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Double standards

The revelations in a new book, the "The Mitrokhin Archive II" by a former Soviet spy, about how the KGB bribed an Indian cabinet minister and the Congress as well as the Communist Party of India (CPI), have drawn a surprisingly muted response in India. Had the same revelations been made about the CIA, one can only guess at the furore that would have followed (recall the unproven allegation that YB Chavan had been a CIA agent—there was an almighty uproar and the editor of the newspaper that made the charge had to resign). Clearly, there are double standards, because to be pro-Soviet even today carries some hint of socialist patriotism, including in some government ministries. The shock may also be less because the Cold War is over, and since the Soviets lost all, their bribing achieved little. Certainly, it was an extraordinary time in modern history. One of its most remarkable features was the massive effort that the US and the USSR expended on subverting each other and each other's friends. Necessarily, subversion implies espionage, on the one hand, and seeking to extend your influence, on the other. Towards this end the two superpowers unleashed a flood of dirty tricks on the world, part of which was bribing local sympathisers, wherever they could be found. The bribes were intended to procure either influence or information, or, if you were lucky, both. There was also entrapment on a huge scale, with a view to blackmailing later. It was an old game but the scale was entirely new. And India was by no means either the sole or even one of the more important targets.

Much of what the book says has been known, or at least widely suspected, for a long time. That the Soviets, acting through the KGB, were active on a large scale was an open secret; some of the methods used (like the rice deals) have also been widely discussed. But the details of individual operations, including the sillier aspects of the handing over of slush funds to the CPI, were not. Now that they have been revealed, there is bound to be a quiet reevaluation of the period when Indira Gandhi was so beholden to the CPI. This was before the CPI(M) became the main Communist party in 1977 after its victory in West Bengal. It hardly seems likely that Indira Gandhi, who was often denouncing an unspecified "foreign hand" that was usually meant to mean the CIA, was unaware of what was going on in terms of the generalities. That she did nothing about it is clear enough. The question is why. Was this the tacit price of assured support in the Security Council?

The CPI must also explain what it was up to. That it had always taken its cue from the USSR is an established fact, from as long ago as 1928, when, on Stalin's directions, it refused to turn itself into a party of workers and peasants, whose cause it still claims to espouse. In 1942, during the Quit India movement it sided with the British and some of its prominent members became police informers. In 1962, the party refused to condemn China for its invasion of India. And, last but not least, it was not until 1972 that the party gave up claiming the right to secede, whatever that meant in the Indian context.

Perverse incentives

Centre-state financial relations have always been a contentious issue in India. The Constitutional division of powers between the two levels of government have imposed rather rigid restrictions on the ability of the states to impose taxes. In theory, this is offset by some flexibility in the revenue-sharing arrangement between the Centre and the states, as reflected in the Finance Commission's recommendations every five years. In reality, however, the condition of state finances has been steadily worsening, indicating that there is a limit to which this flexibility can compensate for weak powers of taxation and, perhaps more important, the ability and willingness to use these powers to the fullest.

One possible way to create an "incentive-compatible" tax scenario for the states is to make the flow of central funds contingent on improvement in tax collection performance by them. Successive Finance Commissions have built upon this notion and increased the weighting given to this indicator. The central government is presumably trying to reinforce the message of joint fiscal responsibility by its intention to link transfers for schemes that it sponsors to funds that the state governments are able to raise themselves for these schemes. In theory, this can generate the right kinds of incentives for states, giving them "ownership" over the schemes and increasing their commitment to implementation and effective operation. However, unlike in the tax realm, where the incentives will usually work in the right direction, such incentives linked to expenditure may end up with a less than desirable allocation of resources.

There are two kinds of pitfalls in this conditionality. One, schemes promoted by the central government may not necessarily be consistent with the development priorities of

a particular state. However, it may be tempted to commit funds because that central resources that would otherwise not be available will now be so. Two, a scheme may genuinely be beneficial for the state government, but its immediate financial position may not allow it to commit resources. Under the conditionality, the scheme will go unimplemented. It is all very well to argue that such eventualities can be dealt with through effective prioritisation and project design effort. The performance record of centrally sponsored schemes, however, does not give very much comfort on that score. In fact, the whole "outlays vs. outcomes" distinction that the UPA government has set so much store by is motivated by widespread perceptions of government failure.

