from physical to financial controls, 1985.pdf

<sup>16</sup> By Shaji Vikraman in Indian Express, July 22, 2015. Source (<http://indianexpress.com/article/explained/the-years-of-v-p-singh-and-the-start-stop-push-to-reforms/>)

for the development of Public Enterprises with private investment in a holding company. On the basis of the Sengupta Committee recommendations, the MoU system was formally introduced in 1988-89.

Abid Hussain Committee on Trade Policy (1985) analysed that trade policy should be “growth-led exports” instead of “export-led growth.” The Committee stressed that the foreign trade policy should be harmonised with other economic policies and committee argued for a reduction in “effective protection” of import-substitute policy in phases (Gupta and Kaur 166). S. Chakravarty Committee of the Monetary and Credit Policy submitted her report on April 1985. In this report, the Committee proposed the monetary targeting. The Committee suggestions were playing the role of “subordinate and supporting” to the structural reforms (Khurana 7). The Finance Minister V. P. Singh adopted the Charkravarty Committee recommendations for monetary targeting in 1986-87 budget proposals. All the recommendations of these Committees suggested the economic policy reforms inevitable need for growth. Whereas, all these suggestions were pro-liberalisation and influenced by the neoliberal politics arguments.

### **3.5.2 Policy Shift in the 1985-86 Budget**

The first time the 1985-86 budget became the primary product of the neoliberal politics. The government announced a series of significant changes in the budget, as Stanley A. Kochanek (1986) explained, “especially in the field of taxation, and emphasized the need for closer coordination of fiscal, industrial, and trade policies in order to facilitate modernization and more rapid economic growth” (1287). In this budget, the finance minister V. P. Singh announced changes in tax policy. He reduced corporate tax from 57.7 percent to 52 percent, lowered wealth tax, slashed welfare expenditures and abolished estate duty altogether; the exemption limit for personal taxation would be raised from Rs. 15,000 to Rs. 18,000, reduced the personal income tax rate by about 25 percent, abolished the compulsory deposit scheme which was introduced in 1974, and scrapped the licence fee for radios and TVs. However, he argued the massive budget deficit and tax concessions be covered through borrowing.<sup>17</sup> While, the logic of the finance minister for altering the tax system was; to increase economic growth, generate

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<sup>17</sup> 1985-86 Budget speech of Finance Minister V. P. Singh. Source ([indiabudget.nic.in/bspeech/bs198586.pdf](http://indiabudget.nic.in/bspeech/bs198586.pdf)).

more revenue at lower rates, enhance compliance, and curb corruption and the size of the black economy. Despite that, Finance Minister also announced changes in the industrial policy, such as the MRTP limits were raised to Rs. 100 crores of assets; 25 broad categories of industries, including electrical machinery, electronic components, machine tools and industrial machinery were delicensed (Harriss 31). In this budget V.P. Singh pronounced changes in trade policy, for instance trade barriers were lowered to stimulate exports and for update technology. Import of capital goods, raw materials and technology were liberalised by including them in the Open General License (OGL) list.<sup>18</sup> Most of the policy changes were suggested by the committees and ideologically influenced by neoliberal politics. This policy shift was showing the government had made her mind for a further development process that would be through the neoliberal experiences. Therefore, in further budgets, the government introduced and escalated more policy changes.

Whereas, the politically Rajiv Gandhi government did not face any substantial resistance against the policy changes from the opposition. Because of the opposition party's number of Members of Parliament was less as compared to Congress Party's three-fourth majority. For that reason, they did not give strong resistance in parliament. However, a small section of left parties and pro-socialist intellectuals were criticising the budget announcements of the government by saying as "Pro-rich" government. But these voices were drowned under the euphoria of a new beginning (Kohli 313). On the other side, apex industrial bodies such as ASSOCHAM, FICCI and CEI appreciated the budget declarations. Because of all of these bodies of business houses favoured toward the opening of the economy for market forces. Despite that, urban upper middle class and non-agricultural section did not get the governments' benefits of subsidies. Therefore, these sections were also supporting the neoliberal policy shift.

### **3.5.3 Institutional Changes**

The policy shift announcements in the budget were the best indication of Rajiv Gandhi government's changing attitude toward the controls, regulation, planning, which appeared in the outline of the in Seventh Five Year Plan (1985-90).

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<sup>18</sup> OGL list was used by the government to monitor the import and export of goods in the 1970s and 1980s.

Therefore, the Planning Commission prepared the programme for export-oriented industries and transport system initiated the programme to encourage and improve the private and public sector cooperation. Moreover, Planning Commission drew the broader objectives according to this policy process for the year 2000. One significant policy changes was that by the creation of a new Ministry of Programme Implementation the role of the Planning Commission was decisively reduced.

The Rajiv Gandhi government converted Ministry of Education into the Ministry of Human Resource Development in September 1985. As a result, from that time, the citizens became the “resource” for the state, because neoliberal philosophy derived every assumption from the market and considered everything as a commodity. The government also introduced the National Policy on Education (NPE) in 1986. According to NPE the government wanted to increase the literacy of the people. With this new policy measures, the government started the campaign 'Operation Blackboard' and distance education. 'Navodaya Vidyalaya' was also established by Rajiv Gandhi that showed the elitist nature of his education policy (Chandra et al. 351). Further, NPE prepared the ground for privatisation and commercialisation education, which was implemented after 1992 under World Bank instructions.

As an expansion of the market with the involvement of domestic and foreign capital, government established the Securities and Exchange Board of India (here after SEBI) in 1988. The objective of the establishment of the SEBI was regulation of market securities. Before the existence of the SEBI, Controller of Capital Issues Authority worked under the Capital Issues (Control) Act, 1947. In the initial period, SEBI worked as a non-statutory body. It became the autonomous body in 1992 and got the statutory powers by parliament passed the SEBI Act 1992. The establishment of the SEBI showed that the government was restructuring the state role from the control of capital to the regulation of capital for the market.

While the government started the liberalisation process and market expanded with the sale of the commodities by private companies, therefore, for the protection of the consumer rights Rajiv Gandhi government passed the Consumer Protection Act, 1986. This Act was enacted with the aim to provide better safeguards to consumers against various types of exploitations and unfair dealings. According to this law, a three tier quasi-judicial machinery was established at national, state and

district levels for consumer complaints hearing (Chatterjee 66). Along with that, to promote the right to information and right to consumer education Central Consumer Protection Council also established under this act. The government passed this Act for consumer protection and resolving the private companies and consumer conflicts because the role of the state was changing in order to provide law and order for market system stability.

#### **3.5.4 Long Term Fiscal Policy (LTFP)**

The Rajiv Gandhi government for stable tax regime brought a Long Term Fiscal Policy (LTFP) 1985. The policy framework based on the S. Chakravarty committee's recommendations on monetary policy in 1985, it suggested that the state official should not fix the government bonds, but it should be determined in the money market. According to LTFP the government changed import quotas with tariffs, and proposed the long-term patterns of taxation (Kohli 314). The India Today Magazine (January 1986) mentioned the significant measures of this policy as follows;

- No change in Personal income tax rates for five years, however, the finance minister might levy a temporary surcharge to meet unforeseen contingencies;
- Those efficient companies would be able to generate high profit on a low capital base their surcharge and surtax on corporate tax will be abolished from April 1, 1987;
- With a new scheme, corporate taxpayers could deposit 20 percent of taxable profits in the Industrial Development Bank of India for future purchase of plant and machinery from fiscal 1986-87 and it abolished the minimum tax provisions;
- After the study a modified value-added tax 'Modvat,' would be introduced to ease multiple taxations of inputs;
- In this policy, government also promised to replace quantitative restrictions on imports after properly structured tariffs; and
- According to this policy measures, the government would be established the appellate tribunal to handle all litigation over customs and excise duties in the future (Dubey and Mathi).

The LTFP made it clear that the Rajiv Gandhi government was not interested anymore in the old intonations. Therefore, the concept of poverty eradication by direct assault had been changed after opting a trickle-down strategy. Despite the deteriorating balance of payments, by increasing imports of capital goods, the liberalised import policy was not reversed by the government. Even though, in 1986-87 budget finance minister announced some more customs and excise relief

to national firms (Kohli 314). However, big industrial representatives such as FICCI, Assocham and CEI welcomed the new financial policy.

### **3.5.5 New Industrial Policy (1986)**

Rajiv Gandhi's government with New Industrial Policy (NEP) introduced a series of measures regarding for reduce the control of industries. By amendment in MRTP Act, the government allowed exemption the 22 key industries from licensing requirements under the MRTP and FERA companies in December 1985. Moreover, MRTP/FERA companies declared backward areas for 72 industrial groups. Therefore, industries could invest in backward areas where were no industry or less, such as power, railroads, roads, water, schools, housing, or a trained workforce pool infrastructure (Kochanek 1292). Despite that, asset limits of the companies under the MRTP Act raised from 20 crores to 100 crores, consequently "112 companies were freed from the purview of the MRTP Act" (Chatterjee 22). Furthermore, under NEP allowed the private investment flow into public sector industries, because the improvement of the productivity of the hitherto heavy industry was the argument of the government. The NEP, thus, enlarged the area of operation for the private sector by eliminating or relaxing controls to the private sector, reducing and even delinking budgetary support to the public sector, diluting the planning process and allowing market forces to enhance their role. The government considered all these measures with the objective of increasing productivity, improving quality and reducing costs.

All these major changes during the Rajiv Gandhi regime gradually progresses toward a more market-friendly policy of the state. The principal aim of these policies was to "relaxing the scope and the degree of state control over the private economy" (Kohli 314). The increasing trend of liberalisation established, the argument for growth because the inflow of foreign capital in some extent and domestic private capital produced growth in the economy. On the contrary, political opposition parties criticised the government for pro-rich policies and raising voices for poor people to defeat the Congress Party in the coming general election politically. The BJP party was supporting the internal trade liberalisation and external protectionism, because of mostly trading class religious inclined with the Hinduism and wanted access the domestic market. Therefore, the government, further, continued the liberalisation process with sometimes slow and sometimes

rapidly. This unrelenting neoliberal political practice restructures the state step by step in order to free market economic structure. Thus, the state restructuring in Rajiv Gandhi regime with the liberalisation process started more extensively under the influence of neoliberal politics.

### **3.6 Policy Shift and Restructuring of institutions under V. P. Singh Regime (1989-1990)**

In 1989, Non-congress party's unity National Front formed the government under the leadership of Vishwanath Pratap Singh. The national Front government coalition was ranged from left parties to extreme right parties. That's why, V.P. Singh government did not survive a long time. However, the economic policy of the government was more extent toward liberalisation from previous Rajiv government. In his first budget 1990-91, Finance Minister Prof. Madhu Dandavate raised the exemption limit of personal income tax slab from Rs.18000 to Rs.22000. He proposed fix 40 percent tax for domestic corporate companies and simplified the corporate tax structure by arguing it would increase the export and investment in new industries. Moreover, he announced a concession to capital goods and machinery for increasing industrial production and exports. In contrast, Finance Minister rejected the trickle-down theory of development and declared decentralisation institutional equity development, which would be more employment oriented planning.<sup>19</sup>

On the other hand, V.P. Singh government's Industry Minister Ajit Singh announced the New Industrial Policy, by this policy he launched agro-based and small-scale industry that would be developed with the help of foreign investment and big industries (Shastri 42). V. P. Singh government also pronounced the New Import and Export Policy 1990-93. This policy simplified and streamlined the import licencing and export promotion procedures and increased facilities to export trade by including more industries in OGL. This policy shift supported the neoliberal policies of global capital after 1991 balance of payment crisis. Because neoliberal politics assumed that for better development the governments should be opened the economy of their countries and the economic policy should be shifted toward export-oriented production. During liberalisation policies, when inflation

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<sup>19</sup> 1990-91 Budget Speech of Minister Of Finance Prof. Madhu Dandavate. Source (indiabudget.nic.in/bspeech/bs199091.pdf)

started to rise, foreign exchange reserve went to a dangerous level, and economic condition was going to deteriorate then V.P. Singh government approaches to the IMF for support.<sup>20</sup> Hence, the policy shift under V.P. Singh government indicated continuity of previous neoliberal policy process.

