

Book Reviews

Ram Sharan Mahat. 2005. *In Defence of Democracy: Dynamics and Fault Lines of Nepal's Political Economy*. New Delhi: Adroit.

Few people, it initially seems, are more ideally placed than Ram Sharan Mahat to write an account of Nepal's political economy in the decade of the first sustained period of multi-party democracy. Appointed to the National Planning Commission during the first Nepali Congress government, and subsequently made Finance and Foreign Ministers, he was heavily involved in policy formation for much of the nineties. He thus occupied a vantage point ideal to observe the capabilities of Nepali state and society, as well as weaknesses that impeded policy implementation and the achievement of policy goals. Written during the period following King Gyanendra's dissolution of parliament in 2002 and subsequent seizure of power, Mahat's account is first and foremost a defence of multi-party rule. Set in the context of high levels of disillusionment with parliamentary democracy, *In Defence of Democracy* seeks to counter what Mahat perceives as elite negativism – that tendency of the Kathmandu elite to perceive nothing but factionalism, corruption and bad governance masquerading as popular rule. Mahat attempts to defend the decade of parliamentary rule by demonstrating that government was made more accountable to the people than in any other period of Nepali history. However, though aspects such as the development of democratic institutions and social development receive some treatment in the book, the emphasis is mostly on the economic gains made during this period. Mahat provides a thorough description of the policies and goals set during the nineties and demonstrates that it was through them that significant economic gains were made. Although policies were often perverted in their implementation, and the gains made rarely lived up to expectations, Mahat's defence rests on the demonstration that in no other comparable period of Nepali history did the material circumstances of the people improve as much as during the decade of parliamentary democracy.

Second, in addition to being a defence of democracy as a mode of governance, Mahat's book is also a defence of the liberal economic and social policies that prevailed during the nineties. As an adherent of the neo-liberal orthodoxy, Mahat believes that it was the dramatic

liberalization of the economy in the early nineties that made whatever economic growth occurred in Nepal possible. He states repeatedly that the role of the state is simply to provide social goods such as infrastructure and education, and to regulate the market in such a way that the entrepreneurial capacities of the people are allowed to flourish.

Third, this account is also a defence of the ideal of democracy. Mahat has no truck with those political economists who believe that high-levels of economic growth are possible in developing countries only when authoritarian governments prevail over populist pressures and direct the flow of resources in a neutral and efficient manner. Instead of engaging with the arguments of these political economists to provide an adequate rejoinder, Mahat, however, chooses to counteract the theory of authoritarian advantage in a rather perfunctory manner, asserting only that this theory has been conclusively demolished by a number of scholars whom he cites.

The first of the three parts of *In Defense of Democracy* sets out the historical background of Nepal's economy from the time of Prithvi Narayan Shah's unification to the end of panchayat rule. Occupying over a hundred pages, this background is at times drawn out and tedious. Using sources familiar to anyone with a knowledge of Nepali history – like the seminal writings of Mahesh Chandra Regmi on Nepal's economic history, for instance – Mahat shows how for the majority of the period since Prithvi Narayan Shah, Nepal was a pre-modern, exploitative state.

Although the later Rana rulers made a few efforts at modernization, it was not until the advent of the Panchayat system under King Mahendra that any sustained attempts to change the structure of Nepal's economy were made. Mahat recognizes that this system has a few advantages that could assist it in forming and implementing policies that could help achieve high levels of economic growth. The absence of factionalism that has been a characteristic of multi-party politics in Nepal made it possible for the government to not succumb to economically untenable populist demands, and instead focus on long term projects such as infrastructure building.

However, Mahat rightly points out, the Panchayat period cannot but be seen as a failure. It was still above all a system for the preservation of elite interests. Successful land reform could not be carried out due to the presence of vested interests. The economic emphasis was on supply side intervention, with very little emphasis on the income side demand creation of the majority of the population. Even other policies, that were presented as suitable to the genius of the country, were in fact merely a

camouflage for the interests of the elite. The theory of class co-ordination, for instance, emphasizing the harmony and inter-dependence of all of Nepal's classes, was probably a pre-emptive response by the state to the possibility of uprisings based on Marxist ideology that were prevalent in many of Asia's nations at that time.

