

# **The Paradox of a Weak State Distributional Struggles and Social Transformation in Nepal**

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## **Introduction**

Social transformation is a process of wide-ranging change in the thinking, nature, structure, institution, rules, technology and cultural patterns of society through human actions. It aims to replace the crisis-prone and dysfunctional system by new values, processes and division of labor in search of a new but more humanized social equilibrium. Social change is a gradual process. It clinches a considerable amount of overlap between old and new forces. It does not seek any structural alterations in the way the state is organized to help the society's productive life but rationalizes the society and legitimizes the state's guardianship. The idea of social transformation, in contrast, seeks historical break. It also transcends the prevailing linear assumptions of theories and practices of development and accepts the tolerance of social, cultural and political diversity. In a dynamic tension between the persistence of historical norms and rapidly shifting realities, transformation alters the basic structure of social stratifications and transforms the root causes of conflicts.

In this sense, social transformation is a systemic process. It inexorably leads to a dynamic equilibrium of society where the power of society to self-organize is brought to the level of political power. Due to the existence of dynamic tension, the level of Nepal's social transformation is, however, unclear—whether the historically dominant class will prevail, or it will accommodate the new class or bring back to the forefront of history the hitherto subordinated class to impose its interest in the state and society. Obviously, newly gained political consciousness is moderately expanding the social base of political power in Nepal and forcing the old political class to play by new rules of the game. But, in no way has it restructured the social stratification arrangements. There is, however, also a huge cost in expanding the size of political class. No one knows how long and how far poor people of Nepal would be able to subsidize the swelling political class which is interested more over the domination of political process by any sort of political combination, than democratic alteration in office for gender, social and inter-generational justice. Devoid of these virtues, this class is rife on all sides by a widespread social revolt. The huge disproportion between social force of diverse people and the supremacy of incumbent political class has made possible to bring continuous political disequilibrium. Growing bodies of historical analysis affirm that Nepal's major obstacle to progress is the patrimonial political culture of ruling elites which is incompatible with genuine pluralistic politics, entrepreneurship and social justice. Change in political culture of excessive passion for the concentration of power and authority on individual leaders is a precondition of modernization.

The critical masses of Nepalese society formed in every community are, therefore, exerting pressures on the leadership to address the social revolts arising from unsatisfied re-distributional demands and expectations generated from party manifestoes, constitutions, media, international standards and exposure. Who constitutes the critical mass for this social transformation in Nepal—the leadership of the ruling eight-party coalition (Seven-Party Alliance and CPN-Maoist) or pre-political solidarity groups of society or rights-based groups of urban areas or donors and their clients? How can eight-party leaders be able to pull the centripetal forces of society to viable strategies that will help dissolve the primordial loyalties of people and increase their identification with the state as equal citizens? How can the civic statehood be consolidated when economic power of the nation is increasingly monopolized by certain groups of society and global regimes and the governance vectors—the state, private sector and civil society groups have entered into a phase of post-national constellation?

In this context, understanding the nature of state power in Nepal is important to know the quality of participation of various social classes, the centrality of economy, technology and knowledge in this transformation and the role of civil society as well as capital—a capital that is central to both integrative and distributive solution of various types of conflicts—direct, structural, latent and perceptual—and enable the people to participate in everyday life. This paper focuses on the framework condition, paradoxes of Nepali politics, state in a changing world, historical context of state-society relations, social formation of the state, conditions of Nepali state, national accumulation, state restructuring and global economic dynamics and Nepal's future choices.