### **3.7 Policy Measures and Restructuring of institutions during Chandra Shekhar Regime (1990-91)**

Janata Dal Socialist party leader Chandra Shekhar formed the government with the support of Rajiv Gandhi, Congress (I) party in November 1990, after the collapse of the V.P. Singh government. When Chandra Shekhar as PM started his tenure, at that time, the balance of payment crisis was deepening and the Indian state was going toward debt defaulters' list. PM Chandra Shekhar's then economic advisor Dr. Manmohan Singh suggested that India's gold reserves could be exchanged for loans from the IMF and other financial institutions (Ananth 390). After the consultation with Reserve Bank of India (RBI), he agreed for borrowing money as a practical step in that condition. Consequently, RBI started the negotiation with the Bank of Japan and the Bank of England for an additional loan of 400 million US dollars by the gold security. Meanwhile, Chandra Shekhar government had collapsed as the Rajiv Gandhi's Congress (I) party drew back support. While PM Chandra Shekhar proclaimed himself socialist, but his government adopted neoliberal policy measures for dealing the balance of payment crisis.

#### **3.7.1 Balance of Payment Crisis**

The Economic crisis of external debt, which brought India close to the default of the foreign payments, did not come in abruptly in 1991. However, this crisis badly impacted the economy and at that moment the condition of balance of payments had near to uncontrollable. There was a fiscal crisis (the government imbalance of income and expenditure) too severe. The factors that led to economy into such condition were not sudden shock beyond the control of the government. Its roots had in the policy change background that was altered in the 1980s and this policy change facilitated in the development of the economic crisis. Firstly, 1980s import

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<sup>20</sup> By Shaji Vikraman in Indian Express, July 22, 2015. Source (<http://indianexpress.com/article/explained/the-years-of-v-p-singh-and-the-start-stop-push-to-reforms/>)

liberalisation policy created the circumstances to develop the trade imbalance by the rapid increase in imports. With the import liberalisation policy, private corporations imported the capital goods, components, spare parts and raw materials for the production of consumption goods mainly for the elite class and less for the production of export. In the meantime, the Soviet Union, India's long-time friend and major trading partner was declined and further disintegrated in 1991. The trade between the two countries was conducted in rupees and things. Therefore, India did not require much foreign reserve (Öncü 69). However, in the mid-1980s, when the Soviet Union politically and economically weakened, this affected the bilateral trade. Consequently, the Indian government has no way to go to other countries for importing, so, for that foreign currency reserve essential. This increased the trade imbalance between export and import payments, and current account deficit.

Secondly, during the 1980s, direct tax rates were reduced on the basis for more corporate investment and for curbing tax evasions. On the contrary, indirect tax rates were not raised as much further, because of indirect taxes are regressive in nature and impact the poor by increasing the inflation (Bhaduri and Nayyar 23). Even though, the government could not decrease the public spending as much under the fear of political compulsion of urban and regional population opposition (Ahmed 184). Therefore, a reduction in direct taxes on the one side and ongoing expenditure on social and rural welfare/development plans on the other side led to higher budgetary deficits.

Thirdly, between 1980 and 1984 India's current account deficit was about 1.1 percent of the GDP. After 1985, the current account deficit and external debt had started increasing further. Besides, the value of the dollar was increasing at a faster rate. Therefore, the government was financing the growing current account deficit by commercial borrowing and non-resident Indian (NRI) remittances on higher cost (Öncü 69). Whereas, government's borrowing interest was higher than the GDP growth rate because the productivity of expenditure was low in relation to the higher interest rate at which the government borrowed (Bhaduri and Nayyar 24). A Large amount of government's spending on consumption rather than in direct return productivity, which would yield to the public exchequer. As according to the International Peace Research Institute report, during the 1980s India was

topped in the list of developing countries in defence spending. As a result, a major portion of the borrowing was used in consumption expenditure of government to sustain a majority in parliament by vote politics. These reasons have provided conditions in the country, which became the causes of the 1991 fiscal deficit crisis.

Finally, Middle East crisis of 1990, Iraq's attack on Kuwait and the USA's military intervention intensified the volatile the international circumstances and this manifested in a sharp increase in petroleum prices (Ahmed 187). By this Indian trade balance was affected. Although, due to the war, non-resident Indians remittances declined from Gulf countries. The government used these inflow remittances for to boost foreign currency reserves. Additionally, rehabilitation of non-resident Indians from the affected zones became the extra burdens on the government of India. As a result, these were the primary causes, which led to an economic crisis of 1991. The government of India, in crisis pressure and imposed structural adjustment programme of international financial institutions, took the bold steps for further movement. These steps explicitly were influenced by neoliberal politics. Because of previous governments had already restructured the state at some extant level, so that the present government without any difficulty adopted the neoliberal policy.

### **3.8 Paradigm Shift during P V Narasimha Rao Regime (1991-96)**

In the environment of the critical financial situation, the implementation of the new economic policy was totally uncontrolled and economy of the country continued to deteriorate (Hardgrave and Kochanek; 336). The economy of India was in serious trouble, the value of the rupee plunging to a new low level, the current account deficit at an all-time high and inflation running at nearly a ten percent annually. While in response to the economic crisis new minority government of P V Narasimha Rao dealings was influenced from neoliberalism. He appointed the Dr. Manmohan Singh a technocrat as finance minister because he was well regarded in international financial circles (Ahluwalia 44). Manmohan Singh was one of the policymakers who supported the liberalisation process when he was working in different government institutions since a decade. Along with the finance minister, younger generation politician and that time Commerce Minister, P Chidambaram backed the structural adjustment programme initiative (Shastri 45). Montek Singh Ahluwalia had severed as the special secretary to PM Rajiv Gandhi and he was in

the same position in P V Narasimha Rao government, wrote a paper on “Restructuring India’s Industrial and Trade Policies” in 1990 (Ahluwalia 41). This paper was widely known as M document, and it argued that the process of liberalisation that had already started and now it has become necessary to take further. Meanwhile, the collapse of the Soviet Union created an environment at the international level in favour of neoliberal ideology because there was no strong ideological opposition remained left against the neoliberal politics.

Despite that, the IMF gave a loan to India in 1990 and enforced to a “structural adjustment” programme. For the reason that the IMF and World Bank were suggesting to the Indian government regarding structural reforms for macroeconomic stabilisation and fiscal adjustment (Bhaduri and Nayyar 30). These strategies had been already implemented in the developing countries of Latin America and Africa in 1980s debt crisis after the recommendation of the IMF and World Bank. Moreover, CEI, in April 1991, floated the “theme paper,” which advocated the radical moves in India’s economic policies in the direction of a more open and competitive economy (Kohli 1363). During this time, there was a TINA (There is no alternative) factor also gaining popularity on the basis of the structural adjustment programme idea, which was mostly propagated by the neoliberals to tackling the balance of payment crisis.

Within this scenario, P V Narasimha Rao formed minority government and after a few days, the PMO office in response to economic crisis devalued the rupee about 20 percent in a two-step operation on 1 July and 3 July 1991 respectively (Ahluwalia 44). In the meantime, Finance Minister Manmohan Singh prepared the structural adjustment and economic reform agenda. In this he included as Amit Bhaduri and Deepak Nayyar (1996) defined;

Structural adjustment and reform seeks to shift recourses: (a) from the non-traded goods sector to the traded goods sector and within the latter from import competing activities to export activities; and (b) from the government sector to the private sector. Apart from such reallocation of resources, structural reforms seek to improve resource utilisation by (i) increasing the degree of openness of the economy; and (ii) changing the structure of incentives and institutions in favour of private initiative and against State intervention (33).

The condition of the economy was worse at that time by the current account deficit in the balance of payments; credit rating was low therefore the government could

not raise loans foreign banks and foreign exchange reserves fell to the equivalent of two weeks imports. Under such critical circumstances, it was much easier to argue that the only funding resource was the IMF, while the financial institutions such as IMF wanted to require policy change for macroeconomic adjustment (Frankel 590). In these situations P V Narasimha Rao minority government decided to a paradigm shift in the fiscal, trade, and industry policy and initiated the complete transformation of the economy. Therefore, on 24 July 1991, Finance Minister Manmohan Singh's budget speech started with the explanation of the current economic crisis after that step by step went to macro-management adjustment then shifted toward structural reforms. He argued that government has no other option, structural reforms were inevitable and there could be no adjustment without pain. He, further, recommended cut back in reserved public sector industries, removed compulsory licensing in the private sector, removed quantitative quotas on imports, gradually reduced tariff levels on imports, lifted restrictions on majority foreign investment in industries, allowed foreign companies to borrow funds in India, introduced current account convertibility to pay balances on the current account export and import trade accounts, allowed the new businesses to expand their operations, raise public deposits and taking over existing businesses and now foreign financial institutions have to permission to make direct portfolio investments in India's two stock markets (Frankel 591). All the recommendations of the finance minister were passed in Parliament because government argued reforms trigger was a compulsion and there was no other way to go further.

### **3.8.1 Policy Reforms**

The government adopted the Liberalisation, Privation and Globalisation (LPG) policy for further development. This paradigm shift was totally inspired by the neoliberal politics. This approach did not come immediately in the wake of economic crisis, but it has a long decade process in which consent has been constructed through pro-neoliberal policy makers. The restructuring of the Indian state had been started in the 1980s gradually, which has been discussed above in detail. However, 1991 economic crisis and policy reform measure was a culmination point of a paradigm shift from the market control economy to free market economy. Then the state had restructured at that point level to further

execution of neoliberal policies. In that background, economic reforms decision disclosed the neoliberal political agenda of the P V Narasimha Rao government and previous decade governments openly. All these practices of the governments showed their inclined relations with neoliberal politics. As a result, neoliberal politics were exercised to restructuring the state. Now, the institutions of state could work freely functioning for markets and free trade, which was the long pending high demand of domestic capital and foreign capital. After 1991 reforms, the governments started the development with an LPG policy approach in the direction of the free market and export-oriented growth. By the effect of this development process, the Neoliberal State has emerged.

### **3.8.1.1 Major Reforms**

The free market economy would produce the growth and increase the export, with that principle the neoliberal politics pushed the agenda for open the economy to global market competition. As the government adopted neoliberal policies explicitly, after that, nature of the state has been begun to change from commanding control of the market to the regulation of the market system. Consequently, planning perspective has been modified in order to coordinative and indicative of the market. Therefore, the implementation agenda of reforms followed such as;

**Trade Policy Reforms:** Since 1991 the main reforms were begun to affect the trade policy. The import licencing system has been dismantled. Except the consumer goods till 2002; all the non-tariff barriers have been removed in the phases. Despite that, India State also undertook its commitment to liberalisation of trade policy under the WTO agreement after 1994.

**Industrial Policy Reforms:** In July 1991 government announced New Industrial Policy (NIP) for governing industrial investments and subsequent amendments brought into it for changing policy rules. The NIP dismantled the industrial licencing system such as MRTP and FERA regulations. By this policy, the state also abolished the regulation of industrial investments. The NIP more liberalised the rule for foreign direct investment (here after FDI). The governments permitted to open new industries and services to the private sector including foreign private sector in previous public sector reserved areas. The government announced the

phased process for disinvestment in public sector undertaking units by establishing the Department of Disinvestment (Kapila 91). Some rules were liberalised for automatic investment approval.

**Financial Sector Reforms:** The government broadened the currency convertibility on current account by 1994 onwards. Under the fiscal provisions, direct tax rates have been decreased gradually for enhancing investments, on the contrary, indirect taxes have been increased for tackling the revenue deficit. After 1991, the structure and setting of interest rates were mostly deregulated (McCartney 38). For capital market regulation SEBI got the statutory powers in 1992. Under the financial sector reform government provided the permission to new private sector banks, including foreign joint ventures (Kapila 92). Thus, the governments since 1991 have undertaken the comprehensive economic reforms, which helped in the development of Neoliberal State.

