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The Golden Summer of 1991

All reformers are bachelors.

—GEORGE MOORE

History is full of ironies. The economic revolution that Narasimha Rao launched in the middle of 1991 may well be more important than the political revolution that Jawaharlal Nehru initiated in 1947. It is the same in China, where the economic revolution that Deng Xiaoping introduced at the end of the seventies will prove to be more important than Mao's revolution of 1949. Yet Rao behaved as though he did not believe in his revolution. And the people responded with a verdict that booted his party out.

How does one begin to explain the defeat of the Congress in the 1996 general elections? The nineties had been among the best years in India's economic life. Apart from delivering outstanding macroeconomic results, the reforms created a sense of confidence and excitement. Many people felt the same sense of possibilities that existed in the early fifties. The *Economist* called India an "uncaged tiger" in a cover story. Yet no one in India celebrated the reforms. Rao did not stand tall and take credit for his historic achievement. The Congress Party did not bother to make its finest achievement an election issue. It is true that the average voter did not understand the details of the reforms, but he was not unaware of his improved economic circumstances. The Delhi-based Center for the Study of Developing Societies, together with the Indian Council of Social Science Research, conducted an extensive poll in late 1996, which found that 70 percent of the respondents were either "satisfied" or "somewhat satisfied" with their financial condition; the same poll in 1971 had found only 40 percent "satisfied" or "somewhat satisfied." One explanation for the Congress defeat is that people perceived Rao merely as a gatekeeper to history—he was there at the right time when history broke. They did not credit him for their improved lot. To understand these ironies, it is necessary to see how the reforms unfolded, step by step, in the golden summer of 1991.

A human bomb killed Rajiv Gandhi in May 1991. He was in the midst of an election campaign, and he died at the hands of a young woman armed with explosives strapped around her waist. His death sent around a wave of sympathy that carried the Congress to victory. The party chose Narasimha Rao as Prime Minister. It chose him because he was seventy, quiet, dull, and he threatened no one. He had been in the top political circles in a long career, and had managed the major ministries of the government with distinction—although he had never held an economic portfolio. He was also an intellectual and knew nine Asian and European languages. He was getting ready to retire from Parliament when the party installed him as its "stopgap leader" to head a minority government which no one thought would last very long. However, he surprised everyone as he unleashed the biggest revolution in India since 1947·

The financial crisis was long brewing. Its main cause was the profligate and short-term commercial borrowing resorted to by Rajiv Gandhi's government since 1985. When the Gulf crisis came and oil prices went through the roof, India found that it had no money to buy oil. The country's foreign exchange reserves had dwindled to a dangerous level and there began a flight of capital by nonresident Indians. There are an estimated twenty million people of Indian origin living abroad (compared to more than fifty million Chinese), and many had invested in repatriable accounts in Indian banks because of attractive interest rates. When Rao came on the scene, a dialogue had been going on with the International Monetary Fund for a bailout package. But Rao's predecessors, Chandrashekhar and V. P. Singh, had not been brave enough to face the crisis. Rao understood that India was bankrupt, and his first and most important decision was to get a good finance minister. He did not trust a politician to do the job; he wanted a professional, and he chose the reticent and soft-spoken economist Manmohan Singh. He had been governor of the Reserve Bank, and had recently headed the South-South Commission in Geneva, where he had made a serious effort to understand the East Asian miracle. That is when he had realized that India had to abandon many of its old and foolish policies.

The President swore in the new cabinet on 21 June 1991. The next day Rao announced to the nation that there was a crisis and his government intended to "sweep the cobwebs of the past and usher in change." The cautious Narasimha Rao realized that the crisis was an opportunity for making bigger changes. He called a closed-door meeting of important opposition leaders, where Manmohan Singh told them that foreign exchange reserves were down to two weeks of imports. Only a loan from the IMF could bail us out, he said. However, we had to first put our house in order. He spoke about the need for basic reforms. Short of telling them that he was going to devalue the currency, he sought their support for the tough actions that the government intended to take. The gravity of the crisis hit the leaders only when they realized that a part of the nation's gold reserves had been flown out to London to provide collateral against the $2.2 billion emergency loan from the IMF. Gold, as I have noted, is the ultimate symbol of trust and honor in India, and that we had pawned it to stay afloat must have been traumatic, amounting to national humiliation.