Having thus established that Nepal's economic stagnation under Panchayat rule was a direct result of its policies that chiefly benefited only the elite classes, in the second part of the book Mahat moves onto the changes brought about by the Nepali Congress government in the nineties. The new National Planning Commission constituted in 1991 soon prepared the Eighth Plan that explicitly stated that though economic growth was desirable, efforts had to be made to ensure that the poorer segments of society benefited from it. This was a rejection of the "trickle-down" approach to economic planning. However, due to Nepal's dependent position in the world economy and the changes in economic thinking since the mid-twentieth century, the Nepali Congress government had to move away from its traditional ideology of democratic socialism as promoted by B.P. Koirala towards a more market-based approach. How adherence to a market-based regime can be regarded as a rejection of the "trickle-down" theory remains unclear.

In any case, sweeping liberalization measures were implemented in the early nineties. Attempts were made to strengthen regulatory, monitoring and evaluation systems to prevent leakage and strengthen policy implementation. The government decided to focus on infrastructure and other areas of social sector development, leaving the development of industry to the private sector. While Mahat goes through all these measures in great detail, one aspect of these reforms, the Agriculture Perspective Plan (APP) deserves special mention here. The primary goal of the APP was to bring about a technology-based revolution in agricultural production through investments in irrigation, roads, fertilizers, electrification and other inputs. It aimed to raise annual per-capita agricultural growth from an existing level of 0.5% to 3%. As Nepal's economy is still predominantly agrarian, the transition from a subsistence-based to a commercial system of production is of utmost importance for economic prosperity. Further, the only way to sustain high levels of growth and provide employment to an increasing population in the long term is to channel agricultural surplus to industry.

As Mahat goes on to show after his review of the new plans and reforms, there were significant, though not dramatic, improvements in Nepal's economy between 1991 and 2002. As reported by the World

Bank in 1999, poverty declined between 1991/92 and 1995/96. A later study by the World Bank found that poverty declined from 42% of the population in 1995/96 to 31% in 2003/04. While poverty in urban areas declined from 26% to 10% during this period, the decline in rural areas was from 43% to 35%. Significant gains were also seen in the development of roads, in electrification and rates of literacy.

However, economic growth during the 1990s was characterized by a widening discrepancy between classes and regions. The urban, non-agricultural economy vastly outperformed the rural, agricultural one. While the success of the non-agricultural sector was primarily due to the liberalization measures, Mahat attributes the failure of the APP to achieve its goals to a failure to increase the productivity of principal crops, adverse weather conditions, and weaknesses in the implementation of the APP. As he states, the APP lacked an adequate monitoring and evaluation program and the supply of agricultural inputs fell short of their target. After the late nineties the disruptions caused by the Maoist insurgency can also be regarded as a cause for the lacklustre performance of the agricultural sector.

Mahat focuses chiefly on macroeconomic indicators and technocratic solutions in the second part of his book. A primary weakness of his account of Nepal's political economy is his lack of emphasis on state-society relations. His statement that the Nepali government became more responsive to the needs of the rural areas after 1990 due to the fact that many political leaders themselves came from rural areas, though partially true, is misleading. He fails to recognize that disparity in Nepal is not merely regional, and fails to identify the class interests of the state elite. While it is true that the state became more responsive to a wider group of people under multi-party rule than during the Panchayat period, the political leaders still came from dominant classes and represented certain class interests. The failure of the democratic state to implement significant land reform measures can be attributed to the influence of vested interests whose support was important to the state elite. The failure of the APP in implementation can similarly be attributed to a relative disregard of agriculture as compared to the non-agricultural sector. Mahat himself comes close to this understanding when he states that the robust performance of the non-agricultural sectors was due to the fact that most of the reforms were targeted specifically towards them. The corollary of this insight – that the agricultural sector was relatively disregarded – is not followed up in any detail, and Mahat's account suffers as a result.

The exclusion of certain social segments from the political process is the subject of a chapter in the third part of the book, but Mahat fails to mention the connection between this exclusion and the disregard of the agricultural sector. Nonetheless, he does recognize that a representative democracy isn't sufficient in a country as inegalitarian as Nepal, and that institutional measures have to be taken in order to ensure greater representation of the population. The realizations of this chapter, however, are insufficiently integrated with the rest of the book. This suggests that, although Mahat has noticed the increasing demands made by Nepal's various minorities within the free political space provided during the nineties, he has not given sufficient consideration as to how greater inclusion can be made possible.

Including the chapter on social exclusion, the third and longest part of the book is an assortment of miscellaneous chapters of varying quality that range from various critical issues the various governments faced during the nineties, such as the Bhutanese refugee crisis, the issue of corruption, the importance of roads and the controversy surrounding the project of the Arun III hydroelectricity project. This is followed by a summary of Nepal's recent political history and an appraisal of the crucial faults of the state and society in Nepal. Mahat concludes by restating his position that, contrary to the beliefs of the elite, the decade of parliamentary rule was marked by significant gains. He goes on to make the argument that the best solution for the restoration of peace in the country is through the restoration of parliament and negotiations with the Maoist rebels.

