

CURRENT HISTORY

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“Through the longest-running administration of any prime minister since Nehru, India’s economist-politician has failed to reform either the economy or the government.”

A Tale of Two Manmohan Singhs

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“I am not such a culprit as I am made out to be,” the Indian prime minister, Manmohan Singh, told a roomful of journalists on February 16 amid a widening corruption scandal. His larger audience of Indians wanted to believe him. They were hoping he would somehow make the bad news go away. He did not.

The India growth story, of which Singh is the prime author, has gone off script recently, due to graft charges, spiraling inflation, and a dysfunctional government. In the middle of the mess stands, paradoxically, the squeaky-clean prime minister. Singh’s personal equity was sufficient in former years to protect him from irregularities, but the country’s challenges today reflect a full-blown leadership crisis.

Singh is almost synonymous with the transformation of India from plodder to top-of-the-class performer. As one of his cabinet colleagues said, “Manmohan Singh is the face of foreign direct investment into India.” As Singh suffers a battering, so does his country.

The soft-spoken economist, reformer, and most unlikely prime minister once was middle-class India’s pride and joy. As finance minister, he quoted Victor Hugo in 1991 when he said, “No power on earth can stop an idea whose time has come. . . . The emergence of India as a major economic power in the world happens to be one such idea.” Nothing better articulated the aspirations of Indians aching to break free of a stultifying economic regime.

The now-famous “liberalization” of the Indian economy unleashed strategic consequences that remain important two decades after Singh, as Prime Minister P.V. Narasimha Rao’s finance minister, unshackled a government-controlled economy that in 1991 was staring at ruin. That year India faced an unsustainable fiscal deficit (8.5 percent of GDP),

a significant current account deficit (3.5 percent of GDP), and depleted foreign exchange reserves. Rao directed Singh to go whole hog with reform.

Singh recalled in an interview, “We were in the midst of an unprecedented crisis, and it was time to think big, not to shrink. We could, in a traditional way, tighten our belt, and we did that, tighten and tighten. But persistence on that path would have led to more misery, more unemployment, and I said there is an alternative path. Stabilization plus a credible structural adjustment program would shorten the period of misery. It would release the innovative spirit, [the] entrepreneurial spirits which were always there in India, in [such] a manner that our economy would grow at a much faster pace, sooner than most people believed. That’s exactly what happened.”

India has never looked back. The country’s economy, and therefore its society and politics, evolved rapidly over the following decade. India embraced globalization, technology, and the knowledge economy with alacrity. In 2004, however, by an electoral irony that would only be possible in India, voters rejected the “India Shining” image promulgated by the governing coalition headed by the Bharatiya Janata Party (BJP).

Although an administration headed by the Indian National Congress party had initiated the reform process, it was a BJP government that had actually instituted many of the reforms, and that was in power as the Indian economy took off. Congress ran its 2004 campaign on the premise that growth had not reached the bottom of the pyramid, and that less reform and more inclusiveness were needed. Indians for the first time since 1991 voted in a government led by the center-left Congress.

THE DEAL

The Congress party’s Italian-born leader, Sonia Gandhi, in a dramatic move, refused the top job,

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and anointed Singh prime minister instead. Singh, apart from having impeccable credentials, was also the only man she trusted not to strike off on his own. Other Congress leaders, Gandhi felt, had delusions of grandeur that could affect the Gandhis' hold over the party and its politics.

What was perhaps most attractive to Gandhi about Singh was his complete inability to gain elected office on his own merits. I spent some time with Singh during his last parliamentary election campaign in 1998, in the upscale constituency of South Delhi. At a public meeting in which he provided a learned discourse on the economy, he had his audience fast asleep. Neither in 2004 nor later did Gandhi allow Singh to contest elections directly. Singh instead has remained a member of Rajya Sabha, the parliament's upper house, where membership is a test of a party's strength in a state rather than the electability of a candidate.

Unelectability gave Singh a detachment that allowed him to formulate policies without keeping an eye on the next election. As one cabinet minister said, "The prime minister is the only one who thinks of the country, and not votes." The downside of this situation, however, is that he has not been able to build consensus around his actions within the political class.

The deal was seemingly simple: Singh would govern and Gandhi would handle the politics of the ruling United Progressive Alliance (UPA) coalition, which is led by the Congress party. Indeed, the key to understanding Singh's tenure in office is the dual nature of the government, which divides governance and power in a way never before seen in India. The arrangement was in fact doomed from the start, because India's leadership system is premised on the prime minister's also being the preeminent political leader. In a parliamentary democracy, the leading party's politics and vision matter in governance.