## **The Framework Condition**

The success of the April 6-24, 2006 mass movement in Nepal on the basis of 12-point pact signed between Seven-Party Alliance (SPA) and CPN (Maoist) in New Delhi has altered the historically-constructed superstructure of society and executed transformation at five domains—*discourse transformation* from universal concept of democracy (*prajatantra*) to various relative concepts-- *loktantra*, *jantantra*, *gana rajya*, *samabesi loktantra*, and *sanghaiya loktantrik ganatantra* emerging from the invisible divides of cultures; *context transformation* from

center-right to center-left alliance; *actor transformation* which suspended the monarchy until the first meeting of Constituent Assembly (CA), resurrected the CPN (Maoist) and increased the number of political and social actors; *issues transformation* from unitary and centralized to federal state, Demobilization, Disarmament and Reintegration (DDR) of Maoist combatants and Security Sector Reform (SSR) process of Nepali Army, winner-takes-all to mixed election system (combining winner-takes-all and proportional representation) and mainstreaming of the marginalized; and *rules transformation* from the 1990 Constitution to Interim Constitution for the management of political transition. On May 18 the House of Representatives declared itself “a sovereign” and “supreme” body, removed the King as Supreme Commander of the Army, put the Nepal Army under its control, declared the country secular, cut the power and privileges of the king including the power to decide the heir to the Nepali throne and promised to hold Constituent Assembly (CA) elections to draft a new constitution.

These structural reforms have compelled the mainstream political parties to reflect on the implication of these transformations to their ideologies, organizations, programs and historically-formed identities. To be sure, social transformation is expected to rectify the bureaucratic and gerontocratic degeneration of political parties as a screen for personal power, corruption and accumulation. The promise to hold CA elections has opened high political pressure for the transformation of revolutionary and clientelist parties into program-based, internally democratic ones and the establishment of law-based, legitimate political system. Democratization of political parties in Nepal requires a democratic public communication, transparent financing of elections, peaceful management of factionalism and tying the bottom with the top of society. The lingering fear is that pacted transition has yet to normalize politics, moderate the opposition forces, initiate the process of democratization and establish constitutional sovereignty. The Comprehensive Peace Agreement (CPA) signed between the government of SPA and CPN (Maoist) seeks to manage conflict through cultural, social, economic and political transformation.

Transformation in Nepal is premised on the inclusion of marginalized forces of society to reshape governing institutions, undertaking the process of democratization, decentralization and devolution of power, abolition of feudalism, transformation of a centralized and unitary state into a decentralized and federal one and providing proportional representation of women, *Dalits*, *Madhesis*, *Janajatis*, *Aadibasis* and marginalized in the state power. The purpose of restructuring, according to the preamble of the Interim Constitution, is to resolve the “existing class, caste, regional and gender problems of the country” and set the path of the nation towards participatory democracy and shared rule. The Interim Constitution thus purports to transform the concept of citizenship based exclusively on civil and political rights to the possession of full social rights. The high level of political participation of these social classes in the face of puny socialization on citizenship and weak political institutionalization, however, might provoke a hatred and conflict between citizens and the social classes and cause the instability of the political system in the future. There are four basic paradoxes of Nepali politics.

### **Paradoxes of Nepali Politics**

First, the eight-party leaders have promised to hold CA elections to draft a new constitution on the basis of popular sovereignty, human rights, a competitive democratic system, the rule of law and formulation of a “common development.” Accordingly, the instruments of the state such as the Nepal Army, police, judiciary and bureaucracy have been, at least legally, brought under the control of civilian government and linked to the agenda of transformation. These measures have all the trappings of key structural transformation. But, the revision of the Interim Constitution twice within four months of its promulgation to make the state federal along ethno-territorial and population lines has posed a question on the possibility of both constitutional stability and its supremacy. The social transformation in Nepal, however, is not identical with “state restructuring” which implies dismantling its basic structures or putting political parties and civil society against the state or transferring its sovereignty to the private sector attuned to the basic values of economic rationality, efficiency and competitiveness. The deteriorating conditions of security and rule of law and demand of political parties for state restructuring have set the current politics into a dynamic tension between the beneficiaries of current status quo represented by the eight-party alliance, the forces of transformation represented by a critical mass of society, some elements within SPA and CPN (Maoist) and the victim of this transformation represented by the *ancien regime*. The direction of transformation, therefore, depends on what sort of leadership, political parties, class actors, communication and political culture will evolve in the post-transitional equilibrium to dominate the discourse of power, law-making legitimacy and recognition.