### **3.9 State Institutional Restructuring from 1991 to 2014**

As per economic reforms proceeded further, the governments established the new institutions and restructured the existing institutions in order to privatisation and liberalisation process. With the paradigm shift in 1991, the government converted Chief Controller of Imports & Exports (CCI&E) into Directorate General of Foreign Trade (DGFT). The DGFT works under the Ministry of Commerce and Industry; it is headed by Director General of Foreign Trade. The DGFT works as a facilitator with the objective of increasing exports and it also regulates and promotes the foreign trade through regulation to keep in line with liberalisation and globalization.<sup>21</sup>

For increasing foreign direct investment (FDI), the government established the Foreign Investment Promotion Board (FIPB) under the Department of Economic Affairs, Ministry of Finance. In 1996 after the establishment of the Department of Industrial Policy and Promotion (DIPP) under the Ministry of Commerce and Industry, the FIPB reconstituted and transferred to DIPP.<sup>22</sup> The FIPB recommended the FDI policy proposals for increasing the level of FDI. The DIPP, which was established in 1995, has been reconstituted in 2000 with the merger of

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<sup>21</sup> Directorate General of Foreign Trade. Source (<http://dgft.gov.in/exim/2000/dgftdetail.html>)

<sup>22</sup> Foreign Investment Facilitation Portal, Department of Industrial Policy & Promotion, Ministry of Commerce and Industry. Source (<http://fipb.gov.in/AboutUs.aspx>)

the Department of Industrial Development. With liberalisation process, the DIPP role has been transformed from regulation and administration to facilitating investment, technological flows, and monitoring industrial development in the neoliberal environment.<sup>23</sup>

In post economic reforms, the governments permit the private investment in the telecom sector. As a result, the Telecom Regulatory Authority of India (TRAI) Act, 1997 was passed in parliament to independent regulation of private service providers. Subsequently, TRAI came into existence which starts to regulate telecom services including fixation and revision of tariffs for telecom services.<sup>24</sup> Along with this, the government amended the Major Ports Trust Act, 1963 by Port Laws (Amendment) Act 1997 to constitute the Tariff Authority for Major Ports (TAMP). The TAMP as an independent authority had been constituted in April 1997 to regulate all tariffs related to the vessel and cargo in respect of the Major Port Trusts and private operators located within for land lease rates.<sup>25</sup>

In the context of privatisation and liberalisation, the government privatise the public sector industries by reducing the government share in PSUs. As a result, the Department of Disinvestment was set up on 10<sup>th</sup> December 1999 and later it became the Ministry of Disinvestment in 6<sup>th</sup> September 2001. From 27<sup>th</sup> May 2004, the Department of Disinvestment has been working as one of the departments under the Ministry of Finance.<sup>26</sup> When disinvest in the PSUs started by selling a share of government then the government amended the FERA act in 1999 and liberalised the rules for foreign capital by creating Foreign Exchange Management Act (FEMA). The FEMA has been set up with the objectives as “facilitating external trade and payments” and “promoting orderly development and maintenance of foreign exchange market in India” (Saleem 499). After that, foreign capital increased in the Indian market through FDI and FII.

The Malhotra Committee recommended to open the insurance sector for private insurance companies in 1994, but by the strong political resistance, the government did not take steps to permit the private companies. While in 2000, the

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<sup>23</sup> Role and Functions of the Department of Industrial Policy & Promotion. Source (<http://dipp.nic.in/about-us/role-and-functions-department-industrial-policy-promotion>).

<sup>24</sup> Telecom Regulatory Authority of India. Source (<http://www.trai.gov.in/about-us/history>).

<sup>25</sup> Tariff Authority for Major Ports (Ministry of Shipping, Government of India). Source (<http://www.tariffauthority.gov.in/UserView/index?mid=1200>).

<sup>26</sup> Ministry of Finance. Source (<http://finmin.nic.in/about-ministry>).

BJP government amended the law to allow private sector insurance companies with 26 percent foreign equity and Insurance Development and Regulatory Authority (IDRA) was established (Ahluwalia 105). Besides, India as a signatory of the WTO in 1995 liberalised the trade and tariffs on agricultural goods and cut the subsidies for the level playing field to foreign companies. The establishment and restructuring of institutions for market expansion changed the nature of the state. Consequently, the state has defined his role in a new way under neoliberal politics.

To promote the competition between among the corporations against the monopoly practices, the government of India passed the Competition Act, 2002. According to this act, the Competition Commission of India (CCI) was the establishment in 2003 to prohibit the anti-competitive agreements, abuse of dominant position by the enterprises and regulates combinations (acquisition, acquiring of control and M&A).<sup>27</sup>

The government established the National Manufacturing Competitiveness Council (NMCC) in 2004 to provide a continuing forum for policy dialogue to sustain and energise the growth of manufacturing industries (Chatterjee 56). NMCC proposed reports become the base for the infrastructure development strategy in Eleventh Five Year Plan (2007-12). This strategy involved the combined response to increasing investment from the public sector and private sector through public-private-partnership. Further, in this direction, the National Manufacturing and Investment Zones (NMIZs) were created by the government with major policy initiatives (Mohanty 51). The main objective of NMIZs has to increase the share of manufacturing in GDP and double the current employment in this sector. In Eleventh Five Year Plan, central government and state government have successfully implemented many public private partnership projects in the manufacturing sector. NMCC was reconstituted in 2011, after that, a 28-member body of corporate organisations have been included in it, which represents the apex industry organizations.

In 2006, Micro, Small and Medium Enterprises Development (MSMED) was an Act passed by the government of India to address policy issues affecting Micro, Small and Medium Enterprises (MSMEs) as well as the coverage and the investment

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<sup>27</sup> Competition Commission of India. Source (<http://www.cci.gov.in/about-cci>).

ceiling in this sector. This Act provides the first-time legal framework for the recognition of the concept of "enterprise" for both manufacturing and service entities.<sup>28</sup> According to this law, National Board for Micro, Small and Medium Enterprises (NBMSMEs) was established for the promotion and development of MSMEs. Subsequently, with the amendment of the Government of India (Allocation Business) Rules, 1961, the Ministry of Small Scale Industries and Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises (MoMSMEs) (Chatterjee 98). The MoMSMEs formulates the policies and facilitates the projects, programmes and schemes. It also monitors the implementations of MSMEs.

As the corporate affairs increased in the post liberalisation era, the government of India constituted the Ministry of Corporate Affairs (MCA) to regulate corporate affairs by the Companies Act, 1956, 2013 and other allied Acts, Bills and Rules. Besides that, the MCA exercises regulation over the three professional bodies such as the Institute of Chartered Accountants of India (ICAI), the Institute of Cost Accountants of India (ICAI) and Institute of Company Secretaries of India (ICSI).<sup>29</sup> These bodies are established under three separate Acts of the Parliament for the orderly and proper growth of the professions affairs.

As the industrialisation process increased in post liberalisation era and it started to affect the environment. As a result, the government established the National Environment Tribunal under the National Environmental Tribunal Act, 1995. It gave decisions on compensation, relief and restitution to victims of accidents who were worked in hazardous areas and it also had right to give decisions on environment damages (Chatterjee 265). However, this Tribunal became defunct and the government repealed the act by the National Green Tribunal Act, 2010. Therefore, National Green Tribunal (NGT) was established in 2010 to sort-out matters related to environmental issues.

### **3.10 Role of the Indian State in Neoliberal Era**

As the neoliberal theory has emphasised the role of the free market economy because of the market gives the optimal conditions to the allocation of sources for

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<sup>28</sup> Ministry of Micro, Small and Medium Enterprises. Source (<http://msme.gov.in/about-us/about-us-ministry>)

<sup>29</sup> Ministry of Corporate Affairs. Source ([http://www.mca.gov.in/MinistryV2/about\\_mca.html](http://www.mca.gov.in/MinistryV2/about_mca.html))

general equilibrium (McCartney 39). In the global world, when a country produced for exports, according to its relative benefit, then aggregate income has been higher and all the countries take advantage (Ibid). Besides, the neoliberalism advanced the global capitalist relations among the countries under the LPG policy framework. As the Indian economic liberalisation process has explicitly and implicitly begun, the state has rolled back itself from the intervention of economic activities after 1991. Therefore, economic reforms redefined the role of the state in the neoliberal era as minimal government intervention. This minimal state also surrendered the sovereignty to the global market. The international financial and trade organisations have taken the responsibilities of the rule of law and freedoms of trade between state agreements at the global level.

Moreover, the neoliberal theorist has preferred the governance by “experts and elites” (Harvey 66). They viewed democracy as a luxury and coupled it with a strong middle-class for political stability. Besides it, the neoliberal theorists also argued that reducing the role of the government in economic activities would provide less scope for corruption and the diversion of public funds towards private benefit. Therefore, they advocated replacing bureaucratic decision-making with the superior efficiency of competitive markets, because they upheld that it would be more cost effective and efficient, better able to harmonise competing interests and generate solutions (S. Joseph 3214). With these arguments of neoliberalism, the Indian state also started to adopt market-oriented policies in the 1980s and a paradigm shift towards free market openly was begun by the P. V. Narasimha Rao government in 1991. As a solution to the economic crisis, the government adopted the LPG policy and dismantled the structure of developmental state with neoliberal policies. After that, the state reduced the role of the bureaucracy by decreasing public investment, delicensing industries and privatising PSUs.

Further, the Indian governments started all these practices to achieve more growth and for integration with the world market. The governments with the significant changes in the state structure led the economic reforms further to deregulate the public sector industries, liberalised the trade and capital rules for domestic and foreign corporate and reduced the corporate and personal taxes. Consequently, the state created the new institutions to mobilise private-sector saving and begun to make the conditions that generated a dramatic increase in profitability of the

corporate sector (McCartney 182). Furthermore, the governments reduced the public investment and allowed the private investment in yet public sector reserved areas. These preferences of the governments have shaped the state nature in favour of the free market and free trade. After Rao government (1991-96), United Front government (1996-98), BJP led National Democratic Alliance government (1998-2004), and UPA-I and UPA-II (2004-2014) further advanced the free market relations and reduced the state role in economic activities in all sectors. Since 1991 this continuity with neoliberal policies showed a break from past market control economic policies. Thus, by economic policy changes and institutional restructuring, neoliberal politics have appropriately restructured the Indian state with market rationality.

## Chapter 4

# Impact of Restructuring State over Democratic Process and Welfare Policies

### 4.1 Introduction

Neoliberals argued free market system would be a better option for the welfare of individuals because it would give freedom to do anything without restriction of the government. In the meantime, the welfare state policies were facing stagflation crisis in the 1970s. For that reason, policies of neoliberalism as an alternative to welfare state were started to adopt by many countries. The governments, before implementation of neoliberalism, restructured the state institutions, because these institutions were working under the mixed economic policies. In India, the restructuring process of the state started in the 1980s. That time Indira Gandhi government took the steps toward a free market system for economic growth. Her government initiated policy measures of neoliberalism for further development. Consequently, policy changes with a restructure of the state affected the developmental welfare programmes and democratic processes.

In democratic processes and social welfare activities, the state played a crucial role. On the assumptions of democratic ideas, the state institutions have been established. These institutions worked under government, which has been elected by the people. However, the term democratic process, as Robert Dahl (1967) has suggested that it was fundamentally concerned with two sets of related activities; that was the process of exercising influence on leaders and making governments responsive and accountable. Further, he referred to attain the position all the individuals must be free from the constraints of the primary groups to which they are born so that they may exercise their political choice in an uninhibited way. Concurrently, the democratic process has to help them to grow in understanding and capacity. Hence, by experiences, mistakes, and working in concert with their fellow men, they can learn to use their new political status to demand effective solutions to the problems which affect them. Seymour Martin Lipset, in *Political Man* (1959), argued that there be a positive correlation between economic development and stable political democracy. Daniel Lerner's model of democracy identified urbanisation as a critical factor which gave rise to literacy, industrial

technology, the growth of the media, and the 'institutions of participation' (Somjee 4). However, the term democratic process has to mean more than that within the situation of a developing country like India.