This concern is reminiscent of the old debate surrounding multilateral assistance. It was argued by many then that external funding was fraught with the risk of "adverse selection", i.e. projects that did not have much intrinsic merit would be undertaken simply because external funding was available. The right way to use the matching funds concept is for the project concept to emerge from the "entrepreneur", in this context the state government or the agency within it which is going to implement the project. Only if the state government itself is convinced about the virtues of the scheme, to the point where it is willing to commit resources to it, should the central government step in to provide funding. In this framework, the very notion of a "centrally sponsored scheme" would become redundant. Let the Centre exploit its resource mobilisation powers and advantages by all means. But ownership, implementation and commitment must be a bottom-up process if expenditure programmes are to succeed in achieving their goals.

THE RAJ LEGACY - II



Illustration: BINAY SINHA

De-Industrialisation and peasant ruin?

Labour laws introduced in the 1880s are an unfortunate legacy of the Raj, says DEEPAK LAL

In the light of the complaints against Prime Minister Manmohan Singh's Oxford speech, I had in my last column set out the overall economic balance sheet of the Raj and showed that it did begin to end India's ancient economic stagnation and to deal with scourges like disease and death from famines. In this column, I examine the other bugbears of nationalist and Marxist critiques of the Raj.

First, de-industrialisation. The Raj's policies of free trade and *laissez faire* are held to be responsible. Imports of cheap Lancashire textiles did lead to a fall in Indian handloom exports between 1824 and 1832. An inevitable decline, given the technological revolution taking place in England. Nevertheless, within 20 years, indigenous entrepreneurs had set up modern textile mills, and by 1875 began exports, which undercut Lancashire. Many other modern industries were set up in the latter half of the 19th century. The first jute mill was set up in 1854, and the first steel mill by the Tatas in 1911. Other industries including paper, sugar and engineering were also established

during this free trade and *laissez faire* period. The overall rate of industrial growth was higher (4-5 per cent p.a. between 1880 and 1914) than most other tropical countries and higher than that of Germany (4 per cent p.a.). This industrial development encompassed both import-substituting and export industries. By 1913, manufactures accounted for 20 per cent of Indian exports, which in total were about 11 per cent of national income, as compared with the cotton textile exports in 17th century Mughal India of about 1.5 per cent of GDP. Thus, Indian industrialisation in the free trade *laissez faire* period of the Raj was impressive.

It was not a period of de-industrialisation, as claimed by critics. Though some handloom workers were displaced, the share of industrial employment (in both the handicraft and modern sectors) in total employment did not decline in the second half of the 19th century. There was, at worst, a relative decline in employment in the traditional handicraft sector, as is borne out by the fact that handloom production (supposedly destroyed in the 1820s) remains a substantial

industry in India today.

This Indian head start in industrialisation was hampered by two developments. The first was the introduction of labour laws in 1881—soon after similar rights had been granted to British workers—to protect industrial labour from perceived abuses. They were rightly described as "the result of agitation [in the UK] by 'ignorant English philanthropists and grasping English manufacturers'". By raising the effective price of labour, they hobbled Indian industry, and continue to do so to this day. Resulting in an increasingly capital-intensive form of industrialisation, India could not fully utilise its most abundant resource—labour—with deleterious effects on industrial employment and poverty alleviation.

The resulting and growing uncompetitiveness of Indian industry led to demands for protection, particularly from a textile industry facing increasing competition from Japanese industry not hobbled by such labour laws. The Raj succumbed to these protectionist pressures in the early part of the 20th century, but largely for fiscal reasons.

The British had realised that limited fiscal exactions were required to prevent a nationalist revolt against their rule. Thus, contrary to D Naoroji and RC Dutt's assertions, the tax burden, far from rising, fell during the Raj from Mughal times. Having fixed a relatively low and fixed land revenue demand, whose value declined in real terms, by the end of the Raj, land revenue was only 1 per cent of national income, as compared to about 15 per cent under the Mughals. The total tax burden was only 6 per cent under the Raj—less than either in its preceding and successor regimes. This paucity of revenue, whose first charge was to pay for the Indian army, which maintained the British Pax east of the Suez, and the notorious "home charges" (which, despite nationalist exaggeration, never amounted to more than 1.5 per cent of GDP), which financed the administrative "steel frame", there was little left for the social and physical infrastructure required for economic development. It is, in fact, remarkable that the Raj did manage to do as much as it did with so little.

It was to meet its chronic fiscal crisis that the Raj turned its back on free trade after 1914 by introducing revenue tariffs. With the labour laws, this set India on that long and disastrous road of inward-looking, capital-intensive industrialisation, which is only now being partially reversed. It was this poisoned chalice which was the most deleterious legacy of the Raj. But, ironically, it is this very legacy which the Marxists and nationalists still seek to defend.

