

# **SOCIAL DEMOCRACY IN THE EMERGING GLOBAL ORDER: PROBLEMS AND PROSPECTS FOR NEPAL**

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## **Introduction**

Social democracy is under attack today. This is so not because of the collapse of communism. It could not be because social democracy has little in common with communism practised as Marxism-Leninism or otherwise, except for the common parentage and early childhood—this too, only if we ignore the socialistic spirit and ideas that were there before Karl Marx. Social democracy as we understand by the term has now come under pressure not with the fall of communism in the East (which occurred only at the end of the 1980s) but with the decline of welfare capitalism in the West which started from the beginning of that decade if not earlier. What is more, this decline was precipitated directly not by a big crisis in capitalism but by the relatively simple discomfort of a rather prolonged inflation in the 1970s in the United States in particular, which in addition had dared to defy the prevalent economic wisdom by being accompanied by a recession at the same time. The platform for the inauguration of the Reagan era was thus made ready, and the discovery of the Laffer-curve<sup>1</sup> became the vehicle for the transportation of the new orthodoxy across the ocean to Europe and elsewhere. The middle classes that had allied with the poor against the rich in sustaining liberalism in the United States and social democracy in Europe now preferred to side with the rich against the poor succumbing to the lure of reduced taxes. Social democracy which, in simple terms, seeks to balance the greed of the individual with the needs of the community thus came under pressure.

Another reason for the pressure on social democracy is the failure of the most third world countries to achieve the expected social and economic progress through policies and instruments that relied heavily on the role of the government. The hope and the optimism of the 1950s, 1960s and the early 1970s were belied as most developing countries, like Nepal, remained trapped in poverty, and others in debt as their dependence on external

resources grew further. The North-South gap that was expected to be bridged through national and international efforts got widened instead. It became difficult to rely on governments and official aid for meeting the challenge, which is being compounded by the liabilities arising in new areas including the democratisation of the eastern and central Europe, on the one hand, and the stringency in aid allocation practised by the major donor countries, on the other hand. The few countries in the developing world that were making economic progress were doing so under a system that defied the norms of both democracy and socialism. This became the opportune time, therefore, to engineer the paradigm shift for the political forces that wished to see the capitalistic system firmly globalised to cover every human society.<sup>2</sup> It did not matter that, at this very period in post-War history, developing countries around the world were being initiated to democratic governance, generating the hope and the possibility of better performance in development than in the past. It also did not matter that social democracy as an ideology had not done that badly in many countries of Europe. Here too, the new orthodoxy has succeeded, to some extent, in getting the taxes reduced, government social spending cut, and the trade unions rendered less powerful—all in the interest of supply side economics and its beneficiaries. But the history and achievement of the Nordic countries, for example, are well known and envy of human beings everywhere. The record of France, Germany, and even the United Kingdom in instituting the system in support of social justice and security has also been impressive enough to have the American welfare capitalism, even in its heyday, considered laggard by comparison by many informed observers. One can even argue that American capitalism itself was saved by the timely reforms the social democratic thought inspired since the Great Depression.

It is strange therefore that social democracy as an ideology as practised in its various forms – from its lowest form in American liberalism, to the Nordic welfare state and German social democracy to the "Nehruvian socialism" of India and the planned economic development effort of the rest of the third world – should together be on the defensive at present. When one looks hard at the world today, one has to feel that something is amiss. A simple question comes to one's mind: If capitalism can indeed be relied to such an extent that all other social visions including social democratic imagination of any kind can be discarded altogether, why are more and more people, even those living in prosperity, feel so much ill at ease with themselves in the predominantly capitalist countries of today? This is not a rhetorical question. The answer has a bearing on the very concept of democracy and its relation to the day to day life of citizens. After all, "pursuit of Happiness" has been the goal of the American people ever since

they declared their independence with that objective, among others, two and a quarter century ago.

There is a sense of alienation in a substantial section of people in states where capitalism has produced unprecedented material progress; one has to wonder why? Social unrest and civil strife are on the rise. Unemployment is rising; the youths are disillusioned. And human beings continue to be discriminated against for one reason or another including race and gender. On top of it all, people in the oldest democracies that also happen to be vigorous capitalist states are increasingly uncomfortable with the political process they have long cherished. Political leaders who commanded the respect and support of their people for long periods are being prosecuted or convicted for various kinds of economic, political and social crimes. What will all this do to the democratic process itself is becoming less certain everyday. The available mechanism for remedying the condition and resolving conflicts is not reassuring, except for those who hope to be rewarded disproportionately by the operation of the imperfect laws of the market.

What does the emerging new global dispensation mean to us in the developing world under these circumstances? And where do the aspirations of our people fit in? An analysis of the problems and prospects of social democracy cannot be done outside the realm of questions arising from this historical and international context. In this paper, therefore, we first delve into the relevant facets of the recent experience of the countries in the third world in the international arena and relate it to the social democratic vision most of them came to embrace over time. Nepal's own problems and prospects can be understood better in this perspective.

### **Whither the New Global Order?**

It has been some time since the post-War world order crumbled. A new order based on the emerging reality in the global power structure and alliances, both political and economic, is expected to take its place. Whether this order will be different from the old as far as the developing countries are concerned is at best uncertain at this point. In fact, there are signs that give one sufficient reasons to worry. As we grope for the contours of the new order, one feels uncertain of the reliability and sustainability of the two specific tendencies of today that are projected as its attributes capable of guiding all societies into the twenty-first century and beyond, namely democracy and free market economy. The lack of clarity and the need for the debate on the latter issue, namely the scope and the value of free market economy, is understandable, and if it was not so this paper would lose its *raison d'etre*. The confusion arises because amidst orthodoxies on the fringes to the left as

well as to the right, there are examples of seemingly pure free marketeers who cannot shun the need to provide social opportunities and safety nets to the weak and the poor, and of equally pure socialist thinkers or forces who are constrained to recognise the role of the market principle in economic management. To some, this situation symbolises the end of the age of ideology, implying inexplicably the victory of capitalism but not of social democracy. To others, it is an unhealthy condition of ideological fluidity bearing adversely on the institutions of democracy, if not on the integrity of social discourse itself which fuels the growth of human civilisation. The debate therefore will have to go on until all sides are clear about what they are saying and doing, which means probably for ever. Neither the history nor the age of ideology is about to end yet, thanks perhaps to the not so good result of the supply-side economics in the United States itself.