In post-independence era, Indian founding fathers consciously choose the democratic form of government and followed the choice with a series of progressive actions meant to empower the people. Therefore, they incorporated the democratic ideas and values in the constitution. With the directions of the constitution, they wanted to achieve these main objectives; democratic social living, freedom of expression, people participation through voting, equality before the law, and an equitable distribution of power. These ideas placed in Fundamental Rights and Directive Principles of State Policy in the Constitution of India. Consequently, Indian state as bound to constitution promotes welfare of people, for instance, social, political, and economic rights, and justice. The state, through all the institutions, directs the policy towards protecting and securing social living of people. Besides of that, state institutions include as Jean Drèze and Amartya Sen (2002) observe, “effective courts, responsive electoral systems, functioning parliaments and assemblies, open and free media, and participatory institutions of local governance” (6). Thus, these institutions act as per to providing the opportunities for attaining the democratic values.

On the contrary, in constituent assembly address, after completion by constitution draft 25 November 1949, Dr. B. R Ambedkar recognises the limitations of formal political equality in the concrete socio-economic reality of India:

In politics, we will have equality and in social and economic life we will have inequality. In politics, we will be recognizing the principle of one man, one vote and one vote one value. In our social and economic life, we shall, by reason of our social and economic structure, continue to deny the principle of one man one value. How long shall we continue to live this life of contradictions? How long shall we continue to deny equality in our social and economic life? If we continue to deny it for long, we will do so only by putting our political democracy in peril. We must remove this contradiction at the earliest possible or else those who suffer from inequality will blow up the structure of political democracy which this Assembly has so laboriously built up (220).

Ambedkar's this concern about India's socio-economic relations raised the question, in actuality how democratic ideas of the Constitution of India could have been realised through state institutions in practice. As Jean Drèze and Amartya

Sen (2002) argued, "Both democratic institutions and democratic practice are important in achieving democracy in the fullest sense, but the presence of the former does not guarantee the latter" (6). The main reason behind this argument appeared in the sense of the colonial legacy of the extreme poverty, illiteracy, backward value structure, and exploitation by moneylender and landlord. Although, the Indian societal structure had been based on a hierarchical caste system and discrimination since ancient times.

For that reasons founding fathers with the considerations of these problems established a welfare state. A welfare state means, where the state plays a vital role in the protection and promotion of the economic and social well-being of its citizens. The welfare state is based on the principles of equitable distribution of wealth, equality of opportunity and public responsibility of the state for those unable to avail themselves of the minimal provisions for a good life. As a result, the state undertakes primary responsibility for the welfare of its citizens. When India got freedom from colonial rule, then there were many problems and challenges were in front of Indian founding fathers. At that moment rampant social and economic inequality was all over the country. At that time all the vulnerable sections of the society such as working class, women, Dalits, and children were socially and economically deprived of basic means of living. In consequence of these conditions, India established the welfare state after the independence in 1947. But, after the 1980s, Indian governments started to adopt liberalisation policy by restructuring developmental state and shifted the welfare policy from the state to market forces, the new policy impacted the welfare and democratic process. In this respect this chapter has attempted to address certain questions, when the government of India adopted the neoliberal policies in the 1980s, which advocated the minimal state intervention, then how has a restructuring of the state impacted the welfare activities and democratic process in India? What have the consequences occurred of neoliberal policy implications?

## **4.2 Democratic Process in India**

All the leaders of the movement, irrespective he/she belongs to any political party or organisation, had a mutual consensus about that after Independence in India a democratic government system would be established. In that relation, they prepared the constitution for free India and declared that it would work as a guiding

document of the Indian democracy. As a result, according to constitutional guidelines Indian state started to take measures in the direction of democratisation of the society. As scholarly stated by the basic principle of the democratic process, every person should have equal rights, and in practice everyone should be allowed to participate in making vital decisions for the development and welfare of society. In a similar way, the Indian constitution provides the adult franchise to every citizen of India to take part in the electoral process for electing a government. The election is a fundamental pillar of the democracy. It created the political culture to democratise the society. To fulfil the purpose of a democratisation of society and the formation of a government, the political parties mobilise the individual out of his primary groups. This mobilisation process leads the involvement of people in democracy and established the political culture of participation.

#### **4.2.1 Political Culture**

Culture includes knowledge, art, morals, belief, custom, law, and other experiences attained by man as a member of society. It has composed of two parts such as material culture and non-material culture. In the same way, politics is one of the inevitable products of circumstances and facts of human existence and relations. Nobody can escape from politics. As a result, every person is involved in some manner at a certain time in several kinds of political system (Kumar, 2008). In this manner, the political culture is a system of politics, which is embedded in a sociological and psychological environment by the set of values, beliefs, orientation and attitudes of the people toward politics. The political culture of society appears in that situation when political action takes place. Thus, it is one of the primary sources, who shape the politics of the country.

In India, in the post-independence era, political culture has been emerging from traditional toward the modernisation by peoples' directly participation in elections, state institutions, political parties, pressure or interest groups, trade unions, and demonstrations. However, these activities of people were highly influenced from colonial legacies, such as a long national movement struggle and the experience of British rule. Instead of that, the postcolonial political culture was being extremely impacted by a heterogeneous social structure with a hierarchical setup of the historical deep rooted caste system, religious faith and customs, traditional cultural practices, lack of information and communication sources, and sub-nationalism.

For that reason, the democratic politics of the state were established by the Indian founding fathers for the development of modernity through public sector led industry and secularism, which would manufacture a “New Indian” (Corbridge 255).

According to the constitution, a welfare approach was adopted by Jawaharlal Nehru government toward resolving the issues of Indian social system. Although, Dr. B.R. Ambedkar’s experience and views for the emancipation of the downtrodden were also considered in the form of affirmative action to tackle the long-term influence of past social inequalities. Alongside that, during early years government was trying to the establishment of a democratic political culture, because throughout the freedom movement people were politically mobilised and wanted to carry on democratic political culture in free India. Besides, in elections, party organisations were also focused on getting power by forming governments through mobilising people rather than ensuring their inclusiveness in the decision making of governments directly or indirectly. This political party culture impacted the democratic process and electoral system in India.

#### **4.2.1.1 Political Party Culture and Electoral System**

In the democratic process, the scholars consider elections as a fundamental part of democratic politics, which democratise the society by the citizens’ participation. As according to the liberal democratic theory, elections establish an essential element in the democratic process. For that reason, by elections, citizens enable themselves to intervene directly in the political process, express their policy preferences, and select their rulers. Hence, elections provide the democratic way to form the government and make government 'representative' (Joseph and Mahajan 1953). Without elections, representative democracy cannot be imaged. If any political system does not conduct the free and periodic elections, it cannot be truly democratic. However, the voters of a country are a deciding factor the democracy.

In this relation, India upholds the principles of one-person, one value and one-vote. But, how far India’s electoral process can hold these core principles of the democracy? This is the main question on the Indian electoral process for sustaining democratic values. The Election Commission was established in 1950

under the Constitution of India. It has been functioning and organising the framework for elections since January 1950. In India general elections has been systematically conducting since 1952 after five years of the period or if any situation Parliament have dissolved before time. There are many political parties candidate and independent candidates participate in the electoral process to form the government. Subsequently, political parties make their efforts to form a democratic government and parties work as an instrument manner for democratising state and society.

Political parties provide the linkage between constituencies and institutions within the polity. Furthermore, parties provide the vital connection between the political process and policy makers, and raise the forefront issues that affect the interest of social groups and public as a whole (Hasan 241). However, Indian political parties cannot be characterised as European and American parties by the Indian traditional social division. After the Independence, first-past-the-post (FPTP) system was adopted by the Constituent Assembly. Because the founding fathers of the Constitution knew very well that in the largely illiterate country for establishing a democratic government election procedure should be simple and essay for people. Besides, among of them had a general consensus for stable and single-party majority government (Sridharan 119).

Congress Party has developed in colonial time from national movement and it became the dominant party in post-independence era. Because it was playing a central role as a broad-based movement by involving within both the dominant and dissident groups (Kothari 157). The nation-wide organisational set up of congress made her success in electoral polls. Congress party's exercise of mobilisation, and participation of people in electoral system was the first step towards establishing a democratic government. Subsequently, the institutional structure of the state further formally organised the people to take policy decisions in various departments of the government. This was the starting point of the democratic process in India that led the state and society, moreover, towards the democratisation through state's institutional structure, elections, and political parties' mass mobilisation. On the contrary, political parties' organisational structures, many times became the hindrance in the democratic process.

During the national movement The Congress party's high command was a small elite, English-educated, homogeneous in social background, and constituting almost a one class group mainly from upper caste (Kothari 162). Even though most opposition groups also emerged from that elite section. Despite that, most of the political parties in India are mass parties, because these are not only organised or mobilise those who represent special interest or influential persons. However, all the mass political parties incline to be highly centralised. Practically all of them are based on allegiance to leaders instead of loyalty to 'values or Institutions' (Hasan 248). Despite that, almost these parties also have not an internal democracy. All the national parties have been equally unwilling to hold internal elections. Consequently, on the crucial issues, which have the importance to the party, the top leadership play the decisive role except for left parties. However, on merely local issues parties have some space for consultation and discussion with a local leader or member person. The main reason of 'high command' culture prevails in party decisions, for example, in Congress Party maximum decisions are taken by the Delhi setting high command. Further, most of the other parties have also followed the same model. One thing more, political parties promote the family rule and personality cults by family name, caste, and charisma (Hasan 250). However, family control or dynastic rule does not prevail in ideology-based parties. These types of internal structures of parties affect the intra-party democracy. Thus, critics of electoral politics raises the question about party structures; how can without internal party democracy and family or dynastic control enlarge the democratisation of the state and society.

The rise of one leader and family rule centered politics in parties are becoming larger consequences of the decline of ideology. This trend is also reducing the party organisation structure only to election winning device, which depends on the charismatic leader. There is one more an important aspect of the election campaign financing. Parties also pre supposed that a popular leader face can raise more funds for the party, and to win a national or a state level election he/she influences electorates. Indian financing community to the party elections divided between the landlord and business class, and in another way many scholars call them rural and urban elite class. Notwithstanding, from first five-year plan the government has strongly been committed herself towards industrialisation

(Kochanek 1279) for modernising society as Jawaharlal Nehru more thought about the economic development of India. On the contrary, in local political institutions and state assembly's largely landlord class or rural elite has been dominating since Independence. These two distinct forces gradually, according to their interests, become a complement of each other. Further, growing private sector under the market control policy was establishing a nexus between among the politician, big business houses, and bureaucrats since independence. As Stanley A. Kochanek (1987) explicitly defines;

Business (the buyer) went to the government (the seller) for benefits, and in return paid in the form of resources such as campaign contributions, political donations, and jobs for relatives. The political leadership came to depend very heavily on the system as a quid pro quo for securing campaign contributions, and the bureaucracy depended on it for payoffs, employment, power, prestige, and patronage. The business community depended on the system to secure and maintain a monopoly, protection, and guaranteed profitability (1284).

As a result, corruption, unaccountability, inequality, and injustice outcomes of this political system are countering the democratic values in the country. The ruling parties have used mostly financing money for remaining in power and opposition parties used it for gaining power. For that they spent lots of money in elections for advertising, polling, travelling, consulting, and the printing campaign materials to reach in voter constituencies. Consequently, by uninterruptedness nexus and party funding corporates have been succeeded in full-filling their objectives of economic reforms in the 1990s in the wake of liberalisation (Hasan 251). Subsequently, from that time organised business houses have been dominated in policy making for their benefits. As a result, historically developed this political nexus undergoes oppose the democratic process and conquest the real values of representative democracy in India.