The most interesting sections of this last part of the book are those where Mahat discusses plans or projects he was directly involved in. The discussion of the controversy surrounding the Arun III project is particularly noteworthy in this respect. As Mahat states, he was heavily involved in the protracted appraisals and negotiations that went before the project. It is evident that the cancellation of the project by the World Bank, under pressure from an international NGO network and parliamentary opposition, is felt by Mahat as a personal blow, and much of his chapter is an impassioned defence of the project. He argues against those critics who state that Arun III was unviable because its tremendous cost could not be borne by the state, that it crowded out smaller hydroelectric projects that were much better suited to Nepal's needs and that it would cause severe environmental damage. Mahat staunchly disagrees with the first two charges and states, regarding the third one, that the benefits that Arun III would provide far outweighed the

environmental damage it would have caused. Mahat's arguments are, however, unlikely to convince the critics of Arun III who maintain that the many small hydroelectric projects that have emerged since then provide more energy than Arun III would have, and that too at a lower cost. Still, the chapter on Arun III is of interest because of its description of the historical dynamics behind the project and why the government was so keen on its implementation.

The brunt of Mahat's ire is borne, not by the NGO activists, but by the parliamentary opposition under the UML. He is bitter about the UML's opposition to the project, and maintains that it was hasty and ill-considered. Complaints against the UML recur throughout the book. Although Mahat recognizes that all political parties need to take responsibility for the misgovernance and factionalism that was characteristic of Nepal's democracy during the nineties, he believes that a primary reason why policies could not be implemented adequately was due to the intransigence of the opposition. Further, he believes that the UML's vision reveals a lack of knowledge about the needs of the nation. For instance, he states that the first UML government under Man Mohan Adhikary, in its opposition to the prior liberalization policies of the Nepali Congress, sought to implement what were in essence misguided policies that "stressed the promotion of 'national capital' and brought about a host of populist budgetary proposals."

For Mahat, then, the only viable ideology in Nepal is neoliberalism and all alternatives to it are misguided and "populist." He justifies his position on the basis that liberalization and privatization is the only "pragmatic" mode of governance. It is true that in a nation as poor and dependent as Nepal, it is exceedingly difficult to resist the onslaught of the Washington Consensus orthodoxy. It is also true that the ideal of democratic socialism as held by the Nepali Congress for much of its history before it came to power was difficult to sustain when even India, through which that very ideal arrived in Nepal in the first place, had given up all pretensions of socialism. It is, however, disingenuous of Mahat to gloss over the role of the liberalization regime in fostering the widening gap between rich and poor. For him all failures are merely a failure of implementation; failures that can be corrected if only the opposition remains mute and the civil service works with discipline and efficiency.

That free market policies intensified feelings of neglect among large segments of the population and helped the Maoists attract support cannot be denied. Apologists for the status quo may maintain that the upsurge in Maoist violence in both Nepal and India is due solely to age-old

inequalities. In India, however, it is becoming increasingly difficult to hide the fact that globalization and corporatization is aiding mostly the middle-class at the expense of the marginalized. That globalization has led many of the alienated poor directly to the arms of the Maoists is a fact that is gaining more widespread currency in India today. Judging by Mahat's account it seems that the Nepali elite, which has always depended upon its big southern neighbour for intellectual sustenance, has yet to awaken to this truth.

In any case, it is unlikely that any future government of Nepal will so unabashedly pledge allegiance to the Washington Consensus. Although Nepal is not in a position to withdraw from integration with the world economy, the Maoists remain ideologically committed to a staunch opposition to what they perceive as "imperialism," and will ensure that the unbridled liberalization of the nineties does not occur again. How these two demands will be reconciled remains to be seen. More recently it seems that an awareness of the contemporary geopolitical situation has led the Maoists to soften their stance. Perhaps during the course of future negotiations, people like Mahat will learn to temper their ideological beliefs to the demands of the moment as well.

Thus Mahat's book – which is competently edited and handsomely bound according to South Asian standards – fails to accomplish all that it sets out to. The book is successful as far as demonstrating that the decade of multi-party rule, despite its failures, managed to accomplish more in such a short period of time than any prior regime. It is also successful as a description of the policies implemented during the nineties and as a readable synthesis of macroeconomic indicators and other statistics relevant to the period. It is in its justification of neo-liberal economic policies that it fails to convince.

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