The government devalued the Indian rupee by 20 percent in two steps over the first three days in July. After the second devaluation, Manmohan Singh met P. Chidambaram, the new commerce minister, and Montek Singh Ahluwalia, the commerce secretary, and told them that he wanted to abolish the export subsidy. He argued that the devaluation had made the subsidy redundant by giving the exporter the same incentive through a cheaper rupee. Its abolition would help him reduce the fiscal deficit significantly—by 0.4 percent.

Chidambaram's first reaction was that it would be political suicide for a new commerce minister in the first days at a new job. The subsidy was his most important instrument for encouraging exports. How would he face exporters? "Let me think about it," he said. Manmohan Singh replied that he would have to think quickly because the PM wanted to announce it the following morning. Chidambaram sulked, but he had to agree in the end. He asked if he could also announce a comprehensive trade reform at the same time. The finance minister asked, "By tonight?" Chidambaram nodded. They agreed to meet in the evening to review the trade proposals.

Although it was his first assignment in an economic ministry, the new commerce minister had proved to be a fast learner. During his first week on the job he had put in long days and nights and understood the major issues. He had read reports voraciously and realized that the country desperately needed trade reform. A Harvard M.B.A., Chidambaram understood business, and he was instinctively for opening up. As a lawyer for industry, he had seen the damage caused by the old policies. He told a colleague that if it were up to him, he would burn every copy of the infamous Red Book—the commerce ministry's bible, which minutely spelled out the controls applicable to thousands of products. Dreaded by businessmen, it was a "rent seeker's guide" for the thousand-strong staff of controllers. The earnest colleague was not amused.

On returning to his office in Udyog Bhavan, Chidambaram called in Montek Singh and asked if he was up to dismantling the trade side of the License Raj. Although it had taken over forty years to build, they had only eight hours to demolish it. They knew that their main job was to kill import licensing. If they could replace licenses by a marketable incentive, there would be no need for them. Because of foreign exchange scarcity, exporters used to be given licenses to import materials that went into making products for export. Montek Singh knew of such an incentive; it had been kicking around the ministry for several years. Called Exim scrips, it would allow exporters to earn foreign exchange for part of the value of their export. They could sell these in the market or directly import goods. Nonexporters or domestic industries that needed to import raw materials, instead of applying for an import license, could buy the Exim scrips in the market.

Chidambaram loved this instrument because it would abolish the bureaucrat from the process. He grabbed it and within hours the two men eliminated miles of red tape, months of delays, and the hassles, anguish, and corruption that the Indian state had built up over decades. They worked like maniacs and by seven o'clock they had a dramatically liberalized trade policy. Manmohan Singh was pleased when he saw the proposals. They would send a clear signal to the world that India was opening up and moving to a market-determined exchange rate. The three then went to the Prime Minister's house.

Narasimha Rao came out of his bath looking fresh in a lungi. Chidambaram sat next to the PM and briefly explained the proposals. The PM turned to Manmohan Singh. "Do you agree with this?" he asked. Manmohan Singh nodded. "In that case, sign it." Manmohan Singh did so, and the PM penned his own signature at the bottom of the page. Thus began the most comprehensive structural reforms in India's history. The specifics of some of the proposals went over his head, but Narasimha Rao was satisfied with their general direction to deregulate. He also trusted his three visitors. To those who understood the tortuously slow pace of decision making in the government, this was a revolutionary event. Four men with commitment and courage had achieved what seemed impossible twelve hours ago.