Second, the Interim Constitution defines the state as “independent, indivisible, sovereign, secular, inclusive and fully democratic.” The canon of policy making capacity of the state is, however, far from these principles. Transformation involves a process of rationalization of authority—the abolition of traditional status, elimination of all class distinctions, biases and hierarchy from the public life and public policy, elimination of the scope of violence from politics and creation of modern authority based on social contract (Dahal, 2007:1-12). But, the maintenance of

a “revolutionary situation” in the country has already provoked a *loktantrik* assault in favor of a new bargaining environment for contending social classes of society—*Madhesis, Janajatis, Tharus, Dalits*, women and excluded for the renegotiation of a just social contract for a shared-rule. This also forced the government to seek a balance between top-down and bottom-up solution to distributional conflicts. Peace processes have also been shaken by recurring acts of violence by non-state groups of society engaged in creating competitive fear. The principles of the rationalization of authority do not manifest in the behavior and political culture of mainstream leadership and consequently, new appearances of belongings have fostered—new tribalism, localism, communalism and sectarianism which increasingly rely on extra-legal tools to seize power and project their visibility and voice. If these self-induced troubles are not managed in time, transformation may not move in an integrated way and participatory processes would hit a critical snag.

Third, the new rules governing social engagements derived from the Interim Constitution contain universal principles of democracy and human rights, such as rights to social justice, social security, work, education, information, culture and health care and make reference to the issues of social rights so that even marginalized and poor can equally claim to participate in the institutional resources of the state. Egalitarian policies can reduce the level of poverty and unemployment and restore human dignity and freedom. But, these rights can neither be enforced by the government nor implemented through administration and courts. For the poor, democratic quality is extremely important as it refers to issues of broad-based representation, competition, and cooperation or collaboration (Munck, 2001: 129) as well as long-term changes in values, attitudes and behavioral patterns. Sound social and economic preconditions are essential for the institutionalization of political competition and mass participation in politics.

Fourth, a sustainable peace-building requires addressing the root causes of conflict. Conflict cannot be remedied by shift in power from one equation to another. A sustainable peace is based on democratic principles. There is no framework for political transition and the succession of Prime Minister and many of the committees, such as National Human Rights Commission, National Peace and Reconstruction Commission, Truth and Reconciliation Commission, High-Level Commission for State Restructuring articulated by the CPA have yet to be set up for the implementation and monitoring of peace accord. In Nepal, there is a need to restore all intermediary local institutions to begin a broad-based, labor-intensive development programs to improve access of the people to the state, markets and non-state institutions. These measures will likely address the conflict residues and provide justice to victims. Democratization in the condition of weak institutional capacity for conflict resolution will, however, produce more losers and election struggle may become a site for long-term ethnicization and territorialization of conflict which will be difficult to resolve through negotiation and compromise (Wimmer and Schetter, 2002:19). Restoring the basic functions of the state and resolution of these paradoxes are the basic preconditions to organize peace, democracy and development and rewrite the days of hope.

### **State in the Changing World**

How can Nepali citizens effectively shape political power exercised by the leadership on their behalf when the globalization-induced change underway is restructuring, relocating and reconstituting the state and its territoriality, sovereignty and independence demanding regional and global conformity in norms, rules, processes, institutions and behavior? In his epic work, *The Great Transformation* (1944), Karl Polanyi made a grim warning of the consequences of “subordinating societies and cultures to the accumulation of capital on a global scale” (Levitt, 1995:15). His warning came to be true as the world system built on industrial civilization has entered into a phase of structural crisis induced by the information revolution and, consequently, reduced the notion of space and time. It provided the subordinated societies new opportunities, networks and information for revolts against the neo-liberal system and safeguard social projects (Wallerstein, 2002:18). But, there is no real transformation of the international system away from anarchy because the current mode of globalization means wider access, rather than equal access to markets. The attempts to run a modern society by neo-liberalism suffered a set back after the September 9/11 giving rise to a new policy regime—neo-conservatism and the imperative of state-building. (Fukuyama, 2004:20). The sovereign state that comprises a monopoly of law making, law enforcing and resource mobilization authority over a well-defined territory and independent of external authority has entered into a new phase of adaptation. How the modern state be conceptualized then?

