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Congress deserves to lose India's elections

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Indians will from Thursday begin heading to the polls in a month-long election for a new government. The Congress party is standing on the record of the government it has led since 2004. But polls are taking place when the Indian **economy** has taken a sharp turn for the worse, in a climate of global economic crisis. This exposes the do-nothing, zero-reform record of Manmohan Singh, prime minister, and his government. More generally, it lays bare India's huge reform gaps and its brittle, decaying institutions. Finally, it deflates the "India hype" peddled by smooth-talking upper-caste politicians, ambassadors, businessmen, management consultants and some academics.

A word about India hype. It highlights high-end services, and now manufacturing sectors, with their globalising, world-beating companies. But it overlooks reform deficits in agriculture, services and manufacturing. It talks of "Chindia", the notion that India plays in the same league as China as an emerging superpower – which is pure myth. Not least, it glosses over the record of the present Congress-led government.

There have been practically no market reforms since 2004, save for the opening of domestic civil aviation. Nothing has moved on privatisation, the reduction of government equity in banks and insurance companies, pensions, competition regulation or the administration of subsidies. Industrial tariffs have come down, but otherwise external protection has not been reduced. India remains the most protectionist large emerging market.

Worse, there has been reform backsliding and reversal. Fiscal restraint, written into law in 2003, has been thrown to the winds. Now, with an economic downturn, the consolidated government **deficit** is projected to rise above 10 per cent of gross domestic product. Funding for much-needed infrastructure projects will suffer. Controlled pricing of petroleum products was reintroduced in 2008. Off-budget expenditure has increased significantly, especially through populist measures to support rural employment and the energy sector.

The government's response to the present global economic crisis was to introduce further market-distorting restrictions, including higher **tariffs**, anti-dumping duties and assorted non-tariff import barriers.

Finally, the Congress party entered the general election campaign with pledges to expand its hugely wasteful rural employment guarantee programme and increase food subsidies.

The government has squandered the boom years, left the country more vulnerable to malign global economic conditions and compromised prospects for a healthy recovery. But Manmohan Singh and his "dream team" have been given an easy ride: they have escaped blame, especially outside India. The conventional excuse is that their hands are tied by Sonia Gandhi and her Congress coterie, and by coalition politics.

This explanation just does not wash. Mr Singh has impeccable academic credentials and is by all accounts incorruptible. He deserves credit for his performance as finance minister in the 1990s – although credit should also go to Narasimha Rao, then prime minister, who took the tough decisions.

But Mr Singh has proved a hopeless decision-maker as prime minister. Sadly, he proves the rule that academics should generally be "on tap" but not "on top".

The whole reform programme relies on the prime minister himself. Mr Rao and A.B. Vajpayee proved their mettle, despite heavy political constraints. Mr Singh has failed; he should bear much of the blame. The Congress party does not deserve to be re-elected and the dream team does not deserve to continue in office. An alternative BJP-led government may do better if it has a decisive leader with a core of able reformers. It will not if its leader follows the dictates of short-term opportunism and messy coalition politics.

Nevertheless, the failures of the Congress-led government should be put into a larger institutional context. The Indian state, led by a venal political-bureaucratic elite, remains unreformed. State institutions – the political class, political parties, parliaments, the bureaucracy, the judiciary – have got worse at both national and state levels. Since the late 1980s, "stealth" reforms have taken place outside the state. But India cannot be expected to grow fast with such shaky foundations. The upshot is that much-needed market reforms cannot continue to skirt round the reform of the state itself. Politically, that is the hardest nut to crack.

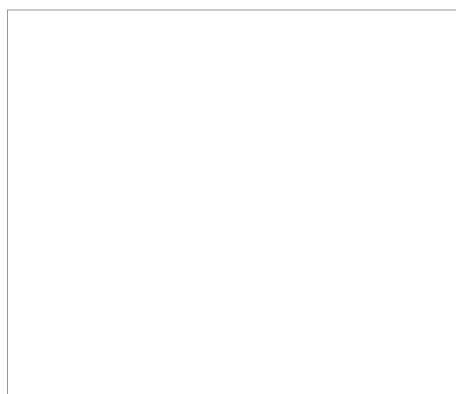
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