To Chidambaram's credit, the following year he agreed to abolish Exim scrips for an even better arrangement—dual exchange rate—that cut red tape further and eliminated the bureaucrat from the process. It was courageous to sacrifice an instrument with which he had become identified. The country kept growing intellectually, and the following year the finance ministry introduced the unified exchange rate, an even better mechanism, which took India to currency convertibility on the trade account. However, Manmohan Singh was too cautious and unwilling to go the full distance, and the rupee is still not free on the capital account. Many argue that his conservatism has been a blessing for India as it was later spared the "Asian flu." Chidambaram's failure in 1991 was his inability to close the massive departments of the CCIE and the Directorate General of Foreign Trade, which continue to do mischief and are a major stumbling block for our exports.

Rao now wanted to dismantle the industry side of the License Raj. He had watched Rajiv Gandhi's modest attempts at reform in the 1980s. Even these small efforts had yielded significant benefits. He had traveled abroad and he knew what was happening in the world. The collapse of communism had pulled the rug from under the planning and controlling state. So he had deliberately decided to retain the industry portfolio. He brought in A. N. Varma to become his principal secretary to drive this process. He remembered that Varma had championed delicensing in a large number of industries during the earlier V. P. Singh government, when he had been industries secretary. He asked Varma to dig up the old proposal. Varma was delighted that the reform package might finally see the light. When he saw the proposal, Rao felt that it did not go far enough. He wanted to delicense more industries and give foreign investors majority share in their Indian subsidiaries. A small group of officials spent the next few days finalizing the policy. There was opposition from finance ministry officials, but Manmohan Singh stepped in and overrode their objections. The minister of state for industries, Ranga Kumaramangalam, was not a reformer and Manmohan Singh had to lobby hard to get him in the boat. The PM, thus, took a radically liberal industrial policy to the cabinet.

Cabinet meetings in India are quiet affairs and there is little open debate. They are also secret. When Rao, in his role as industries minister, presented the new industrial policy, he heard no complaints. Taking it as assent, he asked, as though thinking aloud, "If we are going to open up, why not go the whole hog? Why don't we delicense cars and a whole lot of other things as well?" Manmohan Singh concurred, "In that case, let's open everything except for a small negative fist related to security and the environment." Varma and other senior officials sitting at the back could not believe their ears. In a matter of minutes, Narasimha Rao and Manmohan Singh seemed to be destroying the License Raj.

Suddenly, the Prime Minister turned cautious. He looked at the glum faces of the old Congress guard. They would neither argue against the new ideas nor support them. They had led an unexamined life. They had never really thought about the old policies—they had just accepted them as party policies. Although Chidambaram and Manmohan Singh defended the reform courageously, it was clear to everyone that the policy was in trouble. The Prime Minister, to save the policy, asked Chidambaram to work on the language to make it politically palatable. To show that there was continuity with the past, Chidambaram hit upon the expedient of inserting a paragraph from Nehru, another from Indira Gandhi, and a third about Rajiv Gandhi's reforms. Thus, the policy came out sounding furtive and apologetic. Instead of boldly announcing a change in direction and explaining why we had to change, the new policy tried to sound as though it was a continuation of Nehru's socialism. Although Manmohan Singh wanted to announce the new industrial policy by mid-July—he did not want it linked to the budget because it might risk both—opposition from the Congress Party delayed it. In the end, it was announced on the morning of 24 July In the evening, Manmohan Singh presented the budget.

In the next morning's papers, the new industrial policy had completely upstaged the budget and all other news. No one in the government could have imagined the positive response. Over the next few days, the media and the public were euphoric. There was some criticism by the left and in the backward states of Bihar, Madhya Pradesh, and Orissa. Narasimha Rao realized that the people were indeed ahead of the politicians in wanting reform. Only the fertilizer price increase in the budget drew opposition, and that too from the powerful farm lobby in the Congress.

To capitalize on the euphoria, Manmohan Singh decided to move rapidly. He called a meeting of the important secretaries associated with economic policy, including the cabinet secretary, Naresh Chandra, and Varma, the PM's secretary. He spoke to them about the economic crisis and the need for change; he again talked about being worthy of the IMF's trust; then he spelled out what more had to be done; and it had to be done with speed. While the Prime Minister respected differences, he said, he would not tolerate anyone putting obstacles in the way. This was the time to speak up. No one would be penalized and they would be relocated in good jobs. It was an unusual meeting. Most secretaries reacted positively. They had rarely been given such clear directions.

