Executive Summary:

Since initiation of Economic Reforms, India has moved towards adopting the market economy model. We now stand at the threshold of what is called the Second Generation of Economic reforms. But in order to precipitate it, India requires efficient Government machinery and administrative set-up which is able to initiate, facilitate and drive this process. This ultimately requires the political structure and process to act as the driver of economic and social change. But far from being a change driver, the political class of India actually poses a potent threat to establishment of a mature market economy in India. The need then is to reform the political structure, accompanied by reforming Government machinery and Administrative set-up. The Political reform process would involve changes at different levels brought about in a sequence of phases.

In this paper, I have attempted to provide a blueprint for the whole process of Political reforms, segmented into generations (much like the generations of economic reforms). Each generation would involve a revolution at a different plane, from ideological to strategic and operational. I have attempted to analyze the genesis of these reforms and the role they would play in establishment of a robust market economy model in India.
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1. Introduction:

“No power on earth can stop an idea whose time has come”.

When Dr. Manmohan Singh quoted Victor Hugo in his famous 1991 Budget speech, he was ushering in a paradigm shift in India’s economic existence and worldview. The economic reform process which he started has, in subsequent years, established the pre-eminence of market – economy model in India.

A decade and a generation of economic reforms later, as India awaits the second generation of economic reforms, the existing Political Class comes out as its biggest threat. One doesn’t have to look beyond the recent deferral of the oil companies’ disinvestment process to understand the potential of the political class to create hurdles in the path of reforms and establishment of market economy.

1.1. Role of Political Class in First Generation Economic Reforms:

It would suffice to say that India’s political structure has been forced to accept reforms and it has not taken an initiative towards it. The process started in 1991 under abject economic conditions. The current account deficit was 3.5 % of GDP, Central Govt. Fiscal Deficit was 8.5% of GDP and India had foreign exchange reserves to account for no more than two weeks of imports (PBS.org). Reform process started when World Bank and IMF decreed their unwillingness to help unless the then existing economic structure was changed. Throughout the 1
generation reform period, the attitude of political class can be termed as grudging acceptance rather than enthusiastic support.

1.2. **Need for Change in Political Structure:**

The role of government in a market economy cannot be overemphasized. Markets cannot run themselves. They need a well-tended legal and institutional setting. They have failures that require regulatory correction and externalities that need to be internalized (Lewis et. al.). Also, India’s size poses much of the threats towards efficient functioning of a free and transparent market in India. A giant system like India has an inherent, intrinsic tendency to be cumbersome (Lewis, 1991). System management, in such a case, becomes the chief responsibility of government.

The political structure determines the government of a country. Thus, there is a need in India to align the political structure in a way that it provides a government which is capable of acting as the guiding light of the economic reform process. I firmly believe that *the present political structure is unsuitable and incapable of initiating, establishing and maintaining a vibrant market economy model in India.* What is required then, is a **Political Reform Process** in India.

1.3. **Generations of Political Reform in India**

In this paper, I have attempted to provide a blueprint for the political reform process in India, which in my view has to take place in a series of generations, interspersed with generations of economic reforms.
2. 1st Generation of Political Reforms – Preparing Ground for Greater Economic Battles

The first generation of political reforms would prepare ground for the second generation of economic reforms to run its due course. I hereby present the reforms needed in this phase.

2.1 Modifying Socialist Worldview:
The first step in the first generation of political reforms in India would involve modifying the mindset of the political class so that it becomes tuned to receive the positive signals that market economy radiates for India. The economic worldview of India’s political class can be categorized into the following categories:

- Nehruvian Socialism
- Radical Socialism of Ram Manohar Lohia and Jayprakash Narayan
- Communism, and
- RSS School of Swadeshi Thought

The predominant view in India has been Nehruvian Socialism as it was the way India took after independence. This school of thought, with its planned industrial development model and state – control gave rise to the License – Permit Raj in India. While this system had its strengths in the initial phases of its existence, it has clearly lost its relevance long back.

The point to be noted in the above categories is that while their form and magnitude of opposition might be different, none of these schools is a proponent
of the market economy. The attitude of India’s political class can be best summarized in terms of the concept of “Market Phobia” (Sen et. al.) which says “giving greater room to the market mechanism invariably exacerbates economic inequalities”. To expect the political class to act as a driver of reforms is a bit too much in such a scenario.