Sometimes this duality has been constructive, but inevitably it has fractured over time. Singh needs the full support of his party as he leads the government. The party, however, is loyal to Gandhi, who is not in government and often leaves parliament members guessing about her sentiments on any issue. The Congress party is constantly second-guessing its leadership, and this has resulted in schizophrenic performance, both in parliament and in government.

Gandhi's decision to abdicate also meant that Singh would forever battle with the impression that he was merely her rubber stamp. Early on his deference to Gandhi was almost total. At every stage he made it clear that he would never seek to upstage her politically. Singh appeared to kowtow to Gandhi's political power, she to his executive authority. By 2009, this had changed subtly but significantly as Singh, chafing under the arrangement, tried to assert himself—often with disastrous results.

Singh's office should have been the nerve center of the government. Previous prime ministers have driven both government and political agendas from this office. For instance, former Prime Minister Atal Bihari Vajpayee used Brajesh Mishra, his principal secretary and national security adviser, as a kind of force multiplier for the executive.

Singh deliberately toned down the image of his office. He could have had the dynamic economist-strategist Montek Singh Ahluwalia as his principal secretary, but fearing to upset the balance of power with Gandhi, he settled for someone more low-key and definitely less effective. The same was true for a number of other key functionaries in the prime minister's office. Word went around that Gandhi pulled the strings, and this diminished Singh's efficacy from the

start.

Gandhi set up her own nongovernmental shop, the National Advisory Council. Populated by well-meaning left-leaning activists, the council pushed a welfare agenda in government. And Singh let it happen. The group's best-known idea, the National Rural Employment Guarantee Act of 2005, was a public works program rolled out as a panacea for rural unemployment—as well as a means of attracting votes for the Congress party. The publicly financed council's greatest success was helping to open up government to greater public scrutiny with a right-to-information act. A food security bill, also inspired by Gandhi's group, currently awaits parliamentary approval.

THE SINGH DOCTRINE

Singh figured that if he let Gandhi play around with welfare politics, he would be left alone to do the business of hard reforms in the Indian economy. But no major reforms have occurred since 2004. In Singh's first term, he and Gandhi blamed this on

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the presence in the coalition of antireform parties of the left. In his second term, it became clear that Congress itself was shy of taking on the reforms and the pain that would accompany them, when the economy was doing very well without them.

To be sure, Singh's vision remains intact. In October 2010, he said in a speech in Malaysia:

India seeks rapid economic growth that will create wealth for our people and also generate surpluses to fund our ambitious social development programs, particularly in the areas of health, education, and environment protection. Second, we seek growth that creates employment and development that is socially and regionally balanced and inclusive. Third, we seek to build a modern, knowledge- and science-based economy to complement our agricultural and industrial base.

The prime minister believes the economy is at the heart of India's global strategy. As an Indian official observed, "When economics gets big enough, it becomes strategic." Singh argues that if India racks up GDP growth of 8 to 10 percent per year for a decade, its global power is assured because, very simply, a rich state can make more geopolitical choices.

In the domestic arena, the Singh doctrine is about using energy, education, and the environment to power the economy. And not for India the Chinese model of a manufacturing machine with no nod to democracy. Singh's model aims to use Indians' individualism to marry high technology with development. This would be India's transformational moment: when cell phones deliver to the fisherman at sea the best price for his catch, or computers the best form of distance education to the slum child.

All of this has happened in India to varying degrees over the past decade, most of it driven by private enterprise. Singh established a Skill Development Council under the guidance of the late management guru C.K. Prahalad. It, however, has proved as low-key as Singh himself, and since it doesn't actually bring in votes, it has gained little political traction. It exemplifies the crux of the Singh problem—the political inability to deliver.

In foreign policy, Singh has fared much better. Here his goal from the outset has been to foster "an international environment supportive of India's development efforts." In particular, he wants India to be able to tap American innovations, technology, and services for its own development. Energy in this respect is key: The prime minister has pushed for access to clean coal tech-

nology, biotechnology, and other types of high technology to build on national successes already achieved in information technology services.

Singh has assiduously cultivated Japan. "I have steadfastly nurtured the vision that Japan must be an important partner in India's economic development and transformation," he said during a visit to the country last year. The prime minister believes Japanese investment in India is strategic, because the two countries' economic partnership can help balance China's rise.