The Marxist theories assume the state as an instrument of class domination (Smelser, 1973: 21) and mediator of contradiction among the capitalist classes. The functionalist theory assumes it as a factor of cohesion in society (Cawson, 1988: 57). The pluralists view the state as a web of diverse “institutions, held together only by the power and legitimacy conferred through the democratic processes, which interact, overlap, and, most importantly, compete with each other for resources. The character of the government is the reflection of the image of society (Cawson, 1988: 46). There are several dis-junctures between the state’s authority and extra-territorial elements, such

as human rights, global economy, international organizations, international laws and hegemonic power and power blocs (Held, 2000:320-26) that shape the state's decision making. The contemporary thinking about the democratic state is that it provides specific benefits to the capitalist class and general benefits to all the people and provides a symbiosis between the state and citizens. The Nepali state is also caught in the cross-pressures of these dis-junctures. The adoption of the Washington Consensus in the early 1990s, further reduced the economic *scope of the Nepali state* through subsidy cuts, control of money supply, deregulation, privatization of state-owned enterprises, liberalization of tariffs and trade, budgetary balance and curtailing inflation. It also fostered a culture of rent-seeking among the bureaucracy, business and political classes and caused the withdrawal of the state institutions and services from society. The European Union has offered a global alternative--passive social revolution that combined economic growth, ecological justice and technological evolution, reduction of working hours for workers, new social movements, democratic political culture and post-national authority (Telo, 1998:42). But, due to the gaze of Nepali ruling elites across the Atlantic they could not visualize the utility of social evolution of Europe.

The perceived collapse of Bretton Woods,<sup>1</sup> relaxation of barriers to capital flows and the increasing internationalization of political economy have further weakened the *sovereign capacity and effectiveness of the Nepali state* in matters of regulating the factors of production— property rights, capital, production inputs, regional integration and social division of labor. The centralization of production and wealth, the government's failure to attract substantial amount of foreign direct investment and the centralized proliferation of banking, businesses, financial companies, money transfer agencies and super markets have increased competition in pricing and quality services but it has also increased the strength of capital over the state. Ironically, 85 percent of Nepali people do not have access to banking. Nepal's adoption of "neo-liberal ideology" despite the constitutional vision of social justice put the classes against the masses. As the state class acted in conformity with the revealed preference of economic progress, it created enormous job pressure and dismal markets. Liberal individualism perfectly works with the free market but it is fundamentally opposed to democratic politics (Hobsbawm, 2000: 50).

The virtual failure of commercial banks to extend credits to farmers and low-income groups hit the growth prospect of rural areas where majority of Nepalese live. The arable land is becoming scarce to support the growing rural population. Mounting unemployment has been the main driving force behind the huge flow of workers out of Nepal and escape from the vagaries of informal sector economy where even minimum wages has become unenforceable. The national condition is that governance is facing policy deficit, distanced itself from rural social life and aligned with the interest of urban, non-resident and non-stake-holding cosmopolitan elites. Only the remittance economy has become a life-blood in rural areas of Nepal. The process of subsidy cut to peasants, removal of Village Development Committee Secretaries (VDC), retrenchment of banks, denationalization and privatization of public industries and withdrawal of police posts have already begun from the early 1990s and accelerated after the beginning of CPN (Maoist)'s People's War in 1996. These developments have created an authority vacuum which has gradually been replaced by CPN (Maoist) institutions.