The most urgent need then, is to bring about a change in this mindset. And this is the most difficult task as well. The only possible way to do it is to educate the masses about the benefits of a market economy. The political class derives its strength from the electorate, and if the electorate accepts reforms, the political class would have to fall in line. This job is far easier said than done though. Till now, reformers have championed their cause passionately in CII meetings while the opposition has chosen election rallies to be its battle ground. The need is to have the pro – reform minority among the political class stand up and be counted. The industry too has a responsibility to spread awareness. No longer can it sit back and blame the political class for lethargic pace of reforms.

2.2 Decentralization of Reforms:
The second generation of reforms would touch a lot of subjects such as infrastructure, roads, power, health, education etc which are mainly under control of state governments. Sanjeev Goenka, after taking over as CII President said, 
"Today it is no longer a case of India trying to attract more FDI but the states trying to promote themselves as attractive investment destinations. Therefore there has to be reforms at the state level,” (HT).
On the political front, this would mean decentralization of effective policy making power into the hands of regional leaders. This is not easy in most national parties which have strong central authorities. A Chandrababu Naidu can go the Full Monty to champion the cause of modernization. But regional satraps of national parties would need to get more decision making power. Such shift in the balance of power would initiate the process of true federalization of Indian political structure.

2.3 Constitutional Reforms:
One of the major actions to be taken by the political class is in the field of constitutional reforms. The economic bills - Insurance Regulatory Authority Bill, the Patent Amendment Bill, and the Companies Bill still need a lot of work. Labor reforms, one of the most urgently required constitutional amendments, needs to be expedited. All this is possible only if there is a positive urge in the political class towards reforms. Such positive urge would be the chief objective of the first generation of political reforms process in India. It is this positive energy which would drive the second generation of economic reforms in India.

3. The Second Generation of Political Reforms in India Moving Towards Govt. of India Inc.:
The second generation of reforms would unleash the resources capped under the carpet of controls. These resources would then be available for further development. Efficient handling of these resources would then be the biggest responsibility of the Govt. at this stage. The second generation of political
reforms would enable the government to become an efficient manager of development and would bring about the idea of Govt. of India Inc. to reality. The second generation political reforms would be far more comprehensive as compared to the first generation (as is the case with second generation economic reforms vis-à-vis first generation reforms). This phase would involve the following aspects.

3.1 Bureaucratic Reforms:

A bureaucratic apparatus is a means of attaining the goals prescribed by the political leadership. Those at helm of affairs exercise apical dominance by dint of their political legitimacy (Singh, 2000). Bureaucracy executes the functioning of the government. In such a scenario, the bureaucratic system too needs to be reformed as a part of the overall political reform process.

Indian bureaucracy has the following ailments right now (Jain, 2000):

- No time limit for case disposal
- Problem of transfer of personnel
- No direct responsibility and accountability
- Official secrets act obstructs transparency and permits malpractices
- No participation of people in formulation and implementation of development programs

The bureaucratic reforms have to be undertaken on two levels. First is the lessening of political power over bureaucracy. This involves a revamping of the whole politico – bureaucratic nexus and changing the power balance to eliminate
unfair uses of powers of transfer of personnel etc. This requires constitutional modification which again is based on political will.

3.1.1. Bureaucracy as Management
The second aspect of bureaucratic reforms is to make bureaucracy more accountable, and more efficient. I personally believe that “Collective responsibility means no responsibility”. Individual accountability has to be enforced, both in politics as well as bureaucracy to fix responsibility. And responsibility should be supplemented by skills. Recently, I came across an advertisement which sought to establish the IAS TRAINING ACADEMY MASSOURI as the best management institute in India. Its time this concept is taken seriously and concepts of modern management are applied to bureaucracy.

3.1.2 The Concept of Public Strategic Management:
Concepts of strategic management have been implemented in the US in a big way. The US Govt. through its Government performance and results act of 1993 mandated all agencies to prepare and submit plans to the office of Management and Budget and Congress (Brace et. al.). According to proponents of strategic management of public organizations, strategic management helps public organizations think strategically, clarify future direction, solve major organizational problems and improve performance, deal effectively with rapidly changing circumstances, build teamwork and expertise, and especially facilitate
the politics-administration interface through the building of co-operative relationships between elected officials and public managers (Bryson, 1998).