As a result, politically neoliberal ideas are bending the political system toward minimum state intervention and perfectionism. This politics, after transforming the structure of state with an alliance of foreign capital was uniting the new classes for political power and was furthermore consolidating the interests of the dominant class in a new form (Chatterjee 56). Thus, when critics of the Indian democracy particularly argue about the electoral process that the right to vote is not a moment's freedom because of voters are so poorly. In the same way, many people

yet cannot obtain basic necessities such as a home, education, health facilities, clean drinking water, and even a number of people have not meal of a day. For that reason, they say people are unable to distinguish between different political parties politics. In the same way, whereas Indian elections are formally 'free and fair' in most cases. But, elections effective fairness has been compromised by nepotism, the criminalization of politics, and vast inequalities in electoral opportunities because of disparities in economic wealth, and social privileges. The neoliberal politics is more increased it and shape the political party culture in the new class charter. This new form of political culture impacts the democratic process in India.

#### **4.2.1.2 Ruling Party Political Culture: Centre-State Relations**

It has been challenging task in multi-linguistic, multi-religious, and multi-cultural India to democratising state and society since 1947. However, India as a poor country in the world to commit itself toward a democratic way of governance with the adult franchise, an independent judiciary, protection of minority rights and freedom of speech. There are various public institutions has been established by the government for the welfare of people. These initiatives of government supported the state to make a constitutional democracy and shape the political culture of the people. While, Congress Party came into power with a substantial organisational base and a great feeling of trust and confidence (Kothari 104). At that time, socio-economic conditions of India were challengeable for introducing constitutional democracy. Jawaharlal Nehru phase of constitutional democracy was developed as secular, coalition-building, dominant Congress party system and consensus-making. In the Nehruvian era modern elite leadership determined to transform the society and promote economic development.

In Jawaharlal Nehru tenure as PM, he was trying to his best to establishing a democratic political culture in India. On the contrary, many deficiencies in the practice of constitutional democracy are a question mark on the leadership of that time. During Nehru prime ministership, Sheikh Abdullah secular leader of Kashmiri people was incarcerated in 1953 for more than a decade, independence movements in Nagaland was brutally suppressed on the base of counter-insurgency and in 1959 elected government of Kerala state, led by the Communist Party, was suddenly removed from office in the name of law and order situation

(Dreze and Sen 245). Even though, Nehru regime imposed six-time the Presidential Rule on elected state governments under Article 356 such as Kerala, Orissa, Punjab, Andhra Pradesh and PEPSU (Dua 615), {PEPSU (The Patiala and East Punjab States Union) existed as a state uniting eight princely states between 1948 and 1956}. Furthermore, for tackling separatist movements, especially in North-East states of the country, draconian powers were given to the armed forces under the Armed Forces (Special Powers) Act, (AFSPA) of 1958. Despite the fact that, these movements demanded a serious investigation and preventive measures than the counterproductive nature of state-organised violence. This practice impacted democratic relations of the centre and state. Moreover, this practice has been being followed by next regimes, sometimes more or sometimes less authoritarian way.

After the Nehruvian era, a populism phase under the leadership of Indira Gandhi emerged with even more determined way to target the poverty. In the meantime, the cost of war with Pakistan, global oil shock and rising inflation undermined the significant progress on poverty alleviation programme. These issues added discontentment in people. Peoples' this anger was used against Indira Gandhi government by opposition parties by mobilising different section. At the beginning of 1974, movements of students, civil liberties, peasants, workers and non-congress political oppositions were started. These agitations effectively put the government under siege that finally led to the imposition of national emergency in 1975. However, the Indira Gandhi regime crushed the dissent of the people as like the previous regime of her father through state machinery. She also continued the legacy of imposing President Rule in the states even more ruthless way. In her prime ministership tenure, thirty-nine time President Rule was imposed on the states, where mostly opposition party governments were running the states. Article 356 was used as a tool against the political opponents of state governments by Indira Gandhi; it was exercised some time for partisan control and in other time for personal control also (Dua 620).

This political culture of the State has been established by ruling party and power holders, which repudiated people's voice of participation in democratisation. During post emergency period the Janata Party came into power, and carried on the same Congress political culture being a ruling party. By Janata government,

state machinery was used against the main opposition Congress party, for instance, nine Congress state governments dismissed in 1977 with one brush—namely, that the state governments had "lost the confidence of the people" (Dua 618) by using Article 356. Indira Gandhi and Sanjay Gandhi were arrested for various charges in September 1977.

In 1980 Congress Party came into power again under the leadership of Indira Gandhi. That time, movements to state autonomy were rising. This was the demand of every regional political party of the state. Although, ethnic, religious and caste conflicts between communities were also escalating. On the other hand, the Indira Gandhi regime again started to use President Rule against the opposition party's governments in the states. As a result, Indira Gandhi presided Union Cabinet resolved to recommend dissolution of nine state assemblies, of Uttar Pradesh, Madhya Pradesh, Bihar, Rajasthan, Punjab, Gujarat, Maharashtra, Orissa and Tamil Nadu by using Article 356 on 17 February 1980 (Ananth 248). Besides, her immoral and undemocratic actions in Kashmir, Sikkim and Andhra were basically defended by Congress party politicians on the grounds of national interest (Puri 150). To counter the Indira Gandhi, the leaders of fourteen opposition parties have gathered in Bangalore on 28 May 1983. At that meeting, leaders of opposition parties resolved to work towards establishing a 'political brotherhood' that was essential to fight against the undemocratic Congress (Ananth 262). On the reaction of that meet and for the long demanding issue of more power to the states, Sarkaria commission was set up on the Centre-State relations under Justice R.S Sarkaria by Indira Gandhi government. Instead of that, during her tenure, she could not resolve the problems of Assam and Punjab. In all these matters, centre government did not want to give more powers to the state because of since independence 'unity and integrity of India' argument has been dominating in all over the Union government's narrative.

During the last tenure of Indira Gandhi, despite these happenings, a parallel neoliberal politics were also emerging, which was shaping the new political culture of ruling political parties. Therefore, the government was taking decisions in favour of pro-business to increase economic growth of the country. So, the Indira Gandhi government had started the path of development with the growth of the economy through more private investment and market expansion. After Indira Gandhi,

successive prime minister of India Rajiv Gandhi followed her mother's path and promoted the neoliberal politics. During his tenure, many issues of intra party contradictions, Shah Bano case, Babri Masjid case, Jammu and Kashmir election rigging which further led the separatist movement, and Assam, Punjab and Mizo accords major issues of democratic rights. Rajive Gandhi responses towards these issues mainly from political interests, but not deals these with democratic values. In this manner, ruling party political culture impacted the democratic process.

In 1989 general election Rajiv Gandhi's Congress could not get a clear mandate and the National United Front formed the government under the leadership of V. P. Singh. This was the beginnings of forming coalition governments via uniting many parties. In this coalition government system, regional parties also started to represent herself in national politics. But, V.P. Singh government was pushing her agenda as similar to previous governments when home ministry appointed the Jagmohan Singh as governor of Jammu and Kashmir to tackling unrest in the Valley. When Jagmohan Singh became the governor at that time chief minister Farooq Abdullah resigned from chief ministership, this showed V.P. Singh government used the same ruling party culture that was used by previous governments.

On the other side, during that time news was dominated by economic issue, it was the politics by other side. When industries minister Ajit Singh announced the new industrial policy, then Congress Party criticised the National Front government by alleging that the government was preparing to sell the country to the multi-national corporations. However, this policy seemed as similar which previously Rajiv Gandhi took in direction for development during his term (Chatterjee 202). Instead of that, V.P. Singh's Mandal politics for reserving the seats in government jobs for OBCs was given the birth to new dimensions of the ruling political culture. That was the time when one side movements were going on caste and religion issues and other side dipping economic crisis was determining the politics toward market forces. These conflicts of political and economic were providing the space to emerging globalisation and liberalisation political culture.

During the PM Chandra Shekhar government's short term, which stood on the external support of the Rajiv Gandhi, Congress Party, took a hard decision on deteriorating balance of payment crisis. In the meantime, under pressure from

Congress allied AIADMK, PM Chandra Shekhar's Cabinet recommended the dismissal of the DMK government in Tamil Nadu. After the dissolution of the state Assembly, President Rule was imposed in the state. However, this was done without a report from the Governor Surjit Singh Barnala. Therefore that time he resigned as governor to register his protest against this (Ananth 383). The Article 356 against a political opponent, which has in power in the state assembly, has always been being used by the central ruling party since 1952. This was shaping the undemocratic ruling party culture between centre and the states.

In the 1990s, when LPG policies have been adopted and foreign and domestic capital started to unfold in the country more openly after the abolition of the 'Licence Raj', then coalition governments began to shape the political culture differently. That time regional political party's put the issue of state autonomy into cold storage, which was the bone of contention between centre and the states. Because regional parties had become the allies of the ruling coalition government and by developing the conditions of "federal market economy" states have started to share sovereignty (Rudolph and Rudolph 247). In federal market economy centre and states shared the sovereignty in new patterns for economic and financial decision making. Instead of that, as the rise of coalition governments, when no single party commanded a parliamentary majority than the use of Article 356 has been become a little more sparing by central governments (Rudolph and Rudolph 301). The Central government politics, which previously guided the state command economy, now has been changed with the role of the state as regulatory concerned with market imperfections. Because of neoliberal politics wanted to direct the state toward more market-oriented rather than intervention in business. This neoliberal development of politics has further shaped the political culture of the ruling parties in a new class character. This has emerged in the form of ruling political business class.

#### **4.2.2 Culture of Political Mass Mobilisation**

The Indian masses have different political culture as contrasting to the ruling party political culture. As Lucian W. Pye and Sidney Verba in their popular book, "Political Culture and Political Development" (1969) argue that there is no single society which produces 'uniform political culture' while in every polity there will be a fundamental distinction available between the ruling class or power holder's and

masses political culture, whether the societies are being parochial and participatory (15). These two political cultures are also recognised in India by many scholars. As Myron Weiner describes in India, the elites have relatively homogeneous culture, as opposed to common people, because mass culture is divided and fragmented in relation to caste, religion, and linguistic communities (Pye and Verba 16). The fragmentation of the Indian society formed the mass political culture. Whereas, the mass political culture's legacy has existed from national movement, in this movement people were mobilised for establishing a sovereign rule. After the independence mass political culture emerged via involvement of people in the state institutions and as a political identity for a political party in the form of caste, religion and linguistic community. During the Nehruvian era, the largest number of directions came from the central government to the establishment of public institutions in local and state level. Afterward, people came forward to participating in these institution's decision making.

For the development of rural activities, new institutions have been established at the local level by the government. 'Panchayati Raj' had been set up firstly in Andhra and Rajasthan states in 1959; was the logic behind this would play the local government role as a democratic decentralisation form. Later on, the Panchayati Raj system was set up by the other states for local development. Consequently, at the local level people started their participation in decision making of local body governments. Therefore, this process enhanced the democratisation process and built the mass political culture. In 1992 the government of India passed the seventy-three and seventy-four amendments to establishing three tier Panchayats in rural areas and Municipalities in urban area respectively with consideration of thirty-three percent reservation for women's participation. Thus, these institutions started to provide the positions for historically marginalised groups, so that now ensuring access to power would become across the board (Gowda and Sridharan 20). However, in practice, these local bodies have always been favoured to privilege class or caste in decision making since establishment because these privileged classes or castes dominate over local government institutions. These practices in democratic institutions hinder the democratisation and political consciousness of people. This phenomenon has been going on continuously since independence in these local bodies. The

privilege groups never wanted to all individuals participate in decision making, because the socio-economic structure of the Indian society has been divided into hierarchies since ancient times. Therefore, people have always been mobilised on the basis of caste, class and religion only to get power by these groups.