The historical role of the state as an organizing devise of society, mediator of contradictions between the capital and the labor through financial intermediaries such as micro finance institutions, local development initiatives, NGOs, cooperatives, community development trust, charity organizations and local money lenders, as well as an engine of human development thus continues to encounter the proliferation of new vibrant non-state actors—both territorial and functional—that claim to share the sovereignty of the state and become social rivals along with private capital, civil society,<sup>2</sup> political parties and people's institutions. These developments have definitely contributed to some forms of social consciousness and even mobilized workers for collective action. "The emancipation of labor and the concomitant emancipation of the laboring classes from oppression and exploitation certainly meant progress in the direction of non-violence"(Arendt, 1958:129).

The Nepali state's dependence on international society for its economic growth and development, retrenchment of public sector, substantial cuts in development expenditure and erosion of its autonomous capacity for public policy formulation and implementation have ceased its ability as *a country in development* (Frieden, 2004:1). Political leaders are now involved in "conflict management," rather than sustainable development. The state as an expression of identity is losing some of its sovereignty "up" to international regimes. It is also losing its

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<sup>1</sup> "The IMF suffers from the dogmatic conceit of the elitist priesthood, the World Bank from a mismatch between its lofty goals and its lack of capacity for implementation, and the UN is afflicted by perception of corruption, politicization, inadequate representation and ineffectiveness" (Ghani and Lockhart, 2006:71).

<sup>2</sup> John Rawls argues, "The point of view of civil society includes all citizens. Like Habermas's ideal discourse situation, it is a dialogue; indeed, omnilogue. There are no experts: a philosopher has no more authority than our citizens. Those who study political philosophy may sometimes know more about some things, but so may anyone else. Everyone appeals equally to the authority of human reason present in society" (1996:383).

autonomy “down” to an array of nebulous civil forms of private and people’s institutions, NGOs, civil society and “horizontally” to market, technological and ecological processes. Citizens are engaged in social movements through political, economic and civil forms of organizations articulating their rights. The Interim Constitution gives the feeling of granting more rights to the citizens against the state but its provisions are weak to protect the state from the anarchy of free will of interest groups. The civil forms of organizations, such as youth, women, workers, professionals, community groups, citizen associations and NGOs are voluntary organizations that take into account the non-profit sectors which are less autonomous and more partisan. Additionally, they cannot substitute the functions of state structures though it lacks the institutional capacity to deliver public goods and services.

Fostering partisan and pre-rational forces in the name of civil society in the context of demoralized, ill-motivated and professionally weak state security structure, however, can easily sharpen the conflict for group power. A state can only garner social capital through its partnership with civil society and help determine a broad mandate on governance, planning and setting priorities and improving the quality of life of people if the security situation is stabilized and representative government can mobilize societal forces for national collective action in areas of CA elections, drafting of a new constitution and peace-building. But, the transformation process is slow due to inertia in the system, the fractious nature of the eight-party coalition and delays in the decision making and implementation procedure despite careful scrutiny from the international community. The new political class has made the old political class untouchable, the technological, transportation, communication, energy, foreign investment, educational and economic conditions of the modernity are insufficient and there is neither a well-defined vision to close the gap between the revolutionary expectation of the people and a reality of shortage that is pushing the political stability towards disequilibrium, not the coherence of government agencies for national collective action. Class-neutral government institutions, public intellectuals and duty-based civil society should work together in a broad partnership of state-building and reconciliation, reintegration, reconstruction and development to pull the country out of deepening turmoil.