The reservations and doubts that are still expressed in relevant discourses and literature with regard to the positive relation between democracy and economic development in a third world society are not, however, as plausible. It is still argued frequently that while economic development may support democracy, it is difficult to sustain the democratic process in poor economies.<sup>3</sup> There are neo-liberal reform-oriented centres of power which openly claim that it is easier to introduce and sustain economic reforms in an authoritarian regime than in a democracy (World Bank 1991). There are empirical works which point out that "All liberal democracies in the contemporary world have existed in capitalist societies, and all non-capitalist economies have had non-democratic polities, but not all capitalist societies have had liberal democratic polities" (Waisman 1992). While all these may be true as a statement of fact, they may also indicate the possibility of the new global order, too, legitimising authoritarian regimes like in the past as long as doing so suits the interests of relevant powers, political and financial. History tells us that these powers can be interested more in capitalism than democracy.

We are experiencing a change in some of the structural attributes of the global society no doubt, but the often talked about order is far from being crystallised. Moreover, the cold war may have been over for the two ideological camps of yesterday, but whether this is contributing to the betterment of social, political, and economic conditions of diverse sets of people around the world is a moot point. First of all, in many countries several old grudges and conflicts have grown to assume serious and inhuman proportions. Yugoslavia is the most prominent and painful example. Others can be found in our own region. At the same time, new issues and new grounds for contests and conflicts have surfaced which have been taking their toll in human lives and social peace in every continent of our planet.

Even what we see at present as the changed international context may have very little new in it for a country like Nepal. Structurally, no international order is permanent, so change is inevitable. But the objective for which the game is played does not seem to have changed much. No country is sacrificing what it perceives to be its national interest for the realisation of a world order that one wishes to see in terms of the security and prosperity it provides, without discrimination, for all human beings now and in the future. The rules may have changed somewhat as we can see from the difficulties faced by even the major players in adjusting to the emerging order. About the United States, which was hastily perceived as the apex power of a unipolar world for a brief period following the Gulf War, Henry Kissinger's recent point about what is new about the emerging world order for his country is illuminating. He says that "for the first time, the United States can neither withdraw from the world nor dominate it" (Kissinger 1994). This, however, is no consolation for the 1.3 billion poor people of the world or the 920 million unemployed or underemployed who may be bypassed or ignored by yet another global order.

As for social democracy, it has been on its evolutionary path ever since the days of Karl Marx or even before, as the believers and the practitioners have tried to reconcile its social agenda with the requirements of a liberal democracy and what it entails for human rights, property relations and the like. History has recorded in full the conflicts, the tensions and even violence that have been a part of this movement as the original social democratic path was first distorted by the communists, and later got revised successively by its leaders, who founded the Labour and Socialist International as opposed to the Stalinist Third International in quest of democratic socialist revolution. Indeed, it was not the requirement of liberal democracy as such, but its value as a prerequisite and an integral element of socialism which has nurtured the social democratic movement from the beginning, admittedly, to the disillusionment of the radical revolutionaries. The merit of this wisdom is seen not only in the objectives and policies of social democratic parties around the world but also in the communist parties of Europe that gave birth to Eurocommunism with inspiration from and eventual submission to the ideals of social democracy.

The international developments of the more recent years may have affected some of the contents of social democracy as a principle for guiding human organisation especially in the economic sphere. But as far as the democratic credentials of the social democratic movement is concerned, the guardians of the emerging order have little to worry. It may be worth remembering here what the 1869 Eisenach programme of the Social Democratic Workers' Party (the predecessor of German Sozialdemokratische Partei Deutschlands,

SPD), which was perceived to represent the Marxist element in the German labour movement as opposed to the Social Democratic element represented by Lassale, had to say on the issue of democracy. One and a quarter century ago, it had declared: "Political freedom is the essential prerequisite for the economic emancipation of the working classes. The social question is therefore inseparable from the political, the solution of the former being dependent on the latter and possible only in a democratic state" (Millu and Potthoff 1986).

The question that we pursue in this study is: why is it then that advocates of social democracy together with socialism of any shade especially in a third world country like Nepal are now considered almost an interloper as human societies endeavour to adjust to the emerging order. The reason lies not so much in the debate on the universality of democratic values as in the *mantra* of economic liberalisation which seems to consider any social agenda, at best, a necessary evil, and at worst, a monstrous obstacle to economic progress. Notwithstanding what we said above about the uncertainty surrounding the emerging world order, the ballyhoo about the inevitability of a uni-systemic world built around the concept and practice of unimpaired free market economy is so strong that most countries, regardless of their stage of development, the state of their economy, and the character of their society, feel obliged to accept as given this paradigm promoted today as liberalisation. The paradox we face in a country like Nepal is that as the process of democratisation moves on, the political parties and forces competing for power are required to embrace the same or similar socio-economic programmes, limiting the degree, scope, and content of political competition itself. If this happens, democracy itself can be a farce; and the weaker section of the Nepali people who are now excluded from the political process will continue to be so. This cannot be a tenable proposition if Nepal, too, is to be a part of the new order.<sup>4</sup>

The emerging global order, if the order is to be global indeed, has to accept social democracy, not unfettered capitalism driven by nothing but greed or profit motive, as its paradigm of progress. At the close of the twentieth century, we are seeing not only the collapse of communism as practised in the Marxist, Leninist, or Stalinist states but also the failure of capitalism, at least, as practised since the Reagan-Thatcher era. The latter may not be expressing itself as vividly as the former, but the breakdown of social order and family values in the capitalistic world, the criminalisation of politics even in the old and advanced democracies, growing inequalities among countries and among groups and peoples within countries, the jobless growth syndrome, and the increasing demands for racial, gender, and

inter-generational equity by all voices of sanity in the global community have clear messages in them.