"People have the wrong impression," says Montek Singh. "The top bureaucracy is highly disciplined, and it is not obstructive when there is clarity at the top." Rao then set up a steering committee of secretaries, headed by Varma, which began to meet every Thursday morning. The committee became the crucial instrument for carrying the reforms forward at an unprecedented pace over the next two years. Varma ran the committee tightly. No one was allowed to travel on Thursdays. The committee met for two hours during which the concerned secretary presented one or sometimes two reforms. They discussed the issues openly. Varma summarized and minuted the discussions, and the reform proposal was taken to the cabinet for approval and then on to Parliament. I recall my feelings of excitement in those days as the government announced a new reform almost every week.

Over the next two years, the reformers had major achievements to their credit. The central government's fiscal deficit came down from 8.4 percent of GDP in 1990–91 to 5.7 percent in 1992–93. Foreign exchange reserves shot up to $20 billion from $ 1 billion in July 1991. Inflation came down to 6 percent from 13 percent by mid-1993. The reformers virtually abolished industrial licensing. They freed large industrial houses from the control of the MRTP Act, which had hindered expansion and investment. They drastically cut the realm of public-sector monopoly and opened banking, airlines, electric power, petroleum, and cellular telephones, among other businesses, to the private sector. They opened the country to foreign investment, allowing "automatic entry" in thirty-four industries and majority foreign ownership; they set up the Foreign Investment Promotion Board, which established a record of speedy clearances under A. N. Varma's leadership. Foreign investment began to double each year, and it rose from $150 million to $3 billion by 1997 (and would have been much higher but for our failure to deregulate the power and telecom sectors properly).

They dismantled the complex import control regime. Raw materials, components, capital goods could now enter virtually free of restrictions. Customs duties gradually came down from a peak of 200 percent in 1991 to 40 percent by the mid-nineties—the average duty declining to 25 percent. The rupee went from a typical fixed overvalued exchange rate to a unified market-determined floating rate and current account convertibility in the same period. Tax rates came down from 56 percent in 1991 to 40 percent by 1993 (and further to 30 percent in Chidambaram's 1997 budget). They simplified the vast network of multiple excise duties, shifting to an ad valorem duty. In the financial sector, they reduced the high reserve requirements of banks (designed to give the government cheap funds) and let interest rates on government securities be determined by the market. They placed a cap on government borrowings with the Reserve Bank and opened capital markets to international portfolio investors, whose investments rose to $11 billion by the end of the decade. At the same time, they allowed Indian companies to borrow abroad through global depository receipts. They introduced screen-based trading on the stock markets and dematerialized the shares.

It was quite an achievement! But how did it happen? It seems astonishing that a minority government led by a lackluster seventy-year-old intellectual who was about to retire from active politics suddenly turned his party's forty-year socialist legacy on its head. Some think that it was because of Manmohan Singh, but I feel reasonably convinced that Narasimha Rao was the key factor behind the 1991–93 reforms. Although Manmohan Singh, the helmsman, got the credit, it was Rao who took the tough and aggressive decisions and provided the energy and political support. He was shrewd and knew how to deal with dissent. The manner in which he pushed through the industrial policy in the cabinet is an example. At the same time, the reforms would not have happened without Manmohan Singh. To the extent that there was one, he created the road map. In a brilliant move, he set up a set of committees—bank reform under Narsimhan, tax reform under Chelliah, and insurance reform under Malhotra—and they provided crucial intellectual sustenance and legitimacy for reform measures in these areas. It needed Manmohan Singh to come and change the nation's mind-set to growth. But Manmohan Singh is a reticent man and cautious by nature. On his own, without Rao's constant support, he would not have done it. The new trade policy would not have come about as speedily without Chidambaram. Varma was a terror as the head of the steering committee and he provided the momentum for the implementation of the reforms for two years. He knew the system well, and he played it in favor of the reforms. Varma's crucial contributions, I believe, have not been understood or appreciated. In the end, all three—Manmohan Singh, Chidambaram, and Varma—derived their strength from Narasimha Rao.