### **Historical Context of State-Society Relations**

Since the formation of the Nepali state in 1769 until the 1970s, the state as the super-structure of society played an active part in transforming the diverse forms of ethno-social framework. The 238-year old institution of monarchy also underwent various transitions—absolute, captive, parliamentary, assertive, constitutional, active and now in a suspended position. The state assumed various roles:

- *public order and security* (protecting residents from each other and from outsiders),
- *legislation, direction and steering* (vision and goal setting, policy formulation and decision making, law enforcement and adjudication),
- *organization of society* (institution-building, education, socialization and communication),
- *ownership of the means of production* (land, forest, capital goods, industrial and informational units and labor in organized sector),
- *regulation* (finance, capital and technological policies),
- *circulation* (foreign trade, foreign policy, transport, credit, banking and planning),
- *control* (bureaucracy, police, army and politicians),
- *distribution and welfare functions* (public goods and services as well as social investment providing the needy with new opportunities) and
- *Conflict resolution* (courts and local councils).

The state’s ownership of these resources provided a framework for assisting its cohesive power, territoriality, sovereignty and independence. Although the concept of the sovereign state has emerged from the Peace of Westphalia in 1648, its context in, and reference to, Nepal bears a number of indigenous insights not so much mediated by the Western historiography. The present-day state of Nepal was shaped by King Prithvi Narayan Shah who ruled a tiny central Himalayan state, Gorkha, during the mid-eighteenth century. Upon his enthronement in 1742, he and his successors, began to expand the Gorkhali sovereignty by a rash of mergers, marriages and military takeovers and integrated the league of two sets of principalities: twenty-two of the Karnali River basin and twenty-four of the Gandak River basin. He ended the Hobbesian state of nature, resolved the security dilemma through defensive foreign policy and enabled people to achieve the cooperative social order according to *Dibya Upadesh*. The unification opened up new large tracts of lands and trade routes and provided the state with revenues sufficient to aid elite coalition. The defining characteristics of the new state were: integration of territory under a single ruler, the centralized monopoly of force, unification of polity, expansion of administrative power and enforcing the voluntary compliance of people.

His army had a heterogeneous character, being composed of Khas-Thakuri-Chhetri chief army officers, Brahman advisors and foot-soldiers from Gurung, Magar and other hill ethnic groups. The nobility, the army and the bureaucracy were rewarded with substantial grants of Birta land and patronage for their support to the rulers. The disposition of power of the Gorkha kingdom helped the construction of the national identity of Nepal and the regulation of social relationships. This process was halted by the irrational years of the Anglo-Gorkha war in 1814 - 16. The subsequent Sugauli Treaty signed after the war defined the present territorial consciousness and the existence of the state of Nepal. In 1923 British also recognized Nepal's sovereign independence.

Military power of Gorkha rulers helped them to secure political authority and defend the boundaries of the state. "The Gorkha rulers, like many of their counterparts in the Ganges basin, claimed their sovereignty by exercising proprietary authority upon their possessions (*muluk*), and ritual authority within their realm (*desa*). Included within their possessions and realms were various countries (*des*) in which the king's tenants or subjects were natives who claimed certain rights to their land and way of life on the basis of ancestral authority. Each of these three concepts -possessions, realm, and country -specified a different relation among the ruler, the land and the people, and each was legitimated with respect to different kinds of authority -proprietary, ritual and ancestral" (Burghart, 1984:103). The struggle for control over territory was a part of their history.

Administratively, the king perceived himself as a lord (*malik*) of his subjects (*raitis*) and governed different categories of land grants to diverse sections of people for their livelihoods, such as tributary kings of the Gorkhali kingdom (*rajya*), military officers (*jagir*), civil administrators (*nankar*), tenant cultivators (*raikar*), servants and artisans in the court (*rakam, jagera, jagir*), religious associations (*guthi*), individual persons, such as saints, Brahmins, priests, war widows (*birta*) and Rais and Limbus of eastern Nepal (*Kipat*) (Burghart, 1984: 103). The assignment of land grants helped to evolve three functions: delimit the rivalries among the ruling elites, deal with common enemies--both internal and external and enforce each individual's willingness to cooperate with others. Establishment of property rights and the method of compliance fostered an acceptable order in society. The economic system, dependent on status hierarchies and specialization, occupational roles and intra-familial dependencies, strengthened the capabilities of the state to control the society.