While the modest rural development during the Raj limited the extent and spread of the benefits of modern economic growth, many of the nationalist-Marxist charges of increasing concentration of land and proletarianisation with the commercialisation of agriculture, of increasing usury, growing indebtedness and peasant ruin are unsubstantiated. By using their limited fiscal resources to extend irrigation to the dry zones in the West, the Raj created new productive agriculture by sensibly undertaking the most socially productive form of public investment at the time. Dr J A Volcker's 1891 report pioneered the "leading inputs" approach to agricultural growth, which governs agricultural policy to our day. Its full implementation has had to await the technological "green revolution" of the 1960s, and the complementary publicly provided infrastructure, which a less fiscally hamstrung government of independent India could provide. Thus, in judging the Raj, one can look at the glass as half-empty or half-full. But, unfortunately, the nationalists and Marxists critics are pointing not to the air but the water in the glass!

Movements, laws and change

Legislative initiatives on social policies have complex genetic histories. Some have come before their time and without an apparent public demand. An instance in the realm of women's issues is the Medical Termination of Pregnancy Act, 1971, making abortions conditionally legal before a demand had emerged for legalising abortion. In contrast, the legislation to ban Sati, and the amendments to strengthen the law in rape cases, were the outcome of social demand. The Maharashtra Regulation of the Use of Pre-natal Diagnostic Techniques Act, 1988, was different and, to date, unique. It came out of a movement, stretching to include women's groups, progressive medical and legal professionals, social scientists, and the health movement that foresaw a need and organised a demand. Its history raises interesting questions on civil society responsibilities and state initiatives.

In the early 1980s, amniocentesis, a medical diagnostic technique used to diagnose foetal abnormalities, began to be extensively accessed only to check the sex of the foetus, which was an incidental outcome of the tests. Associated sex-selective abortions, it was apprehended, were beginning to rise. A small study in Mumbai estimated a rise in sex-selective abortions. Obstetricians offering these associated services—amniocentesis and sex-selective abortions—began to advertise freely.

A surge of concern among femi-

MOOT POINT



PADMA PRAKASH

nist scholars, feminine activists, and health workers prompted a wide-ranging protest campaign to put a stop to the practice. There were many contentious issues: Did the technology itself needed to be banned? Did it impinge on women's right to choose and the doctors' professional commitment to provide the service? At a time when the world over women were demanding the right to abortion, could the demand to ban abortions, even if only sex-selective, be justified? Inevitably, there were sharp divisions, and for the first time, academic debates were among the shades of grey rather than between blacks and whites.

Out of this emerged a cogent demand that could not be ignored by the state. The first of the governments to respond was in Maharashtra and the Act was passed six years after the movement first began. Historic reasons—a responsive state apparatus, long tradition of health and progressive movements—coalesced and the state set up a committee that included not only bureaucrats and the political leadership, but also independent lawyers, and women's

groups and health activists. While the inclusion of civil society elements in policy making is not new, this was probably the first time that social activists were the drivers. It was they that fine-tuned the legislation such that it mandated a regulatory mechanism incorporating civil society participation.

That was when forces inimical to the movement stepped in and the state succumbed to the pressure from those who projected the move as anti-medical progress. Although the law was passed, the rules were not formulated for a long time, and the entire system of monitoring—the crux of this kind of social legislation—was never entirely functional. It is, of course, another matter that this legislation found echoes in other states, and the Centre too has now enacted a similar law. Today, even though the offer of foetal sex-determination technologies is monitored through registration and associated abortion facilities are banned, there is not enough evidence to confirm a decline in sex-selective abortions.

The demand for this legislation was a well-thought one. It was felt that the monitoring of the legislative mandates was absolutely necessary, and so the law incorporated that mechanism. But how was civil society to use these provisions that it had pressured the state to incorporate? A campaign and a movement by their very nature are not geared to routine and systematic activities such as monitoring. There needed to be either an organisational network actively

taking on this responsibility in every region, district and town or a vibrant grassroots movement around the issue. Failing this, the participation of civil society in monitoring reduces to the government appointing such representatives as are in its scanner. In time this becomes part of the system and fails or succeeds as the state-controlled machinery does.