The economic reforms, however, would not have happened without a crisis. There was no grand design behind them. The pressure from the IMF and the World Bank was palpable. Once the crisis went away, the pressure diminished and the reforms stopped. They did not halt entirely, but henceforth they moved at a slow, incremental pace. Meanwhile, there was much left undone. The government had not begun to privatize the public sector, which was bleeding the economy. It had not introduced labor reforms—it is still impossible to lay off a single worker even if there is no production. It is still impossible to close a private company even when it is bankrupt. It had not opened agriculture or insurance. It had not dared tackle the vast subsidies that were slowly eating away the financial health of the country and were primarily responsible for the unacceptably high fiscal deficit. It had practically abolished the License Raj, but it had not done anything about "Inspector Raj"—or the army of inspectors who make life hell for an Indian entrepreneur. Most of the inspectors were in the state governments, it is true; but the most vicious ones, by common consent, were in the central departments of excise and customs. It had not solved the problems of India's creaking infrastructure. It had not begun the reform of education and health, the two areas of the greatest opportunity. Nearly ten years after the golden summer of 1991, the reforms remained half complete.

The second half of the 1990s was a frustrating time for reform-minded Indians. We mistakenly thought that we had become a "tiger." But we have moved at such a painfully slow pace since 1994 that I have resigned myself to the fact that India is an "elephant," as I said earlier. It takes two steps forward and one step backwards. This is the pace of Indian democracy. Ironically, the economy in the nineties grew more like a tiger, at an average 6.5 percent a year, despite a recession in industry. The biggest failing is that no one has tried to sell the reforms to the people. As such, the perception has grown that reforms help the rich and hurt the poor. Nor is there a clear, holistic vision of the future. Admittedly, there are interests and obstacles—many of them the result of democracy. Trade unions prevent public-sector restructuring; the powerful farm lobby prevents the removal of subsidies; the left wants to stop everything. However, other democracies have succeeded in tackling these reforms. Why has India failed? What are the lessons from the summer of 1991, when everything seemed to be going right? Why did the reforms suddenly stop after the first two years?

To find the answers, I decided to meet the main players in the drama in the autumn of 1998—Narasimha Rao, Manmohan Singh, P. Chidambaram, Montek Singh, A. N. Varma, Ashok Desai, Rakesh Mohan, and Deepak Nayyar. This was not difficult, because some of them read my column in the *Times of India;* others I knew socially. I did not know the former Prime Minister. All of them were remarkably open, but they suffered from unusually poor memory. I find it odd that none kept a diary, considering the historic nature of their acts. But this is a common failing of Indians, and all our historic sources down the ages have been foreigners. A. N. Varma had to persist for months to get me an appointment with Mr. Rao. First, he wanted my questions in writing. Next, he wanted a preliminary meeting to size me up. Then he replied to my questions in writing. Finally, he wanted Varma to be present at our face-to-face meetings. When we met, he was circumspect and defensive. He appeared to be a man on the run. I did not find the reformer who had changed the course of history for one-sixth of the world's people.

As we sat down, the former Prime Minister confessed that he was a Congress man and not a revolutionary. "Congress has always stood for something. I merely continued its legacy and never wished to reverse the past." His chief concern, he said, was poverty, but he had realized that growth was needed to eliminate it. His reforms were designed to raise the growth rate. However, growth alone was not enough. We had to attack poverty directly through employment schemes, and his government had spent more on these schemes than on any other. He was against privatization of the public sector because of his deep faith in Nehru's mixed economy. "You don't strangulate a child to whom you have given birth," he said. However, he sought to improve the public sector's performance by introducing competition from the private sector. He disagreed that he had stopped the reforms after two years—"India has had the right pace of reform, and a faster pace might have led to chaos." As he talked, I felt that he was more interested in defending his policies; sadly, he seemed to be defending the status quo.