The fundamental aim of the economy was not just production of goods and services to be bought and sold in the market but to encourage the people to live together, adjusting to each other's needs. Improvements in state's coordination of people and resources further enhanced the state capacity. The state was not presupposed as something separate from society which then had to be articulated to it as a relatively autonomous structure. The entire rules of the game were constituted on a contractual arrangement, under which specified rights and privileges were acquired in exchange for agreements by the subjects to perform certain duties based on their status, subjected to renewal at the *Dashain* festival every year. Culturally, the realm of Prithvi Narayan Shah was defined by the acceptance of the temples and deities of the integrated people. For example, in addition to worshipping the temple of Bhavani and Gorakhnath of Gorkha, he also paid homage to the deity of Malla rulers, Taleju of Kathmandu, Ram-Janaki Temple of Janakpur and Baraha Chhetra in the Koshi zone of Eastern Nepal. He thus immersed himself in local life without any pretense of Gorkhali cultural hegemony over all the non-Gorkhali individualities, peoples and cultures. The state power that emerged, therefore, embraced and made use of religion, language, culture and society as critical resources for the consolidation of the state.

Until the political change of 1950, the power of the patrimonial state was determined by the extent of land-ownership, caste position, patrilineality and access to state power rather than a system of constitution. The Hindu-Buddhist philosophy defined how social actors should operate in relation to each other. This process was inverted after the 1950s as nationalization of forests, lands and industries, bureaucratization and rationalization of authority and constitutionalization of society, economy and the state were the main policy components to prevent the tide of communism. The Treaty of Peace and Friendship (1950), Extradition Treaty, Arms Assistance Agreement of 1965 and Joint Communiqué of 1990 were designed to set the primacy of geopolitics over sovereignty, democracy and development of the country. The post-1990 regimes defined themselves in the image of "market determinism" and inverted the reasons of the democracy and the state. This has weakened the power of the state to defend the democratic regime and national security, produced a weak society and weak market and failed to manage the power of political actor to paralyze each other without being able to achieve its objectives. The overgrowth of special interest groups--rights organizations, NGOs, business chambers, banks and urban civil society—created a mobile new class not connected to national affinities, nationalism and people's needs. But, they have stimulated demands for human rights, democracy and social justice. Social scientists of Nepal are unaware about the nexus between the domestic political class, the regional alliance system and global geopolitical dynamics and explain the causes of Nepal's predicament. Instead, they present bewildering explanations for the failure of its leadership to set a coherent vision and muster resources and strategies for its implementation.

### **Social Formation of the State**

Where sovereignty is rooted in the people it is their collective interest that determines the character of the state and the political agenda of the statesmen pertaining to power, policy, territoriality, resources, recognition and identity and makes them accountable to history. Responsible statesmen ideally embrace the attributes of both individual personality and multi-ethnic, multi-lingual and multi-religious mosaic of Nepal. The geopolitical constraints have also required the statesmen to balance the interests of its mega neighbors- China in the north, and India in the south, east and west—through a policy of non-alignment. For Samuel P. Huntington “the central elements of any culture or civilization are language and religion” (1996”59). They help construct national identity, the effects of this for social membership in societies and bear consequences over life, experience and conduct, thus shaping and informing political actions, locations and orientations. The social relations in Nepal are glued by a process of accommodation between Hindu-Buddhist and other religions, regional ethnic systems and the policies of a centralizing state where the society, art, language, literature, culture and religion lent necessary support for mobility, *Sanskritization* and *Nepalization* (Sharma, 2004:127-66).