### **International Background on Social Democracy**

The post-War period has been characterised by two strands of international relationships and transactions which together dominated the world order until recently. The first is what has somewhat implausibly been called the East-West rivalry where the international ambition and agenda of the communist movement with its epicentre in erstwhile Soviet Union faced the policy of containment of the United States and its allies as the latter policy manifested in its various forms and extensions including the use of foreign assistance programmes as an element of this policy. The second is the emergence of former colonies as independent nation-states whose aspirations to become dignified members of the comity of nations not only became a subject of international attention on its own merit, but also provided an additional dimension to the character and degree of competition between the two principal rivals.

In the real world of international politics, the importance of the second strand got overshadowed and undermined by the first. And as the government leaders in former colonies struggled with the often frustrating task of nation-building and economic development, they strove to change the world order in their favour through organised collective efforts including such initiative as the group of Seventy-Seven in the United Nations and the Non-aligned Movement. Scores of such countries chose to remain non-aligned in the conflict between the East and the West, though a number of them were more or less sympathetic to one side or the other for reasons of geopolitics and economics.

Many such countries in the third world gradually began to look upon especially the Soviet experiment with admiration. Often, this admiration even became an excuse for ambitious individuals or political forces to grab power (or to get thrown out of it by others) through a *coup d'etat*, usually with much violence against the people. But many of them were principally drawn by a romanticised vision of a country which having freed itself from the shackles of Czarism was not only making rapid industrial and scientific progress but appeared ready to be of help to the oppressed and underdeveloped peoples everywhere. Equality, solidarity, and brotherhood, even if they were mere slogans, became attractive features of the socialist campaign which the then Soviet Union was spearheading.

Many of these countries also perceived in the policies of the West led by the United States not just a policy of containment but also an imperialistic design disguised in the moralistic objective of promoting and protecting

values of individual freedom in the world. In some ways, it was an understandable attitude to harbour for countries which had themselves won independence from the imperial powers only recently. This independence would remain hopelessly incomplete in their eyes and in the eyes of the world unless they succeeded in attaining a dignified place for their countries in the world arena. However, this was not to come about without rapid social and economic development for which they yearned, but which was difficult to achieve in the not so conducive domestic and international environment they faced.

This perception got sharpened as the demand of the former colonies for a just place and a fair treatment in the international arena went by and large unheeded. For years, these countries fought hard, without much success, for the correction in the structure of the international economic system which, to them, adversely affected the flow of resources, flow of trade, and commodity prices, and gave them little or no voice in the decision-making process. In this unjust international environment, the history of socialist movement became a source of inspiration even for the leaders of countries who did not find a Leninist state system acceptable to them or desirable for their people.

As they themselves struggled, thus, to find a philosophy for organising their societies and interacting with the world at large, the third world countries found the capitalistic prescription less and less attractive. In fact, the character of capitalism had begun changing significantly in favour of a welfare state even in the modern bastion of capitalism, namely, the United States of America. The mainstream emphasis on profit and production remained, but equity and social security also entered the equation of economic policy making in howsoever a subdued manner it might be. Some social control over the activities of the private sector liable to be harmful to community interest also became acceptable. Many thinkers including economists were influenced enough by Marxian social theory to provide some intellectual leadership to the American left, to be understood in the universal sense of the term, or as in the semantics of American liberalism. As Galbraith pointed out many years ago, "Marx profoundly affected those who did not accept his system." In other words, Marxian methodology became useful in understanding the social relations as they existed. His concepts "helped all social scientists in their perception of reality".<sup>5</sup>

As it happened, even George Kennan, as recalled by Henry Kissinger recently, felt constrained to reinterpret containment since the debate over this subject had "turned into a struggle for the very soul of America". George Kennan wrote thus in 1957: "To my own countrymen who have often asked me where best to apply the hand to counter the Soviet threat, I

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have accordingly had to reply: to our American failings, to the things we are ashamed of in our own eyes, or that worry us; to the racial problem, to the conditions in our big cities, to the education and environment of our young people, to the growing gap between specialized knowledge and popular understanding" (Kissinger 1994).

As the United States proceeded to consolidate its welfare capitalism after the War, it also became acceptable in the corridors of power and learning in the West to argue that the newly emerging countries, as the former colonies and other developing countries were called then, were too different historically, culturally, and economically to have them follow the path of capitalist development unquestioningly. The emergence of the Rostowian doctrine of the stages of economic growth as a non-communist manifesto, though motivated principally by the logic of the cold war, was an important example of this thinking. More broadly, the emergence of the discipline of development economics and the adoption of multi-disciplinary curricula in the study of development in many universities in the United States and Western Europe also illustrated the Western orientation of the time towards the problems and possibilities of the developing countries.

On the practical level, however, many developing countries went on deriving lessons as appropriate from the Soviet design of development. Five year plans, though rarely as rigorous, rigid, and disciplined as in the Soviet model, became a staple of almost all developing countries. And many of them, like India, emphasised the role of the public sector and the growth of industries as the principal route to freedom from economic underdevelopment and social backwardness. The important thing is that most of these countries did not adopt the communist or Leninist approach to the design of the state structure. They did not have to, because for a country that wanted to safeguard individual freedom and promote democratic institutions even while embracing socialistic path to progress, there was plenty to tap in the larger socialist movement for necessary inspiration and guidance. The ideas of socialist thinkers and crusaders (and revisionists!), who believed, some of them having sacrificed their lives for their belief, that the struggle for justice and for the rights of the workers and other oppressed classes was important but it did not have to be waged by sacrificing democratic values and institutions, inspired directly or indirectly many leaders of the third World at this stage. In fact, this principle and practice was already firmly established in Europe as, for example, in the case of Germany with its long history of social democratic movement which has gradually emphasised the value of humanistic tradition of socialism over the "scientific" one of Marxism. Likewise, the Scandinavian countries with the social democrats in power for long periods built the most

elaborate Welfare State system of our time under a democratic state which the non-socialist governments of recent years have not been able to reverse to any significant extent.