THE NUCLEAR PACT

The relationship with the United States, however, has been at the center of Singh's foreign endeavors. As it happened, President George W. Bush and Singh struck up an unlikely but solid friendship that transformed India's high-tech future. Flying back from Washington in July 2005 after signing a nuclear deal with the United States, the prime minister told journalists in a rare display of triumphal satisfaction: "The nuclear deal will do for Indian technology what the 1991 reforms did for the Indian economy."

Indeed, the nuclear pact was less about the number of reactors that India could buy, or the weapons that India was able to keep. It was more about affording India access to technology across diverse sectors from pharmaceuticals to space, access that had been denied under what India believed was a patently unfair anti-nuclear proliferation regime.

While Bush did most of the heavy lifting to get the agreement through—which included calling Chinese President Hu Jintao in the middle of the night to persuade Beijing to end its opposition—Singh pulled off his biggest-ever political gamble for the deal. He dropped from the UPA coalition the leftist parties that presented internal opposition to the agreement. (Leftists opposed it primarily because it involved the United States; they claimed the agreement would turn India into America's junior partner.) At the same time, Singh lured into the coalition a regional party, the Samajwadi party, to save his government. In doing so, he showed that if he felt strongly about something, he could get his hands dirty, and win.

By the time India went to the polls in 2009, Singh had collected several political credits. Even with the controversial nuclear deal that almost killed his government, he ensured a level of government stability. In the meantime, India had belted out four continuous years of 9 percent

annual growth (though the growth occurred more in spite of the government's actions than because of them). Singh had become the face of Congress's acceptability as a political party for which Indians would want to vote. A debilitating heart surgery just before the elections meant the prime minister was largely invisible ahead of the voting.

THE SLIPPERY SLOPE

The incumbent Indian National Congress party was returned to office in May 2009, with greater numbers in parliament. The Congress's worst allies, the left parties, suffered a rout and were no longer an internal threat to the government. Singh became the first prime minister since Jawaharlal Nehru in 1962 to win reelection after completing a full five-year term.

Most commentators on India's airwaves suggested the party's triumph was really a victory for Singh. In fact, however, he had not stood for election, nor had he campaigned for it. And the trouble was, considering his recent bypass surgery, Singh himself fell for the notion that he had risked his life for the Congress victory. He had grown weary of playing second fiddle to the Congress president: The prime minister wanted to become more prime ministerial. For her part, Gandhi began to question whether her fundamental assessment of Singh, on which the deal between the two had been based, still held.

Singh was hell-bent on achieving a peace deal with Pakistan. He believed that India's growth potential would remain unrealized until peace with Pakistan was accomplished. After hiccups early in his first term, he managed to work out a decent relationship with Pakistan's military ruler Pervez Musharraf. However, agreement on the disputed Jammu and Kashmir region eluded the two leaders because Musharraf's nerve failed him.

After Pakistanis launched terrorist attacks in Mumbai in November 2008, an angry and hurt India mostly refused to have anything to do with Pakistan. Yet, in this atmosphere, Singh met with the Pakistani prime minister Yousuf Raza Gilani in Egypt. On July 16, 2009, a joint statement declared that India and Pakistan would resume the peace process regardless of terrorist acts.

Indians were stunned. More important, the government and the Congress party were deeply embarrassed. The prime minister had consulted neither of them on this concession to Pakistan, nor were they prepared for the political backlash that predictably resulted. For the first time, the

party refused to support the prime minister. Singh asked the foreign secretary, Shivshankar Menon, to fall on his sword over the debacle, which he did. Menon later became national security adviser.

Singh backtracked, but nonetheless this was the beginning of an unspoken but serious breach in the Gandhi-Singh pact. The prime minister sulked openly. A naturally reticent man went absolutely silent. Meanwhile, his cabinet colleagues smelled blood and, through snarky comments, started to get at each other.

In the first year of the second term, it seemed as if the Singh government could get nothing right. The only time the prime minister stirred himself was during a bruising debate on a civil nuclear liability bill, a remnant of the nuclear deal with the United States. In this instance Singh showed an astonishing lack of political acumen, both with the timing of the legislation and in trying to make a case for it. In the end, he shepherded through parliament a bill so flawed that foreign companies drew back from investing in India's nuclear sector, forcing the government to work overtime to cover up for the law's inadequacies.

INFLATION AND CORRUPTION

Through his stay in office so far, Singh has shown real interest in only two issues: the nuclear deal and Pakistan. On other matters, particularly on economic reforms, inflation, and governance, his administration has been marked by indecision, procrastination, or plain negligence. It has also been a financially lax government, resulting in enormously wasteful spending.