Social legislation meant to educate and persuade through the process of regulation and monitoring is difficult to enforce. And a law that, in addition, binds the activities of the influential medical community, even if it is to prevent the misuse of technology, is even trickier. Progressive movements and civil society organisations play a distinct and critical role in ensuring that the legislative prescriptions become effective. But how is this to be done when movements have the critical mass for pushing through legislative measures, but not for ensuring their implementation? What strategies need to be evolved to ensure the two levels of change continue to occur simultaneously, as in this instance, ensuring that the medical technology is not misused, and, at another level, families cease to seek such drastic measures? What kind of support base needs to emerge, especially on issues that impinge on new technologies, to ensure that they are not misused? And then of course the far broader question: How is "misuse" to be defined and should technology use be regulated by the state?

The Mitrokhin Revelations

SPEAKING VOLUMES



Nilanjana S Roy

the second part of *The Mitrokhin Archives*; it covers the KGB's activities in the Third World. Two chapters of *The Mitrokhin Archives: II* are devoted to India. In Nehru's time, "The Indian embassy in Moscow was being penetrated by the KGB, using its usual varieties of the honey trap. The Indian diplomat PROKHOR was recruited ... with the help of a

female swallow, codenamed NEVEROVA ... " By the 1960s, the KGB had become, according to the authors, the main conduit for "both money and secret communications from Moscow" to the CPI.

During Indira Gandhi's first visit to the Soviet Union in 1953, the KGB "surrounded her with handsome, attentive male admirers". By 1969, the Indo-Soviet "special relationship" had grown; "encouraged by Moscow, the CPI swung its support behind Mrs Gandhi". The situation in the

1970s sounds like a bizarre free market for intelligence: "It seemed like the entire country was for sale; the KGB—and the CIA—had deeply penetrated the Indian government. After a while neither side entrusted sensitive information to the Indians, realizing their enemy would know all about it the next day." Andrew says the KGB was better at exploiting "the corruption that became endemic" under Indira Gandhi's regime, in an era when "suitcases full of banknotes" routinely found their way to her residence. (The suitcases themselves were not returned.)

The CPI had no cause for complaint: "By 1972, the import-

export business founded by the CPI a decade earlier to trade with the Soviet Union had contributed more than 10 million rupees to Party funds." Nor was the media left out: according to KGB files, there were "ten Indian newspapers on its payroll" by 1972.

These are some of the revelations that have drawn such vigorous reactions—denial, counter-accusations and stout defences of the dead—from our politicians. But the India chapters form only part of *The Mitrokhin Archives*; Andrew is equally illuminating about the KGB's role in Cuba, in Africa, their machinations with Allende, and the high cost that the special relationship with India extracted in terms of their ability to handle Pakistan. Most of Mitrokhin's information in Part One was

accurate; there's little reason to speculate, as some have, that Part Two of the archives is either inaccurate or part of a darkly twisted plot by the CIA to discredit the shining legacy of two of India's most prominent political parties.

Ignore the hysteria; read the *Archives* as a window into the Cold War. As Andrew says, perhaps the most important aspect of this book is that it redresses the way in which we've seen the Cold War, where the CIA's role has always been the focus of attention. It turns out that the KGB's footsoldiers, spies, honeytrap specialists and bankers were equally busy. Until John LeCarre writes his next book, this is as close as you're going to get to cloak-and-dagger spy stories.

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The end of the Cold War almost killed spy fiction. John LeCarre turned his attention to pharma multinationals and dug up Smiley's old cases, other spy writers were forced into the parallel world of technogeek conspiracies.

I have to thank Christopher Andrew and Vasili Mitrokhin for returning me to the illicit pleasure of that genre of books, where the CIA and the KGB faced off in intricate tangos and where codenames like NEVEROVA or RADAR were employed in deadly earnest.

When the first part of *The Mitrokhin Archive* came out in 1999, it was hard for those in intelligence to comprehend the range and depth of the information that Vasili Mitrokhin offered. Mitrokhin had worked for

the KGB for 30 years in the foreign intelligence division. In 1992, he walked into the British Embassy in a Baltic country and offered to share his secret and very detailed notes. The first part of the Archives was hammered into shape by him and Christopher Andrew, the Oxford don and a leading expert on intelligence. Serialised in *The Times* in 1999, Part One covered the KGB's activities in Europe and the West.

Christopher Andrew writes, "For a quarter of the century, the KGB, unlike the CIA, believed that the Third World was the arena in which it could win the Cold War." Mitrokhin, who retained a taste for home-made cabbage soup and the habit of doing push-ups in the middle of meetings well into old age, died in January 2004. By that time, he and Andrew had shaped