The third world countries found their ideological counterparts in the socialist parties of the capitalist states of Europe also because in international economic issues the social democratic parties and governments of the West generally took a more sympathetic line. For example, as late as 1989, the Social Democratic Party of Germany declared, in its official policy, that "The wealth of the industrial countries of the North is based on the exploitation of the countries of the South. The present day world economic structure is till steeped in the tradition of 500 years of colonialism. It is shaped by unequal and discriminating economic relations and terms of trade, and disadvantages the Third World". Accordingly, the policy document goes on to add that "Each country has the right to pursue its own development path."<sup>6</sup>

Many third world countries were and still are situated in an environment very different from one where social democracy developed in Europe, before, during and after Marx. Many of these countries have suffered not so much from the excesses of capitalism as from feudalism, tribalism, and, yes, the legacy of colonialism and imperialism. Their economies have been basically agricultural and very backward at that. Their people were far behind in education and political awareness. They had very little in modern infrastructure which hampered not only economic transactions but also social communication. As a result, the priorities which the third world countries might have given in the past or may give in the future to specific programmes and activities as a part of their social democratic policy will inevitably differ from the practice in the European countries.

Generally, the social democratic disposition of most third World countries did not appear too objectionable to the interest of the Western leadership engaged in rivalry with the Soviet Union or communism in general. There were passing expressions of displeasure and occasional demonstrations of antics to the contrary, no doubt.<sup>7</sup> But the West by and large had started believing that through active participation of the state in development and by expediting this process, the third world countries could be saved from communist expansion. It was in fact the essence of the U.S. policy of containment as well. A concrete manifestation of this thinking is the attitude of the West towards India at the time. The United States, in particular, was never comfortable with Jawaharlal Nehru's (or his daughter Indira Gandhi's) hobnobbing with the Soviet Union. But a significant body of public opinion in that country and the rest of the West that subscribed to the virtues of welfare capitalism usually took the position that "Nehru's

vision of a mixed economy moving towards a socialist pattern of society" would provide "an answer to the challenge posed by the model of growth presented by Mao's China" (Chakravarty 1987; Schelsinger 1965).

It is interesting that after the disintegration of Soviet Union and the near-collapse of communism, socialism in any form became more suspect than ever in the eyes of the leading capitalist states of the world, especially as these countries were caught in the tide of conservatism domestically. Social democracy, though essentially an extension of liberal democracy as seen in its historical development, was no exception, notwithstanding that social democrats of varying degrees of intensity remain today a powerful political force in many countries of Europe and elsewhere.

Ironically, the presumed absence of competing ideology has seemingly pushed the capitalist leadership in the West to take at least tactically the same position which Stalin had taken as he tried to expand the frontiers of communism his way. Communism as an ideology or a state system is unacceptable to democrats including the social democrats mainly because of its inherent intolerance of other systems of thought and social organisation. If the protagonists of political democracy and leaders of liberal states, too, become self-centred enough to believe that the whole world needs to follow one system of economic organisation, namely, market economy or capitalism, they cannot be too different from Stalin, politically if not morally.

As already alluded to, the character of democracy, or capitalism, in Europe or even the USA, would not be what it has been if it was not for the contribution of the socialist movements and the role of social democratic leaders and parties, and the encroachment of the labour movements and progressive ideas in general. It is another story that the process of expected convergence of the two systems, the capitalist and the socialist, at some social democratic point in the continuum, got rudely interrupted by the ascension of the supply-side or neo-classical economic orthodoxy in the Western world in 1980 and afterwards and the total disintegration of the Soviet Union some years later.<sup>8</sup> The point remains that the relation between capitalism and democracy lies not in downgrading democracy by equating it with capitalism but in democratising capitalism by enriching it with a social conscience as in the case of welfare capitalism which, with an adequate degree of welfare statism, can mean a version of social democracy as applied to economically advanced societies.

That the various nations and power blocs in the world are bound to converge under some social democratic paradigm in the future is the premise which guides our analysis on Nepal which follows. The challenge for Nepal is that in the midst of economic stagnation, widespread poverty, external

dependence, history of poor performance by the government and the public sector as a whole, nascent private entrepreneurship, and the shifting paradigms it gets overwhelmed with, it has to find its own way now, irrespective of whether and how the expected convergence materialises.

### **Social Democracy in Nepal: Its Status, Problems and Prospects**

Nepal is a country which has almost half a century of experience with the government playing an important role in development - and, with very little to show for the effort. Its lack of success in economic and social development is epitomised by its designation by the international community as almost the poorest among the poor countries in the world.<sup>9</sup> For the protagonists of the "good government is small government" doctrine, Nepal can, on the surface, be presented as an illustrative case to justify the validity of this neo-liberal wisdom which is antithetical to the values of social democracy. However, Nepal's case is not as simple.

When Nepal started on the path of development in the 1950s, the then accepted wisdom on development expected the government to play the leading role in the process as can be surmised from the general discussion above. This did not necessarily mean, however, that Nepal followed a socialistic strategy of development adopting rigid government controls in economic management and emasculating the initiative of the private sector. Nepal has never had a large public sector nor a planning system anywhere close to the Soviet or even the Indian pattern. There has never been an attempt in Nepal for any socialisation of the means of production. There has been no nationalisation of private industries, services or property, except for the well-received reversal of some of the inequities and anomalies inherent in the feudal system of land ownership; this step is so inadequate that all major parties promise in their manifestoes to do something about it even today.