The mass mobilisation trend of the political parties also has similarities to these groups. Every political party has different social base, according to ideology and identity. The Congress party during the Jawaharlal Nehru period to solidify the Congress support base among the peasantry by abolishing Jagirdari System, in business class by protecting them from foreign capital and in a property owning class by giving positions in state or national level party structure (Swamy 277). Furthermore, Congress Party established her mass base in lower castes and tribal people by providing reservation to schedule castes and schedule tribes. Meanwhile, Jana Sangh was building their mass base on religion and language and Swatantra Party in trading communities. Left Parties were mobilising the working class and lower peasantry. Therefore, political parties mobilised their mass supporters in political campaigning during election time and against the government if any party did not agree with ruling party policies. Instead of that, there was many students, peasant, worker and caste based organisations also emerged in that period, who mobilised the people against the government decisions as an interest group or pressure group. These groups broadened the democratic space in society so that democracy should be seen beyond the terms of ballot box such as John Rawls called it, 'the exercise of public reason' (Dreze and Sen 257). However, certain of these groups have relations with political parties and some groups worked independently for mass mobilisation and this process increased the awareness of people about their rights. Further, this process produced the mass political culture, which led democratisation of the society.

After the Jawaharlal Nehru era, national politics in India had witnessed the coalescence of an anti-hegemonic alliance against Congress' centralising tendency (Swamy 278). In this alliance, the middle peasantry was playing a central role from different regions, which was united by the opposition parties of Congress. Jayaprakash Narayan (JP) movement began from Bihar became the political movement in all over India against the Congress especially Indira Gandhi. In JP

movement people were mobilised in all places of India to remove Indira Gandhi from power. On the other hand, Indira Gandhi was responded through declaring an emergency and dissent of political parties and common people were suppressed. However, in 1977 election Janata Party swept the elections and came to power with a two-third majority. This election changed the Indian politics in two significant ways. First electoral politics were further predicated on the possibility that the dominated party could lose. Second, the movement and protest politics institutionalised herself in the interest representation form and transformed themselves into parties (Swamy 280). Moreover, this broadened the social outline of active mobilisation mainly represented by two important social groups, the middle peasantry and the other backward classes.

For addressing the concerns of OBCs' backwardness, the Janata government appointed the Mandal Commission to carry out a nation-wide survey of castes and communities and made a single list nation-wide OBCs. This act of government further would be defined a new social inclusion, but Janata Party did not know at that time, it would also be created a rift in people. Whereas, the report of Mandal Commission did not implement during the Indira Gandhi and Rajiv Gandhi Congress government. Janata Party in the 1989 election made its political agenda and mobilised the people and finally implemented the report after the National Front government came into power. It was the vigorous step of government to give the opportunities to OBCs for entering in public institutions via affirmative action. Despite that, with the participation of the lower class in state institutions, the Democratic scope has broadened in India.

However, in the 1980's were the period of major upheavals and witnessing an increase of new political forces in the Indian polity. It included the "social movements," the new regional parties, the armed rebellions in several major areas of India's border (Kashmir, Assam, and Punjab) and eventually the Mandal mobilisations (Gopalakrishnan). In 1990 when the government executed Mandal Commission report's recommendations, then anti-reservation rallies were organised by the upper caste youth. Because they believed that reservation in government jobs for the other backward classes was now imminent and they could not get jobs. Some members of different political parties were also criticising government's decision, including allied party member of the government. Lal

Krishan Advani president of BJP meanwhile was doing Rath yatra to mobilise the people on the symbol of the Ram and Ayodhya. He was speaking the blend of aggressive Hindutva and anti-Mandal wherever the Rath stopped, with this, he also helped the BJP forge a Hindu identity that was not restricted to the upper caste people (Ananth 374). The politics of Hindu national identity was not new, it has been around for decades longer. However, it had become a significant force in Indian politics in the 1980s and 1990s.

The Rashtriya Swayamsevak Sangh was still a relatively marginal entity until 1984. However, the Hindutva organisations had undertaken an incredibly rapid mass expansion between 1985 and 1992. Therefore, these organisations were claiming themselves as India's largest organised political force in 1992 (Gopalakrishnan). The politics of Hindutva were narrowing the space of democratisation through re-establishing the dominant caste rule. Despite it, meanwhile, neoliberal politics, on the other side, was advocating deregulation, privatization, and withdraw of the state from many areas of social provisions. The simultaneous rise of these two political forces was identified either as a reflection of common class interests or as “the result of a one-way causal relationship” (Gopalakrishna 2803). Because neoliberalism and Hindutva agreed with very similar ideas of the relationship between state, society and individual, and both assume the existence of a supreme social principle. This relationship of two reactionary forces further started to impact on the democratic process and politics of India through restructuring the state.

Despite political parties, the participation of people through non-political mass mobilisations and civil society to build a democratic culture in India have been playing an important role since independence. However, during the first two decades after independence, there was widespread consensus among the stakeholder and common people that the state was working as the engine of development (Jayal 146). Therefore, that time civil society had little scope to play the opposition role against the government, because the state also undertook the establishment of institutions such as a university. Whereas, non-electoral political mobilisations have started to occur across all cleavage, sometimes in a violent way, in the 1960s. In 1965 central government implement the provision of the constitution of Hindi as an official language, but this decision was repealed when

Madras state (now Tamil Nadu) student-led demonstration turned violent after police fired the student group (Swamy 278). Late 1960s agrarian class cleavage violent movement erupted in West Bengal, which came to known as Naxalite revolt. This movement held out the prospect of violent revolution in India, which was led by the middle-class students and poor peasantry. However, it was crushed by the ruthless police action.

Student's movements against the Congress led state governments in Gujarat and Bihar became the centre of most dramatic and successful political movements in 1974 and 1975 respectively. Bihar student's movement became the base of the JP movement. In 1974 nationwide railway strike by labour mobilisation became prominent during that period. This strike was declared illegal by Indira Gandhi government through the invoking Defence of India Rule (Steinberg 37). After that strike had been suppressed by the police action wherein, all the union leaders and thirty to forty thousand railway workers were arrested. Instead of that, numerous grassroots movements were led by the civil society members against various forms of injustice. By these movements they were challenging the patriarchal ordering of society, questioning on the inherited caste system, protesting against displacement of people and illegal mining, providing critics of the conventional paradigm of development and articulating more egalitarian ideas about the social order (Gael 147). All the components of civil society were more strongly associated with democracy despite their directly non-affiliation to any political party formations. These movements of workers, peasants, women, Dalits and civil society members were creating a democratic culture by mass mobilisations on small and big issues.

In the 1980s, when the government started the liberalisation process and state restructuring procedure with due to loan donor institutions pressure and under the influence of the neoliberal idea of individual freedom and the free market. At that point, welfare state reduced social welfare programme expenditure on public services. As these wellbeing programmes decreased, then Non-Governmental Organisations (here after NGOs) were expected to enter into contractual agreements with donor institutions or governments to provide public services, as the state withdrew from such activities (Sen 329). However, developing countries' governments have generally promoted NGOs to deliver public services through

grants rather than contracts. Instead of that World Bank defined the NGOs as “private organisations that pursue activities to relieve suffering, promote the interests of poor, protect the environment, provide basic social services or undertake community development” (Jenkins 424).

In India, at that time most of the NGOs were formed by retired bureaucrats, members of political parties and business people. When the NGO sector matured, then young professionals began to enter with the motivation of job prospects rather than the commitment to social change. Therefore, maximum NGOs mobilised the people in the form of self-help groups rather than against the government for their rights. By this approach, NGOs acquired the space of political movements of people, which were previously mobilised the masses for their rights and social wellbeing against the state. Notwithstanding, after a long time, NGOs have been succeeding to present synonymous to civil society. Consequently, when the state changed his role from welfare to neoliberalism, then most of the social movements emerged to lead by NGOs. As a result, that critical scholars argued mass political mobilisation culture has begun to decrease, because by the efforts of NGOs, people individually have started to adopt legal methods (Judicial) more than politically organised mass mobilisations. Thus, these emerging new trends of political culture have been being impacted the democratic process. The main reason behind the decline of mass political culture is neoliberal politics, which promotes the professionalism rather than political culture.

#### **4.2.3 Mass Media**

Media as the fourth estate of democracy plays an important role in the democratisation of society. Indian Independence success without the print media cannot be imagined. During the British rule, media emerged as the vanguard of the national struggle against colonialism. The national movement leaders as well as the social workers equally contributed and worked hard for the development of the newspapers. Some nationalist organisations and political parties, even opened up their press and started journalism as a social service rather than a profession. At that time, the media provided the information about colonial government rules and actions, on another side, played a supportive role in national movement by raising questions of poverty, inequality, injustice and exploitation. When India became independent in 1947 and the Constitution of the Indian Republic was adopted in

1950, which gave the right of freedom of speech and later freedom press. The free and independent press continued as a key element of India's democratic structure. Press Trust of India (PTI) a cooperative agency was established in 1949 for collecting news from every region of the country by various newspaper publishers.

After independence, media were in a dilemma about the future role, because the Indian media during colonialism played a critical role against the British rule. Therefore, media groups were thinking what should the role of media is now, it would be an ally and support to the government for nation building or critical. The First Press Commission (1954) argued that the press should protect the social justice by watch-dog and act as a catalytic agent to move along the process of social and economic change. That time, the print media was the only source of information and this played the constructive role between the people and government. With the birth of India's democracy lively reporting and perspectives of journalists, columnists and editors intensely debated in editorial columns over the shape and direction of the Indian state (Parthasarathy 89). The core argument was over the political and economic issues which were India facing and future of the Indian state.

India has developed as a multilingual country. Therefore, newspapers started to publish in many languages according to regions. Local and national level newspapers covered the major news about government policies, actions, debates and demonstrations of people and opposition parties. The First Press Commission (1954) recommended the establishment of Press Council for ensuring responsibility and ethics of journalism. The government set up the Press Council as a statutory body under the Act of 1965. The main objectives of the Press Council were

- To safeguard the freedom of the press
- To ensure on the part of the Press the maintenance of High standards of public taste and to foster a due sense of both the rights and responsibilities of citizenship; and
- To encourage the growth of a sense of responsibility and public service among all those engaged in the profession of journalism.

The newspapers to gain advertising revenue depended on the Indian government because the government was the largest advertiser. As a result, newspapers followed to government regulation of content (De 49). However, private

newspapers determined their content its own freely. This process increased the government control on newspaper content after independence and it appeared in complete control during the Emergency. On the other hand, during the emergency period, the Press Council Act was also repealed by the Indira Gandhi government and the Council was abolished with the effect of 1/1/1976. Instead of that, the government censored the media, on the contrary, many newspapers started to leave the blank space of pictures in the form of resistance to state oppression for freedom of speech and press. Consequently, at the end of the Emergency, the importance of private media had been grown.

The Janata Dal government again established the Press Council 1978. The print media played the constructive role in the democratisation of the society as a medium of communication between the government and people. The media helped the people in the formulation of opinion regarding social, economic, political and cultural aspects. In the critical situations were handled with a great maturity by print media such as Indo-China war, Indo-Pak war, nuclear disarmament negotiations, Bangladesh formulation, political party disputes, and so on (Thussu 56). Despite the state interference in an indirect way, the print media maintain the relative autonomy for developing multi-party democracy.

In the 1980s, electronic media (Television) emerged with the argument of a visual and audio presentation by liberalisation process. The government started the Doordarshan (DD) national channel in 1982. It was a holy state-owned electronic channel for general interest. The Indira Gandhi government also started TV broadcasting as a reliable tool for mass persuasion and political influence and its coverage range reached to 62 percent population in 1988 (Rudolph and Rudolph 217). However, after a short period of development, the electronic media came into the limelight of the monopoly issue in the 1989 general election, first-time media autonomy became the main problem. Because of opposition parties were allegedly questioning to the Congress Party and PM Rajiv Gandhi for the state's TV monopoly, which destroyed the credibility of the DD broadcasting and they were marking Doordarshan as "Rajivdarshan" (Rudolph and Rudolph 218). V.P. Singh Janata Dal promised in manifesto if the Janata Dal party government came into power, it would establish autonomous corporations for radio and TV within a

year under the parliamentary charter. This issue raised the question of credibility of the electronic media.