The operative word of bureaucracy is “control” while that of management is “facilitation”. There would be a stringent need in India to re-invent bureaucrats as public managers if they are to become facilitators of development. Once the bureaucratic class of India develops a managerial perspective and outlook, it can be trusted upon to properly oversee the market economy of India.

To sum up this section, I present a matrix which shows the desired changes in the two strategic dimensions of bureaucratic reforms in India.
3.2 The Issue of Corruption:

Corruption has been blamed for failures of developing countries to develop (World bank, 1997); and recent empirical research confirms a high correlation between perceived corruption and lower investment and growth (Mauro, 1995). Also, corruption is viewed as one of the main obstacles that post communist countries face in attempting to consolidate open market economies (Shleifer, 1997).

At no point of time would be the threat of corruption more potent than at the period of second generation political reforms. The resources at disposal would create a strong opportunity for corruption. I hereby discuss a case of china to illustrate my point.

3.2.1. The Case of China – 1978-90:

Corruption in post – Mao China illustrates the potential rise in corruption caused by incomplete economic reforms in a controlled economy if the political and bureaucratic structure is not reformed. The economic reforms in China attracted an unprecedented influx of foreign investment (US $ 6 Billion in 1978). The number of local private enterprises grew from 140,000 in 1978 to 225,000 in 1988 (Fan, 1992). But due to negligence of political and bureaucratic reforms, this wealth became a major source of corruption. Investors were forced to maintain explicit ties with Govt. entities to protect their property rights. Secrecy or ambiguity in the rules created enormous opportunities for officials to extract money from investors who lacked information about the market and government
policies (Root, 1996). Eventually, it required intervention from Deng Xiao Ping to refurbish the Politico – administrative structure.

The case of corruption in China has been attributed to two reasons (Chen, 2000):

- Loopholes created by incomplete reforms and expansion of regulatory function of the state
- Instigation of power by the political institution to gain advantage from investors in a regulatory environment

The potential for both these reasons to be present in India during the second generation of economic reforms is immense. The issue of corruption would then require stringent measures as taken by Deng. And implementation of such measures in a democratic state would be a greater challenge.

3.3 Decoupling Political Instability and Markets:
Empirical evidence has shown that relationship between political instability and economic development is two-fold (Price et. al.):

- Uncertainty stemming from an unstable political system may reduce investment.
- Uncertainty may change the type of investment, alter factor demands, or alter the composition of public spending, and thereby have a direct effect on growth over and above the impact on investment.

While the first effects investments which are so integral part of market economy, the second tampers with market dynamics. India has had its experiences with
political uncertainty meddling with the reform process. The need for this decoupling is potent even right now, at the stage of first generation of political reforms. But I feel that when there is general consensus in the political class over reforms, and the bureaucratic institution is re-invented to carry out the nitty-gritty of reform process; then investor confidence would not be dented by political instability. Decoupling of political uncertainty and markets would then take place.

4. Unleashing the Giant: Socio – Economic Reforms in India and Strides towards Status of Economic Superpower

The ultimate aim of all reform process in India, or for that matter any country, is to upgrade the standard of living of people. With two generations of economic and political reforms each, Indian economic, political, and administrative structure would be enabled to distribute the fruits of reforms and market economy model to Indian masses. This stage would see the formulation of the critical mass of human capital which would have the force to propel India into the league of developed countries. At this stage, the resources would be ready, thanks to the economic reforms; and due to the political-administrative reforms, the talent and desire required to optimally utilize these resources would also be present. In fact, I view the whole process and an “Integrated Reform of India”, which would have phases of economic and political reforms, and which would culminate in social development and a quantum improvement in the way Indians lead their lives. I present the blueprint of the whole process in the adjoining figure.
5. **Conclusions:**

As stated above, the whole process of economic, political, administrative and social reforms in India has the ultimate aim of improving the quality of life led by Indians. The blueprint that I have provided in this paper provides a broad understanding of the phases which would be involved in attainment of this objective. Also, once these phases are complete, Indian economy, armed with its huge human capital, market power and consumption potential would make rapid strides towards becoming an economic superpower. The blueprint provided above has taken a bird’s eye view of the issues, owing to restrictions of space. It might seem to be too simplistic, even naïve. It might seem to have more than a dash of optimist about India’s potential to reform itself and develop. But if India has to become an economic superpower, the most important entity required right now is optimism. One has to firmly believe that the idea of India Inc. gaining superpower status is here to stay. And after all,

*“No power on earth can stop an idea whose time has come”.*

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