Contrary to current economic wisdom, the country might have followed on occasion an import-substituting strategy for industrial development or provided limited discretionary incentives to producers and direct and indirect subsidies to certain types of consumers. But these policies, too, fell within the realm of what was commended internationally for a country like Nepal at the time. In fiscal term, subsidies were so small that they never came close to becoming a burden on the budget relative to the financial profligacy elsewhere. The donor community whose initiation in Nepal's development process coincided with the involvement of the government itself, with the overthrow of the Rana oligarchy in 1951, always lent their support and resources to these policies.

Similarly, while politically, Nepal's recent history has been immersed with contests between democratic forces and the forces that subscribe to traditional authoritarianism legitimised by an active monarchy and, to a lesser extent, the communist movement, the objectives and strategy for development have been affected little by the political debate or even the political dispensation in place since 1951. If these policies have failed, they have failed because of the "government failure", no doubt, but this does not necessarily make a case for the abdication of its role by the state. Nepal's experience requires us to investigate the efficacy of the political process, the consequences of the absence of democracy in the Nepali society for a long time, the denial of human rights, the lack of public accountability, widespread and institutionalised corruption and, perhaps, the contribution of fatalism inflicting the social ethos of the country.<sup>10</sup> To push economic liberalisation or to project the role of the market as a panacea, without going into these factors is to bark up the wrong tree.

The support of the donors to Nepal's development efforts has also been irrespective of the political system followed in the country. Though many of them would probably wish now to see the democratic process consolidated, they supported the authoritarian Panchayat system for thirty years with much resources and goodwill. The consequences of what might generously be called the ideologically neutral association between the international development community and the ruling classes of Nepal in the past cannot be remedied by shifts in the donor strategy on development. It is even possible that change in the paradigm has become a convenient diversion from the need to delve into the irritating and, possibly, embarrassing task of investigating what went wrong. Without such exercise one can never be sure of what is the right policy or paradigm for the country's development in the future and what will, in fact, work in the interest of the Nepali nation even as it integrates itself to the outside world. Many would argue that the country has fared as badly as it has in the past mainly because the state was the captive of absolutism in governance and feudalism in social relations including what I shall call neo-feudalism to designate the rent-seekers of today.

The country got a taste of social democratic policy very briefly in 1959-60 when the Nepali Congress was elected with a overwhelming majority in the Parliament in the first democratic election held in the country. Earlier, in the party convention in 1956, the Nepali Congress had adopted democratic socialism as its guiding philosophy. The election manifesto of the Nepali Congress declared that the "the Party aimed at establishing an ideal system where no man would exploit another man" and that for that purpose it would end feudal exploitation, nationalise *birta* (rent-free land)

abolish *rājyas* (semi-autonomous feudal principalities), impose land ceilings, legislate for labour welfare while creating conducive environment for the growth of commerce and industry, and generally expedite the process of equitable development by making good use of the country's natural resources. The Nepali Congress wished to attain its goals through democratic means (Parmanand 1982). In its 18 months of rule, the Nepali Congress government led by its widely respected social-democratic leader B. P. Koirala started introducing progressive measures along the line mandated by the people's verdict. At least partly for reasons related to these steps, however, the Koirala government was undemocratically dismissed in 1960 by the King who also annulled the Constitution and did away with the democratic polity itself.

The political analysts and the Nepali people in general were thus deprived of the opportunity to see whether B.P. Koirala and his party would remain faithful to and succeed in the social democratic path they adopted. But the importance of the legitimising role of social democratic ideal is so strong that the partyless Panchayat system which the King introduced adopted "the creation of an exploitation-free society" as one of its key objectives. In a manner roughly comparable to the events in the late 19th century Germany where Bismarck after having enacted the "Socialists Law" against the social democrats, introduced social reforms as a part of his policy to "steal the Social democrats' thunder", King Mahendra of Nepal appeared to be guided by many of the progressive policies of the Nepali Congress party as he tried to consolidate his personal rule.

In the thirty years of Panchayat regime, the government implemented many periodic plans, implemented some land reform measures, increased the share of government expenditure and revenue in gross domestic product, diversified international trade, emphasised redistributive fiscal policies including progressive income tax, improved the access of the common people to social services, built social infrastructure, and tried to enlist people's participation in development. Every development strategy that became fashionable at the time including integrated rural development and basic needs concept was embraced. These have all a legitimately social democratic orientation - a natural process given the global understanding and support a developing country received for these policies at the time. But since the political system itself was undemocratic and dependent upon feudalistic social relations, the Panchayat polity could hardly hold a social democratic state. Any possible pretension to this effect would be belied by the simple fact that even trade unionism was not allowed, and workers and peasants were free only to support the government under the banner of an official "class organisation". If some socio-economic achievements were

made in this period, it was in spite of rather than because of the Panchayat system that became increasingly prone to corruption as years went by. With all the resources, especially foreign aid, and time spent, it would have been extremely surprising if Nepal had remained absolutely standstill. In any case, the fact remains that at the close of the twentieth century the country is likely to be categorised as the poorest country in the world with the sustainability of its political economy in doubt.

If we take a look at the present situation in the ideological front in Nepal, we find the relationship between politics and socio-economic policies somewhat reversed from the Panchayat era. Now there is political democracy in the country with various political parties competing for the mandate of the people to govern the country and transform it in accordance with the vision they have for its future. But, the problem is that in their self-interest these parties cannot and do not differ much in their social vision and economic policy framework. And if everyone's vision has to be consistent with the requirements of a liberal economic regime, there is little room for social democratic ideals to make their presence felt.