At the end of the interview I concluded that Narasimha Rao was a reluctant liberalizer. He was not a Deng. Neither was he a Thatcher, a Salinas, a Mahathir Mohamad—or even a Menem, a Keating, a Rawlings, or a Václav Havel—all of whom, in their own way, were able to translate their liberal measures into a language that the voter understood. Rao failed to do so because he himself lacked deep conviction. He kept talking about "reforms with a human face"; a reformer would have known that the reforms are the only hope for the poor. Thus, there was no political platform built up for the measures. "While Prime Minister Narasimha Rao speaks nine languages," said *Time* magazine's Rahul Jacob, "he has not made a loud enough case in any of them for the liberalization that is his government's most notable achievement." There was no pro-reform coalition created among the people. Ideally, Rajiv Gandhi, with his vast majority in Parliament, could have done it. But he had thrown the opportunity away, and we lost six years. In some ways, Rao had a tougher job than Deng, who achieved his market revolution in a homogeneous, autocratic society. Rao had to create his within the bounds of a heterogeneous, noisy democracy. His biggest failure is that he failed to create a reform coalition within his own party, and it was his party that finally let him down. Rao's most important legacy is that the succeeding coalition governments did not change his direction but continued with the reforms, albeit in a slow and incremental manner.

When the crisis receded and the reforms slowed, the truth came out, revealing the true character of India's policymakers. Barring a few exceptions, no one in the political class—bureaucrats or politicians—was truly enthusiastic about the changes. There had been no radical change in personnel. Without a change in people, the planners of yesterday became the liberalizers of tomorrow. The Prime Minister did not have the courage to close down redundant ministries. There was no national soul-searching about the causes of our disease. The nation did not internalize the drastic need for restructuring. Hence, the policy-makers could not defend themselves against the cries for protection Which rose after the reforms, cleverly dressed up as complaints about the inequities of liberalization. They had not publicly admitted that the Nehru–Indira Gandhi path had failed.

The lack of new people meant the old, vested interests which had flourished in the old dirigiste regime and had never admitted responsibility for their failure were still in important positions waiting to restore the status quo. Restructuring results in losers and winners, and the losers in India would have to be the interests that had benefited from the old regime. Business houses stood to lose high tariff walls and would have to compete; farmers stood to lose subsidies in water, electricity, and fertilizers; banks would lose the comfort of easy monopoly; public-sector employees would lose their guaranteed jobs which insulated them from performance and inflation. The old interests kept arguing that liberalization would lead to inequitable outcomes, but little evidence emerged to support this.

There are troubling questions about Manmohan Singh. He became the icon of reforms around the world. He spoke brilliantly in international and business forums and he single-handedly created the image of an investor-friendly India. He was a hero to millions of young Indians who felt that India had changed and now had a future. Then he too stopped reforming and even stopped the rhetoric of reform. He too did not make the patient effort to educate his own party. He lost opportunities to meet the younger Congress MPs to propagate the message that he had given to foreign investors. Politics, perhaps, slowed him down. He faced a brutal attack in Parliament and the press after the Harshad

Mehta stock market fraud. Every stock market has its crooks, and every finance minister comes under pressure when a fraud is uncovered. But the intensity of the criticism this time meant that all the antireform lobbies ganged up against him. The Joint Parliamentary Committee on the fraud trained its sights on him. Twice he threatened to resign, and each time Rao had to come to his rescue.

After leaving office, Manmohan Singh's language became political and cautious. He too began to talk of "reforms with a human face." Was he the committed reformer that the world thought he was? For thirty years he had made and defended policies that were opposed to liberalization. He had become a convert after seeing the ruin that the policies had wrought, and how far India had been left behind by the East Asian nations. But was he a true convert? If so, then it has been a poor performance for a convert ever since 1994. In a number of conversations, I have noted his ambivalence, as though he needed to convince himself that the reforms would really deliver in the end, especially to the poor. This is not how visionary reformers talk and act. I have sadly concluded that he is not a passionate reformer, although he is a man of great integrity.