Indian democracy has grown from strength to strength and made a broad range of reforms. In this respect, the mass media played a major role in explaining and interpreting economic policies to their audience. In favour of liberalisation policies, the English-language newspapers hugely influenced the elite class, such as professional classes, bureaucrats, businesspersons and urban formal sector workers (De 50). This was the media, which interpreted the Rajiv Gandhi government's first budget as pro-liberalisation, although the government did not announce it officially. In support of neoliberal politics, media introduced new buzz words such as growth, dynamism, competitiveness and stability, which replace the older rhetoric of economic independence, equity, socialism and justice (De 53). This was the result of increasing private media over the 1980s. The English-language newspapers often gave print coverage to opinions which were justifying liberalisation. Because of the press has not only mirrored the march of this journey of democracy, but also gave insights and suggestions at every step.

After the 1991 reforms with LPG policy, the electronic and print media developed in new form, especially electronic media with approval of private channels openings. Most of the English newspapers in support of the Finance Minister Manmohan Singh's economic reform policy published articles and celebrated the LPG reforms without providing any eloquent critiques of reforms (Ibid). As a result, print media played a major role in making consent for liberalisation amongst the elite section. However, as compared to the print media, in electronic media has grown faster with the advantage of visual impact. Hence, many private news channels opened in English, Hindi and regional languages. It increased the range of media from urban to rural and remote areas and became the voice of the people. This change could be broadly divided into two categories such as the positive achievements of the media and negative trends in the media.

In positive accomplishments, the technological advancement in printing and electronic devices have brought in an unexpected structural change in the setup of media. It also made feasible and economically viable and enabled the press to provide to more readers stationed at different locations. With the development of telecommunication services and transport facilities have also facilitated news

reporting even from remote and forlorn places. Consequently, a small newspaper published in local, regional language and dialects in remote areas in India is working as a channel between local rural and urban population in other parts of the country. It has not unfolded only rich culture and heritage of the region, but also represented various problems in such area. The increasing presence of women in journalism has opened a new era for the development of the socio-economic condition of women. Besides, the expansion of the newspapers and news channels have led to the growth of press-related specific jobs and have boosted the profession of journalism. With the boom in Mass Communication, new specialized courses have been introduced by the private and public institutions and universities. By the effect education, the talented and educated young men and women are now opting for journalism as their career.

In the negative trends, corporatisation of the media with an aim to derive more and more profits from commercial enterprises. The news channels and print media promoted the news contents and articles have orientation suiting corporate houses and business community for the profit making. The many media channels openly owned and controlled by political and business corporations, which used the media to undermine the importance of their opponents with little respect over the national interest. Consequently, this was creating the casualty for the citizen to find out the objective truth (Jha). With the promotion of political and corporate interest news has been set up in the form of distortion and disinformation. The 'paid news syndrome' is being become a usual feature in media day by day. These practices of the mass media were impacting the democratisation process and widening the gap between people and state.

#### **4.3 India's Welfare Programmes before Neoliberal Politics**

In the early period, after independence, the state and mainstream political processes were playing the dominant role in nation-building and development. The state as the engine of development was a widespread consensus among the policy makers and in the political sphere. Because socio-economic conditions of the country were not adequate for development without state intervention and founding fathers did not want to risk of minimum state intervention by the fear of long colonial rule. Therefore, the government initiated the welfare programmes for the wellbeing of people and advancement of the country. With the Five Year

Planning system under the welfare state, the government took the responsibility and made the programmes for oppressed people, backward classes and castes, rural and urban citizens along with children and women's overall development. Consequently, the government started the efforts through various sectors such as health facilities by establishing a health centre and free medicine, education at very low price, agriculture-related facilities with the provisions of subsidised fertilisers, seeds, insecticides and so on and Public Distribution System was established to provide basic food grains and other items such as wheat, rice, sugar and kerosene oil to the poor. Even though rural and urban middle-class problems had also considered when special policies for the upliftment of SC, ST, OBC, Adivasis and women were implemented (Rasam 26). In the first two decades, after independence, the government established public institutions in every sphere through government funding such as health, education, transport, water supply, electricity, and banking sector. Because that time the Indian private sector had not in that capacity to play the leading role in the development process. The government also established the National Development Council to review the National plan working from time to time.

Instead of these social institutions, the Indian state built Public Sector Undertaking (here after PSUs) units for industrial and economic growth. These Institutions started to work under the guidelines of the Planning Commission. As a welfare state, the government of India administrated these institutions via different ministries and bureaucracy to ensure the public services to people. These institutions were maintained and run through fund allocations by the centre and state governments from their revenues. Therefore, in the Nehruvian era, which was widely known as the establishment of a socialist pattern of society, the government allocated the substantial portion of the budget to the welfare of people through these institutions. Gradually infrastructure of institutions was built at local level, thereby public services could be given to every citizen. In consort with it, regular employment was provided by the government in these institutions, which became the social security of the employees. For the reason that the government in India had the prime objectives in the social and economic policies for labour welfare to increase productivity and ensure a reasonable level of social security (Bhattacharjee 70). Instead of that, for the upliftment of downtrodden people,

especially SC and ST affirmative action were included through the legitimate way. Because the chief objectives of the public sector in the Indian economy were (1) Generation of Income, (2) Employment, (3) Capital Formation, (4) Infrastructure, (5) Strong Industrial Base, (6) Checking Concentration of Income and Wealth and (7) Removal of Regional Disparities.

To achieve these objectives India grew with the mixed economic approach and public institutions played their role in industrial and service sector for development of the country. However, after some time several problems have started to happen, such as corruption, lacks in services, red-tapism, the influence of politics and inefficient management in public services and PSUs. Whereas, several committees have been constituted by the government to settle these problems time to time. However, the recommendations of the committees were not considered and implemented enthusiastically by the ruling regimes. On the contrary, neoliberal idea, privatisation and the free market, emerged, which advocated the efficiency and better servicing in the private sector might produce more growth rather than the public sector. Moreover, the problems mentioned above gave confirmation about inefficiency in the public sector. By considering these problems as a major aspect, the Indian policy makers also attracted toward neoliberal policies in the 1980s.

#### **4.3.1 Impact on Welfare Programmes by Neoliberal Politics**

When the Indira Gandhi government started the restructuring of the welfare state policies by neoliberal politics, then welfare policies of the state also restructured according to the market from government dependence. For the reason that neoliberal politics assumed the wellbeing of people could be more optimal for the free market system, it would provide the abundant opportunities and freedom. Therefore, the governments had preferred to adopt neoliberalism because that time all over the world welfare state was declining and neoliberal policies were presenting alternative of the welfare state. Despite that international financial institutions, the IMF and World Bank were forcing the developing countries for structural adjustment, when these countries went for a loan for them. Britain, the USA and China major countries had already adopted neoliberal policies. Therefore, the Indira Gandhi regime started the process of liberalisation with the

argument of prioritisation of economic growth as a state goal and supporting private capital to achieve this aim (Kohli 1256).

As the government shifted her orientation in the direction of liberalisations, then public investment has started to decline in welfare programmes. In the place of public investment, the government preferred private investment and deregulation of public institutions has begun. That time government cut the subsidies from “public distribution system” (Kohli 1257). In the same way, Rajiv Gandhi government introduced the changes in taxations, industrial licensing, control of monopoly and foreign capital, import/export rules and planning objectives. Furthermore, P V Narasimha Rao’s minority government decided to a paradigm shift on the fiscal, trade and industry side and initiated the complete transformation of the economy. Therefore, on 24 July 1991, Finance Minister Manmohan Singh’s budget speech started with the explanation of the current economic crisis after that step by step went to macro-management adjustment then shifted towards structural reforms.

After the whole policy shift, public institutions which have already started to restructure now got the speed more quickly on the way to privatisation. As the effect of the policy shift, the role of the state has been decreased in public institutions by the privatisation of state assets. Subsequently, one by one public institution has been privatising that provides services. Disinvestment and sale of PSUs have been started through neoliberal policy prescriptions. Entries of multinational companies have unrestricted which were being replaced the PSUs gradually by new establishments and buying PSU units. Commercialisation and privatisation of education began, therefore parallel to government education institutions, private school, college and universities have been opened. The similar situation has created in the health sector; expensive hospitals have been being inaugurated constantly. Instead of that water supply, electricity, transport, communication and banks; all these services have been being given to the private sector. Moreover, labour laws have been reformed by the government, according to neoliberal policy measures.

By this increasing privatisation and commercialisation, people have left few opportunities in public sector jobs. On the contrary, in the private sector the people have been recruited on a contract basis, thereby they get less pay and their secure

social security have also vanished. Although, these private institutions have not implemented the affirmative action policy, which was for the development of lower castes and classes. Therefore, people have been suffering because opportunities of social security have decreased on the other side exploitation has increased. Thus, inequality has been rising day by day between rich and poor people by neoliberal policies and it has impacted the people severely.

## **Chapter 5**

### **Conclusions**

The state, in organised institutional form, has historically evolved from the ancient state to a modern state. The nature of the state changes with the development of new institutions and ideologies that impacted its structure directly or indirectly. In the late 1970s, after mixed economic stagflation crisis, the governments of countries adopted the neoliberal politics and restructured the state institutions from mixed economic model towards the free market model. This new policy orientation impacted upon the traditional role of the state and compel it to relinquish too much concern with the people for establishing relations among political, economic, social and cultural elements of society. In a similar manner, the structure of the Indian state's institutions has also significantly changed with the adoption of the neoliberal policies in the 1980s, which was earlier based on the state intervention planned economic system.

In post-independence, Indian State's institutional structure established on the lines of democratic socialist values as wished by the nationalist leaders. It was also guided by the Constitution of India that entrusted the responsibility to the State to secure all the citizens, men and women equally. The industrial class already supported this state intervention planning system with the mixed economic model in its proposed Bombay Plan in 1944; as most of the countries began to adopt the Keynesian mixed economic policies for development. India as an independent state adopted the planning system and the state intervention for the development of the country whereby the ownership and control of the means of production were distributed as best to sub-serve the common good. The Jawaharlal Nehru government began the developmental process by state intervention in the economy through progressive taxation of incomes of individuals and corporations, and developed the state-led public services such as education, health, and transport etc.

In 1948, the first hindrance emerged in the establishment of socialist democratic government headed by Jawaharlal Nehru. This hindrance compelled the Jawaharlal Nehru to compromise to some extent with interim government's socialist ideology for the sake of industrialists, and landlords. It could be seen in

the 1948 Industrial Policy Resolution, where the state ownership was reserved only in three existing private industries. The period of nationalisation of other industries had been extended from five years to ten years. In concern to landlords, Jawaharlal Nehru did not directly confront the landlords as he argued that this class would play the essential role in the formation of the organisational structure of the party. These two examples of class interests represented the distinct feature of the Indian liberal democracy where the capitalist class did not have the social power to exercise hegemony, so that the state political power was shared with other dominant classes such as traditional landlords.

After a decade of Independence, Nehruvian socialism and mixed economic model challenged by the leaders of Swatantra Party, some leaders of Congress and a group of Indian business class in favour of more freedom for the private sector. The opposition to them not only compelled the government to consider a complementary role for private sector in the mixed economic structure, but also ignored the ten years' time limit for nationalisation of private industries. In the subsequent years, this space to private sector restraint the government from taking hard steps against the dominant classes. During Indira Gandhi's period, socialism became more rhetoric than reality.