The election manifesto of the Nepali Congress in the two elections that have been held since 1991 has little resemblance to the original ideological posture of the party. This is more so in the case of the 1994 elections. The resemblance is even less in practice. In order to appreciate the implication of this Nepali version of social-democratic "revisionism", it is necessary to note that unlike in Germany where social-democracy evolved to assume its present character over time as a result of the demand of the changing socio-economic milieu, there has been little change of this nature in Nepal to warrant this reversal by the Nepali Congress. Meaningfully, the foundation for this shift was created in the last leg of the Panchayat era when the then government embarked on the stabilisation and structural adjustment programmes from 1985 and 1987 respectively on the advice and support of the Bretton Woods institutions. The Nepali Congress has taken the very convenient but disastrous line that all it has to do is to follow the path of its principal political adversary of yesteryear — with greater devotion. There is no consolation also that the absence of social democratic values in the programme of the government led at present by the Nepali Congress is the result of the compulsions of the coalition arrangement within which the Nepali Congress, which does not have a clear majority, has had to accommodate itself. That it is not so is obvious from the fact that the Nepali Congress started drifting from this ideology from 1991 itself — otherwise a great year for a political party that came back to power after thirty-one years with a substantial majority in the parliament, and after much struggle and through democratic means.

In the period 1991-1994, when the Nepali Congress had absolute majority in the Parliament and formed the government on its own, its leaders took pride in proclaiming that they were giving a new economic philosophy to the country as their response to Nepal's complex socio-economic problems. What this so-called new economic philosophy was is obvious. The reality is that to the Nepali Congress as much as other political parties, the support of its external constituency, namely the international financial community, is more important than that of its domestic constituency.

Of the other parties, the Rastriya Prajatantrik Party (National Democratic Party) which is a party of the former rulers during the Panchayat era and which is a partner of the Nepali Congress in the current coalition projects itself as a liberal democratic party with full faith in the principles of market economy and what it entails for the role of the state vis-a-vis the society. Though this party might talk about "social safety nets" and poverty reduction like the World Bank, there is no question of it following the social democratic line as a matter of conviction. The Communist Party of Nepal (Unified Marxist-Leninist) which is the largest party in the Parliament and whose nine-month old rule ended only recently gave some hope initially, after the successful movement of democracy in 1990, that it might be in the process of converting itself into a social democratic party as in central and eastern Europe. But this hope was belied as this party, after assuming power, demonstrated that while it might be sympathetic to the cause of the poor and the oppressed, it had no sense of what political pluralism was all about and what it meant to run a multi-party polity. Besides, dependent as any government is upon the goodwill and support of the international financial powers for its sustenance and for the maintenance of even the meagre status of the economy, this party too has had to align itself with the dictates of the current economic wisdom which does not approve of an activist state which is what social democracy would certainly imply in Nepal's context. A paradox of our time is such that a government can call itself communist and earn international goodwill by following capitalistic mode of economic organisation, but it cannot be faithful to social democracy without losing that support.

There are one or two small parties in Nepal which subscribe to the ideals and values of social democracy. But they have no political clout whatsoever. The majority of the Nepali people, who are poor and oppressed and who rightly or wrongly look up to the government to play a major, albeit more effective role in the solution of the country's myriad problems may also be considered naturally to possess social democratic inclinations. But they are too weak to do anything about it at present. As they get accustomed to the



challenges and opportunities in a democracy, they may yet emerge as a powerful support base of social democracy.

For the moment, the problems and the challenges that social democracy faces in Nepal at present are thus threefold. Firstly, with the change in political system, the anticipated change in the power equations among the various classes of people has not materialised. The country's ruling classes are still dominated by feudal interests with the problem compounded by the intrusion of latter day rent-seekers. The small but increasingly affluent middle class including important sections of the literati has also been coopted for the sustenance of what might be called a neo-feudal relation where the traditional and modern rent-seekers collude against the interests of the rest of the country. These classes have interest neither in social democracy nor in economic liberalisation. Their interest is in foreign aid and the benefits it brings for them through its use and abuse. But they are powerful enough to have their crippling influence felt even in as old and important a social democratic tradition as that of the Nepali Congress. Such infiltration in the Communist Party of Nepal (Unified Marxist-Leninist) is presumed to be just as acute. This situation might change only with the realignment of political forces and the graduation of younger political actors to leadership position.

Secondly, with democracy itself being in a period of transition, social democrats have to be cautious that they do not throw the baby with the bath water. It has been five years since the adoption of the new Constitution, and so far, despite some anxious moments, the constitutional process seems to be on track. Yet, democracy has to mean more than the letter in the Constitution or the structures on the ground. The Nepali politics has yet to internalise the values of pluralism; the political culture has to rid itself of the corrupting influence of the country's feudal past. This is naturally a task for social democrats; and there are others. The more recent intrusions of the unhealthy trends and practices that vitiate, for example, the electoral process has to be checked. Similarly, the people have to be educated to exercise their political rights with a sense of duty of a citizen in a democracy, and the civil society needs to be cultivated effectively to this effect. Much will also depend upon the country's ability to find a way of severing the unhealthy linkages between business and politics and reforming the electoral process in particular. How is a political party to be financed and how are elections expenditures that are now reaching astronomical figures for a poor country to be met are questions that boggle the minds of reform-oriented citizens and politicians alike at present. If the liberal democrats concentrate on institutionalising what they call economic democracy, the task of institutionalising liberal democracy may as well be

carried out by the social democrats -- until the time the former learn their lessons and concede what they must to the latter in social policies as well.