The problem with the economic reforms of the early 1990s is that they were incomplete. India still needs to reform its labor laws, streamline the tax system, privatize state-owned enterprises, and carry out deeper liberalization of industrial licensing. Most importantly, India needs to reform its agricultural sector and its internal security apparatus. The country has taken the first easy steps in economic reform, such as allowing foreign investment and opening up trade. The more difficult reforms now need to be addressed. Nobody knows this better than Singh. Yet his government, in more than six years in office, has made no serious attempt to move these reforms forward.

India's sustained growth until last year mostly covered up the administration's nonperformance on the economy. The global financial crisis largely passed India by. A stimulus package, including tax breaks, helped get the country through the global

downturn. The economist Arvind Subramanian argues that it was fortunate the government did not have to enact the kind of massive stimulus that China did, because if it had, serious problems would have been exposed in the sovereign balance sheet.

Ironically, Singh was a prime minister almost unique in predicting to his counterparts a subprime mortgage-induced crisis. He was also far ahead of his peers in proposing a new way to address global fiscal imbalances. At the Seoul Group of 20 summit in November 2010, Singh said, “Even as we try to avoid a destabilizing surge of volatile capital flows to developing countries, there is a strong case for supporting long-term flows to these countries to stimulate investment, especially in infrastructure. . . . Recycling surplus savings into investment in developing countries will not only address the immediate demand imbalance, it will also help to address developmental imbalances. In other words, we should leverage imbalances of one kind to redress imbalances of the other kind.” Yet, within his own country, through the longest-running administration of any prime minister since Nehru, India’s economist-politician has failed to reform either the economy or the government.

Inflation, which has reached painful proportions and threatens the Congress party’s political future, was not a condition imposed by the financial crisis. The prices of steel, cement, and food were high even before the Lehman Brothers investment firm went under in 2008. Tackling inflation requires structural changes that no one understands better than Singh. Yet he has failed to deal with inflation credibly, with the result that middle-class and Congress voters are registering strong dissatisfaction.

At the same time, Singh has presided over a government more corrupt than any in living memory. The story of the October 2010 Commonwealth Games was one of unabashed siphoning-off of funds. The prime minister claimed innocence regarding the goings-on of Suresh Kalmadi, the Congress party leader at the center of that scam.

However, he could not credibly feign ignorance of a huge telecom scandal that erupted this year within his own cabinet. (The telecom minister had in 2008 farmed out spectrum licences to select telecom operators at 2001 rates. Many of these operators in turn sold their licences to

other companies for huge profits. The minister is accused of having done this in return for massive pecuniary benefits, and of having deprived the exchequer of billions of rupees.) During a press conference on February 16, Singh told journalists that, first, he did not know about it; second, that he was not involved; and third, that these were compromises he had to make to run a coalition government.

Congress party leaders believe Singh wants to salvage his image at the expense of the party by suggesting that only he is clean enough to run the government. Singh’s supporters suggest the party must support him now if it wants to maintain a chance of winning in 2014 elections—especially since the scion of the Gandhi family, Rahul (Sonia’s son), has been strangely reluctant to assume any position of official responsibility.

THE ENDGAME

The Congress party, however, may do what it does best: undermine a leader of the country from within party ranks. It would not be the first time this has happened. Indira Gandhi (Sonia’s mother) went through this in the 1960s. The latest blow to the prime minister involved the appointment of an anticorruption commissioner. On March 3, the Supreme Court invalidated Singh’s selection of P.J. Thomas on the grounds that Thomas himself was being investigated for corruption. Meanwhile, covert war has broken out in the top echelons of the Congress leadership as Home Minister P. Chidambaram, Finance Minister Pranab Mukherjee, and Defense Minister A.K. Antony try to position themselves as alternatives should Gandhi decide to dump Singh.

That is unlikely to happen. But two other things could occur. Singh, whose advancing years and ill health are beginning to wear on him, could propose and usher through the parliament sweeping structural changes. Such reforms would make him unpopular but would serve India’s best interests. Or he could hobble along until the 2014 elections, when he is unlikely to be the Congress party’s candidate for prime minister.

Singh once told the parliament “not to take risks would . . . be an act of lethargy. What is necessary is that we, as a nation, take calculated risks.” It is time the prime minister followed his own advice. ■

The country’s challenges today reflect a full-blown leadership crisis.