Indira Gandhi took some steps toward privatisation such as the programme of high priority to agriculture against heavy industries, relaxing curbs on imports, and devaluation of the rupee for the immediate solution of the economic problems. She took all these decisions under the influence of the IMF and World Bank, and did not consider the alternative of these measures. The World Bank proposed agriculture development plan, "Green Revolution" mainly benefitted the rich landowning class that was the Congress party's major supporters in state politics against the demand of land reforms. On the contrary, her government to sustain in power nationalised the Banks, and passed the MRTP Act in 1969 to stop monopolisation and the concentration of wealth. However, most of the Acts provisions were declared null and void, over a period of time, by the Parliament. The government took these two socialist steps of development for political goals.

In the 1970s, the opposition of the Congress party and PM Indira Gandhi were increasing in entire sections of society. As though, the middle classes were raised price and corruption issues, by the threat of land reforms rich peasantry also

against the government, strikes of workers and protests of the students raised slogans against central government policies, and big business houses opposed the move of nationalisation and anti-monopoly actions of government. These matters were also uniting opposition parties without respect of ideological similarities against Congress party. In the same way in the 1974 student movement, which was led by the veteran Gandhian socialist Jayaprakash Narayan (JP) against the Bihar government of misrule and corruption and this later emerged as the JP movement against the Indira Gandhi government. At that moment conditions were not favouring Indira Gandhi government, then her government decided to impose the internal emergency in the country. However, here a question again raised on PM Indira Gandhi's commitment to the establishment of a socialist pattern of society and democracy after taking the decision of imposing emergency. During emergency time role of PM Indira Gandhi appeared only as the decimation of political opposition beside of establishing the socialistic pattern of society, she only added the words Socialism and Secular in the preamble of the constitution.

In 1977 Indira Gandhi's Congress party was successfully defeated in Lok Sabha elections by new Janata Dal Party and its allies, which supported the decentralised development of the Indian planning strategy in favour of the small scale industry and rural development policy. As the result of decentralisation plan, industrial growth came down in comparison to agricultural growth. During the Janata Dal regime, there was no single effort has been taken toward the establishment of a socialist pattern of society because it came to power with the ideological right wing partnership. This partnership was the basic reason for the free market idea of Janata Dal Government in comparison to the socialism of previous governments.

In the international political arena, the idea of state intervention was going out of policy planning in the 1970's towards the neoliberal politics. India too came in sync with this idea with the coming of Indira Gandhi to power in 1980. Her government supported the private investment and market expansion instead of state intervention in economic activities in comparison to socialist development. Because, since independence, the Indian governments have not taken grave steps to the establishment of democratic socialism. The ruling class coalition with the elite landed class becomes the prevention in proper land reform implementation,

feudal land relations was the main obstacle to the creation of home market and demolish of the caste-based feudal system. The caste system and home market have the deep relations with each to constrain the development of democratic socialism in India. Therefore, making a democratic socialist state in India became failed. It has been just rhetoric to sustain the power in a post Nehru era for politicians. As an alternative, neoliberalism considered as a solution to the Indian social and economic problems. The pursuance of neoliberal politics made a space for the restructuring of the policies of the state that gives room to class dominance in the new framework. Thus, the states started to restructure with neoliberal policy pathway which was previously welfare states.

The Indira Gandhi government amended the MRTP Act in 1982 to facilitate the entry of private companies in the areas reserved for public sector, liberalised the rules and other requirements for import of technology, relaxed the FERA Act- for the inflow of foreign capital for up gradation of technology, and for encouraging the investment tax relief has been given to big business houses. At that moment, the government shifted her source of revenue from direct tax to indirect tax such as services tax, excise, and customs duties. All these policies when increased the fiscal deficit, then the government cut the public investment on welfare policies.

In the background of this policy change, policymakers played a major role who were influenced by the ideology of neoliberalism. These were persons who were directly associated with the international financial institutions such as the World Bank and IMF- the promoter of free market economy. These were the prominent and important persons at the time of the Indira Gandhi regime, who were playing a vital role in the introduction of the neoliberal idea in the structure of the Indian policy making. The international and national scenario was also conducive for flourishing neoliberal idea in the political and economic policy framework.

The policy changes initiated by Indira Gandhi sustained under the Rajiv Gandhi regime. He extensively introduced the new industrial policy, long-term fiscal policy, the changes in taxations, industrial licensing, control of monopoly and foreign capital, import/export rules, institutional changes, and planning objectives. Even, the apex industrial bodies such as ASSOCHAM, FICCI, and CEI already wanted the opening of the economy to market forces. They were lobbying for open market to put pressure on the government as they knew very well that the state itself could

only reduce the functions of the state. Business class and upper middle class appreciated all these government moves, except a criticism from a small section of left parties along with the other opposition parties and pro-socialist intellectuals.

In 1989, V.P. The Singh government came to power that followed the same path of neoliberal politics except for the implementation of the Mandal Commission report. This implementation brought the high caste people and corporate sector against the government. The corporate sector announced that they were against the quota system and would not implement the reservation policy, even after passing of any legislation in the future. Thus, in respect to neoliberal policies, these upper caste and class people came in support of the corporate sector. Overall, V.P Singh government took some economic steps influenced by neoliberalism because he had experience of introducing free market policies as a Finance Minister in the Rajiv Gandhi government. His government fall before the completion of tenure and replaced by Chandra Shekar as PM. During his stint, India faced the severe balance of payment crisis because of which government got a loan from the IMF in exchange of gold reserve to tackle this problem and avoid the defaulter list. Chandra Shekar government too fall like V. P Singh before completion of the term.

Meanwhile, the economy of India was in serious trouble, the value of the rupee plunging to new low day by day, the current account deficit at an all-time high, and inflation running at nearly a ten percent annual clip. The build up of the economic crisis was not a sudden shock, it had genesis in policy changes introduced in the 1980s. There were four main factors of the economic crisis. Firstly, the rapid increase in imports due to the import Liberalisation policy created the trade imbalance between export and import payments and generated the current account deficit. Secondly, the reduction in direct taxes on the one hand, and ongoing expenditure on social and rural welfare/development plans on the other hand led to higher budgetary deficits. Thirdly, a large amount of government's spending on consumption rather than in direct return productivity, which would yield to the public exchequer. Fourthly, the Middle East crisis of 1990 due to Iraq's attack on Kuwait and the USA's military intervention sharply increased the petroleum prices in the international market affected the Indian trade balance. All these factors were the main reasons for the 1991 economic crisis in India. The new minority government of P. V. Narasimha Rao decided to bring a paradigm

shift in economic policy to deal with the economic crisis through already introduced a neoliberal policy framework. The IMF gave a loan to India in 1990 to deal with the crisis, but with added conditions of enforcement of “structural adjustment” programme.

The Neoliberal lobby basically industrial and commercial organizations were vociferously advocating the opening of the economy to global competition such as CEI. Along with this demand, the neoliberals were propagating TINA factor for structural changes. In these situations P V Narasimha Rao minority government decided to transform the fiscal, trade and industrial policies to complete transformation of the economy and state structure. As a result, since 1991, every successive government was restructuring the existing state institutions and also establishing new institutions in order to open the market under the guidance of SEBI, TRAI, FEMA, Ministry of Disinvestment, Ministry of Corporate Affairs, etc. As the government adopted neoliberal policies explicitly, after that, nature of the state has been begun to change from commanding control of the market to the regulation of the market system. The restructured state impacted the democratic process and welfare policies of the state.

In post-independence India, founding fathers consciously choose the parliamentary form of government and incorporated the democratic ideas and values in the constitution. Indian state under the direction of constitution promoted the welfare of people, for instance, social, political, and economic rights; and started to take measures in the direction of democratisation of the society. In the democratic process, Indian state granted the right to vote and right to be elected by vote to citizens. The political parties make their efforts to form a democratic government and work as an instrument of democratising state and society. Most of the leaders of political parties emerged from elite class and never let the internal democracy sprouts in the party to secure the reigns of power. It led to the rise of one leader and family rule centred politics in parties that largely impacted the people participating in politics. Further, growing private sector, under control and regulation policy of the government, had established a nexus between the politicians, big business houses, and bureaucrats. This nexus succeeded in full-filling their objectives of the open market through economic reforms in 1991. In following years, through the neoliberal politics in an alliance with foreign and

domestic capitalist units, the new classes of political power emerged to consolidate the interests of the dominant class in a new framework.

On the other hand, the democratic political culture in India has played an important but transitional role with the passage of time. Political-cultural of ruling regimes of centre always dominated the states ruling parties, because of the central government has more constitutional powers than state governments. Therefore, central governments used the article 356 for state emergency for law and order problem if any opposition party in state government raised voice for more powers to the states. This type of power struggle of ruling parties became a hindrance in the entrenchment of the democratic process and positive political culture in the country. In the 1990s, when LPG policies have been adopted, foreign and domestic capital started to unfold in the country more openly after the abolition of the 'Licence Raj', then coalition governments dominated by the state parties began to shape the political culture differently. Regional political parties have become the allies of the ruling coalition government and have started to sharing sovereignty with the Centre on the bargaining conditions in the "Federal Market Economy". Thus Neoliberal politics, that directed the state toward more market-oriented rather than interventionist in business, emerged in the form of the new political culture among the ruling political parties and business class.

At grass-roots level, the masses adopted the political culture and used to participate in the decision making process through local body institutions to entrench the democratic culture in the society. However, in practice, these local bodies have always been favoured and dominated by the elite class or caste in decision making since establishment. The privilege groups never wanted the people to participate in decision making, because the socio-economic structure of the Indian society has been divided into hierarchies since ancient times. Despite these loopholes and drawbacks, the participation of people through non-political mass mobilisations movements build a democratic culture in India. It also has been playing an important role since independence. Numerous grassroots movements were led by the civil society members against various forms of injustice. After the restructuring of economic policies, NGOs were expected to play the protectionist role traditionally played by the state. Therefore, maximum NGOs mobilised the people in the form of self-help groups rather than against the

government for their rights. By this approach, non-governmental organisations acquired the space of political movements of the people, which were previously mobilised the masses for their rights and social wellbeing of the individuals against the state tyranny. The political role of the NGO emerged in the form of depoliticisation of people and neoliberal politics that enlarged the gap between the state and people. Despite that, for the promotion of political and corporate interests, mass media presented the distorted news and disinformation. This news creates more difficulties for the citizen to find out the objective truth. These practices impact the democratisation process and widen the gap between people and state. Furthermore, neoliberal politics also impacted the welfare state policies.

A welfare state means a state that plays a vital role in the protection and promotion of the social well-being of its citizens and ready to intervene in the economic activities to secure them. After independence, the state institutions were structured in such a way to make them the engine of social development with a consensus among the policy makers and commercial class. Therefore, the Jawaharlal Nehru government stated, the various welfare policies such as health facilities, education at very low price, agriculture-related facilities with the provisions of subsidised fertilisers, seeds, insecticides, public distribution system, and transportation. India as a welfare state, administrated public institutions via different ministries and bureaucracy to ensure the public services to people. However, after some time several problems have started to happen, such as corruption, laxities in services, red-tapism, the influence of politics and inefficient management in public services and PSUs. If ruling governments wanted to tackle these issues they could resolve it. But, there was no reasonable mechanism ensured by it.

On the contrary, governments adopted the neoliberal idea in consonance with international environment and under IMF and World Bank influence. Even the industrial and corporate houses pushed for the privatisation and the free market economy to increase the efficiency. The government started to believe that the private sector might produce more growth rather than the public sector in better serving its people. Thus adopted and implemented the neoliberal political ethos in the country. But with the effect of this policy shift, the role of the state has been decreased in public institutions due to the privatisation of state assets. The increasing privatisation and commercialisation policies impacting the people in

jobs and social security. Similarly, private institutions have not implemented the affirmative action policy, which was essential for the development of lower castes and classes. The opportunities for social security have decreased, whereas suffering and exploitation of ordinary citizens have increased manifold.

Thus, in the wake of neoliberal politics, restructuring of the Indian state is still an on-going process. To draw a concrete meaning of the impacts of these processes over people's welfare programmes and democratic process would be too early. The study needs to be pursuing further to understand the effects of these restructuring state institutions.

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