The third challenge which is related to some extent to the first problem mentioned above is posed by the country's growing dependence on foreign aid. The dependence has grown because the use of foreign aid in the past has not been effective in augmenting the productive capacity of the economy which, in turn, has not helped to widen the channels for the mobilisation of domestic resources. The dependence is manifested not only in the financing of the government's development expenditure but also in the priorities and agenda of Nepal's nascent civil society. At present, the content of the aid programme and its implications for Nepal's development are not as important an issue as the ability of the country's rulers to attract increased volume of aid. Always a main worry of a government in power is whether aid will increase or decrease during its tenure. Any possible reduction or slow-down in aid disbursement, for whatever the reason, is considered in itself a testimony of the government's failure -- by itself and by the people. In such a situation, the country's political leaders are hardly in control of their social agenda and the programme of one party often looks like that of another -- a manifestation not of national consensus but probably of a loss of national autonomy.

As Nepal's aid dependence grows, the prospect of any increase in concessional-official aid has begun to get uncertain. This means that the country will soon be either in deep economic trouble because of the shortage of resources or it will be relying heavily on private capital inflows, should that be available. Whether and how a political economy addicted to concessional aid will be able to cope with the cost of large private capital inflows, even if it is available, and for how long will Nepal be able to maintain its creditworthiness, and how, are important questions we cannot explore now. What we know at present is that, in either of these scenarios the prospect of social democracy will be affected directly. In case of deep economic trouble, the country will swing either to the extreme Right or to the Left, an unwelcome proposition from any point of view. In case of increased role of international private capital, it may only aggravate the present tendencies against the interest of the poor, against labour, against social values in development, and against social democracy in general -- unless the state is allowed to play the needed regulatory role effectively, and the private inflows are somehow channelled not to technology-intensive or capital-intensive areas but to labour-intensive enterprises capable of performing the miracle of generating massive employment for Nepal's rapidly growing labour force.

With its economic troubles thus likely to approach the brink soon, Nepal may find once again a paradigm thrust upon it from outside, though hopefully a more desirable one this time. If the political leadership and the literati of the country show some foresight, however, the country might be able yet to take the initiative itself. One way of doing this will be to go back to some of the teachings and ideas of none other than B.P.Koirala, though no one would argue that everything the late leader has said on the subject is sound, relevant, or applicable today. In the very last interview of his life, Koirala had emphasised the need to (a) develop democratic institutions in such a manner that the people can be a participant in development at all levels, (b) take a cautious approach with regard to foreign aid and its counter-productive effects, (c) stay away from development models imported from the West, (d) emphasise the importance of liberal democracy even while pursuing socialistic ideals, (e) have faith in socialism as the paradigm for the third world. The alternative would be to drift towards either a fascist dictatorship of the Right or totalitarianism of the communists, or of some other forces of reaction and fundamentalism. Those who swear by his name in Nepal will do well at least to bring these ideas into the open for an intelligent debate.

Once the responsible leaders feel free to challenge the dominant assumptions of today, Nepal can discover that it may be able to design its own destiny after all without undermining, at the same time, the fundamental economic concerns of today's orthodoxy with regard to macro-economic stability, productivity of capital, and gains from international trade. It has been long recognised in Nepal, that in a country where the rich are so few and the poor so many, the problem of distribution and justice has to be solved primarily through the promotion of directly productive activities across the economy. In fact, B.P.Koirala himself was a firm believer of the importance of increased production and always argued against the tendency to distribute poverty instead of prosperity. The only difference is that these considerations have to be interpreted broadly to suit not only Nepal's problems but also the new concerns of the global society. For example, employment has to be a part of macro-economic objective. And the goal of an increase in capital productivity may have to be optimised with the need to decentralise investment on the one hand and use appropriate technology, on the other.

Much has been mentioned above about welfare state and its performance in Europe. In Nepal's context, however, it is worth emphasising that the concept of welfare state is simultaneously too idealistic and too inadequate to fulfil the social democratic vision at the country's present stage of development. It is idealistic because the state just does not have the

resources to finance it in a sustainable manner. It is inadequate because a social democratic paradigm in order to be relevant for Nepal must assume a role for the state that goes beyond the welfare agenda. It has to expedite the process of development, make it more evenly distributed and see to it that the historical injustices manifested in unequal distribution of assets and political power get corrected, especially as they affect the oppressed classes. At the same time, together with the rest of the world, Nepal has to be responsive to the modern demands made upon a socially responsible state in the field of environment, human rights, gender equity, the rights of the child, and other similar concerns.

The rulers in the country have always said that their mandate, even when it comes from "the divine source", is to rule with the consent of the people, with just means, and for the common good of the people – capturing, thus, the three key elements of social democratic governance, in our view. Theoretically, therefore, the social democratic idea may be said to be inherent in the Nepali tradition. Even if the actual experience in practice has been different, where for most of Nepal's history the rulers have ruled by fiat and for the preservation and expansion of their own privileges, the importance attached by the rulers to the legitimising role of social democratic values is significant from our point of view. If this norm was needed then, it cannot be possible that it can be discarded now when the people are supposed to be sovereign (as per the Constitution), their awareness has increased, and their aspirations for security, justice, development, and freedom in a larger sense are awakened, but remain unfulfilled.

### **Concluding Remarks**

In order to better appreciate the future of social democracy in Nepal or, for that matter, in the world, it is necessary to remember what has failed and what has succeeded in the name of socialism in the past. What failed in the communist states of central and eastern Europe are the following: (a) totalitarian state system, (b) the denial of fundamental rights to the people including the freedom of expression, right of association and the right to property, (c) state or community ownership of all means of production, (d) value system that gave priority to grandiose programmes over the basic needs, comfort, and security of the people and, above all (e) the greed of the ruling circles betraying the basic principles of their own belief system. Social democracy could actually have been an effective antidote to these shortcomings.

On the other hand, both capitalism and communism have failed as far as efficiency in resource use, especially common resources, is concerned. Both

the systems have failed, again, to provide the security and peace even to the faithful. Both have failed by giving higher priority to the production and sale of armaments than goods and services needed by ordinary human beings, and for their intellectual and spiritual development. And, in the context of this paper, both systems have failed to effectively address the historical, social and economic problems of third world countries like Nepal.