Talk of the poor, I am convinced, obfuscates the debate on reforms. In any society the top 15 percent of the people will do well and look after themselves. The bottom 15 percent will fail and will need to be looked after by the state. The focus of the reforms must be the 70 percent in between, the vast majority of the people, which in successful economies becomes the middle class. Given the right circumstances, the middle class invariably pulls itself up through hard work, self-reliance, and education in a competitive economy. This did not happen in India because our earlier policies suppressed growth. Our middle class was less than 10 percent of the population in 1980. Since the economy started seriously growing in the eighties and accelerated after the reforms, the middle class has tripled but is still less than 20 percent of the population, according to the National Council of Applied Economic Research. The reforms, I will later show, will succeed in making a majority of India's population middle class within a generation. It will also be easier to look after the poor if they are 15 percent of the population rather than 40 or 50 percent.

In the long term, the reforms will help the poor. Reforms lead to growth. With growth, there are more jobs, lower inflation, cheaper goods, more labor-intensive manufacturing, more opportunities in services and agriculture. Reforms mean fewer subsidies for rich farmers and the middle class, less bleeding from an inefficient public sector. With growth and fiscal health, there are more resources available for poverty programs. However, the most powerful and immediate reform for the poor is more and better primary schools and primary health centers. This is their ticket to prosperity Unfortunately, this reform has not happened—although Narasimha Rao articulated on a number of occasions his desire to raise expenditure on education to 6 percent of GDP from 3.7 percent.

When the reforms first came, the Congress Party was just as shocked as the people of India. After all, this was the party that had given Indians the "License Raj," "End poverty," and the antimarket policies, and had placed the public sector at the "commanding heights." Narasimha Rao's historic role has been to shift the nation's center of gravity. Since then, all the parties have learned to value the efficiency of the market. There is now broad consensus for *incremental* reform across all political parties (except the extreme left and right). This explains why the reforms have not been undone. This is Narasimha Rao and Manmohan Singh's great legacy.

Since the Congress Party's ignominious defeat in the 1996 elections, India has faced unprecedented political instability. No single party has been able to win a majority, and we've had too many elections and too many prime ministers. First came the United Front, a coalition of leftist parties, which ruled with the parliamentary support of the Congress Party. It had the indefatigable reformer P. Chidambaram as its finance minister, who, to his credit, pushed hard to keep the reforms going, but he was hemmed in by the leftists in his own coalition. Next came the Bharatiya Janata Party (BJP), the rightist Hindu nationalist party, which has been a growing force in Indian politics since the eighties. It has played to upper-caste Hindu sentiment, and its campaign against Muslims culminated in the demolition of the Babri Masjid, a mosque in north India in December 1992. The violence that accompanied this tragic event shook even the leaders of the BJP, who realized that they could not succeed in winning power unless they became moderate and centrist. The present BJP government, under the leadership of Prime Minister Atal Bihari Vajpayee, has followed a restrained path. Although it has kept up a strong rhetoric for economic reform, its achievements have been modest, except in information technology.

In the end, none of the political parties has tried to sell the economic reforms to the people. Most politicians believe, however, that the reforms are necessary. Hence, they have tried to do them through stealth. No member of the political class believes that such correctives can translate into votes. Congress politicians seem unable to rise above petty factionalism. The left or the "third force" in Indian politics is against the reforms because it identifies with the interests of the labor aristocracy and the bureaucracy. The BJP, who were the original owners of the reform package, behave as though wealth and poverty is a secondary issue.

If there is a widespread consensus on economic reforms, why are there such frustrating delays in implementing them? If we are agreed on what is to be done, why don't we just do it? One reason is that the agenda of our political class is not economic. Second, we haven't had reformers heading our economic ministries. Third, our discourse is dysfunctional. We continue to waste our energies in debating the "what" when we ought to focus on the "how." The issue is not private or public electricity, but how to create more power capacity when the customer—the State Electricity Board—is bankrupt and the politician insists on free power for the farmer. How to reform is a more difficult challenge and it is not for lazy minds. It needs the full application of the mind; it needs problem-solving ability; and it needs mental toughness.