For the future, it is also necessary to rescue the science and practice of development from the narrow confines of economics at least in the case of the third world. Economics in its present stage of development as a science or its practitioners cannot expect to go on ruling the world by simply discovering and rediscovering the old wisdom at a time when the human society is beset with fresh problems regularly. What is so new about the monetarist doctrine, supply side theorems, comparative advantage, exported growth, or about the relation between incentive and productivity that there should be so much excitement about them in the 1980's and 1990's, one has to wonder. In the past too, the relevant policies were applied, adopted with suitable modifications when required in the context of specific conditions and objectives of different countries, or they were discarded when one set of values concerning welfare prevailed over another in the world or in specific regions and countries. They were resurrected again when another set of values became dominant as at present.

As human beings, not only in a developing country like Nepal but also in economically advanced countries, look for a new system of relations consistent with a global order that serves all interests and all human beings, a whole science of New Economics may emerge to guide the statesmen of the world and the policy-makers. There is already a New Economics Movement which is trying to find new principles for "the post-modern, post-European approach to economic life and thought" which will probably address the same issues and concern as those of social democracy (Robertson 1991).

The social democratic paradigm too will have to be able to embrace the new concerns that define the human society today in order to be not only relevant but also consistent with its original ideals. The paradigm for the management of common resources has to change; the interest of inter-generational equity has to be looked after, the principles defining the relation between sexes will have to change, and ethical considerations will have to be wedded to the concept of economic choice, among other things (Shreston 1995). And the premise behind the factors governing human motivation which currently puts self-interest at the pedestal and projects it as a constraint to all of the above has to be better understood and addressed.

This is not as difficult a proposition as it might appear. Amartya Sen, a great economist himself, has argued forcefully that while self-interest plays a major part in important decisions in human society, "there is a plurality of motivations" guiding human beings. In other words, human beings are not driven by "self interest alone" (Sen 1987). This proposition is in fact at the heart of the social democratic philosophy and practice. If it were not so, the social democratic movement would have surrendered itself long ago to the so-called inevitability of the Marxian path of social evolution without trying to bring about the needed social change through peaceful and democratic means.

### Notes

1. Named after Arthur Laffer who together with his colleagues glamorised the rather simple notion in public finance that there is "maximum tax rate" beyond which the tax becomes counter-productive. The Laffer-curve emphasising the importance of low marginal tax rates plays a key role in the scheme of supply-side economics trumpeted since the Reagan era as the panacea for America's economic ills.
2. Elsewhere, in the context of South Asia, I have argued that the structural adjustment policies which heralded the beginning of the decline of social democratic attributes in the public policies of developing countries was itself prompted by the interest of the creditor countries in the North to have their debt recovered from them through austerity measures and the drive for export promotion; see Devendra Raj Panday, "Economic Development Policies for South Asia in the New World Order", *International Seminar on South Asia in the Changing World Order*, Jawaharlal Nehru University and Indian Council for Research on International Economic Relations, New Delhi 1991 .
3. See, among others, Samuel P. Huntington, "Democracy's Third Wave", *Journal of Democracy*, (Vol2, No 2), Spring 1991. Huntington goes on to make the pessimistic forecast that "The third wave, the 'global democratic revolution' of the late twentieth century, will not last forever. It may be followed by a new surge of authoritarianism sustained enough to constitute a third reverse wave".
4. In Asia, we are probably luckier than the new democracies of Central and Western Europe where more naked attempt is made to wed free market economy to the process of democratisation and the international support made available for this purpose. Unlike in the case of the World Bank or the Asian Development Bank, for example, the Articles of Agreement of the European Bank for Reconstruction and Development explicitly mentions that its objective is "to promote multiparty democracy, pluralism and market economics". See Adrian Leftwich, "Governance, democracy and development in the Third World", *Third World Quarterly* (Vol. 14, No. 3, 1993); emphasis added. In the case of the World Bank, it is encouraging

- now to see the Bank describe itself in the back cover of its latest Annual Report (1995) as a "partner in strengthening economies and expanding markets to improve the quality of life for people everywhere especially the poorest"; emphasis added.
5. The influential American author of the time and economist, John Kenneth Galbraith attributed this, in part, to "the result of the breath-taking grandeur of Marx's achievement as an exercise in social theory". See his *The Affluent Society*, Mentor Book, New York, 1958.
  6. *Basic Policy Programme of the Social Democratic Party of Germany*, Adopted by the Programme Conference of the Social Democratic Party of Germany, Executive Committee, SPD, Bonn, 1989.
  7. For the important deviations, one may refer, for example, to the era when John Foster Dulles who ran the foreign policy of the United States with his misguided opinion that "neutralism" was immoral.
  8. John Kenneth Galbraith of the United States and Jan Tinbergen of the Netherlands have been the principal exponents of this point of view.
  9. Under the World Bank's new system of measuring "the wealth of nations by integrating economic, social and environmental factors," Nepal's per capita position is higher than only Ethiopia in a list of 192 countries. In other words, Nepal's condition is very bad even against the Sub-Saharan standard. Its per capita GDP is less than \$200. Various estimates indicate 41 to 70 per cent of the people below the poverty line. The life expectancy at birth is 53.5. Three quarters of the population is illiterate and nearly 90 per cent of the people live in rural areas. More seriously, from the standpoint of sustainability Nepal is on the brink of disaster. Is there an example anywhere in the world where the principles of market economy have rescued a country from such a situation?
  10. A reference may be made to the controversial book by Dor Bahadur Bista, *Fatalism and Development: Nepal's Struggle for Modernization*, Orient Longman, Hyderabad, 1991 where, if we substitute the term "ruling classes" and "feudal relations" for Bista's caste and cultural categories centred around bahun, chettri, one can find many perceptive observations and conclusions on the effect of fatalism on development in Nepal.

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