Nepal’s joint family system extends into clans, lineages and communities. The Hindu caste hierarchy and ethnic groups continue to form the basis of social organization, a fact which is capable of shaping the economic and political behavior of the people. Modern Nepal is the product of collective history of more than 62 ethnic and caste groups from the Tarai, the hills and the high mountains. They are located in a multi-structural national hierarchy and are struggling for competitive and egalitarian groups’ identities. None of these groups claim more than 18 percent share in the total population of 28 million. This means Nepal is largely a country of minorities where a system of checks and balances is a prerequisite for stable governance. It is no exaggeration to say that the ethnic map of Nepal forms an attractive mosaic in itself. It is this diversity, rather the social pluralism at work that gave the state necessary durability and strength. But, in-egalitarian social stratification and the power structure have given most of the benefits of society to better-off classes and delayed the shift of society from traditional status to modern social contract based on the rule of law and impersonality of institutions, the birth of citizenship and loyalty to modern state. The process of social change largely depends on the availability of critical mass and its competencies in each group and sub-group.

In Nepal, more than 82 languages are spoken. The Nepali language, the *lingua franca* developed for the past five hundred years, serves as a link language among different communities including people from Kumaon Garhwal of India in the west to Assam and Bhutan in the east. It has been meeting the contemporary communication and development requirements of these societies. The acceptance of the Nepali language is based on a number of considerations, such as a common cultural background, as an accessory to sustain livelihoods, for state patronage, and regional comprehensiveness. The potential of the Nepali language to integrate the rural societies into national political culture thus seems enormous but its actual capacity to homogenize different cultures and languages is contested.

The persistence of the caste hierarchy, and the law to regulate it, had in fact been a state function since the days of the Malla rulers, much earlier than the advent of Prithvi Narayan Shah. The formulation of this sort of caste hierarchy was first made after the political consolidation of Jaya Sthiti Malla around 1380 AD. The *Naradsamhita*, a treatise prepared during the sovereignty of King Jaya Sthiti Malla, by the inspiration of his premier Jayat, clearly shows that the Hindu code of conduct inscribed in, *Manusmriti*, has formed a part of the jurisprudence to define the role and responsibility of each *Varna- Brahmins* (priests), *Chhetris* (warriors), *Baihsyas* (businessmen) and *Sudras* (artisans and untouchables)-- the King and officials. It clearly laid down judicial procedures, types of crime, boundaries, money lending, system of inheritance and conflict resolution procedures. Jung Bahadur Rana, after his coup in 1846, laid out concrete policies to defend the reasons of the state rather than freedom of people as he was caught by the country’s domestic power rivalry and its links to imperial geopolitics.

The Civil Code of 1854, amended and abridged by Chandra Shumsher in 1910, institutionalized the hierarchically based caste system by dividing the Nepalese society into various order and the system of annual *Pajani* and land grants and other facilities defined their attachment to the state. This Civil Code codified norms, rules and procedures for social control, the management of social conflict and thus served as a producer of security and order in society. The subsequent processes accompanied by regroupings of Ranas and other elite groups generated sharp contradictions between state feudal and private forms of feudal land ownership and scaled up anti-Rana struggle in the late 1940s. Present-day Nepal’s classes have a long continuum in “social structure because most members of the ruling elite and the government functionaries have their direct roots in the rural landed class that often controls the leverage of both political power and economic structure” (Shrestha and Bhattarai, 2004:13).

Currently, a systematic politicization and capitalization of social forces reverted the state-society relations to a new dimension in which many apparatuses of the state find difficulty to steer, control and govern the acceleration of social forces. The patrimonial character of leadership has thus obscured the boundaries of the public

and private realm, fostered a culture of impunity and postponed social justice for the underclass. The marginalization, contradiction and disunity of the poor peasants, landless, workers and powerless people indicate that class consciousness, identity and class action of these people to transform social arrangements are deficient. The business, bureaucracy and political class, in contrast, reflect better coherence both in terms of class consciousness and class action. Political parties also have a tendency to combine class with caste, ethnicity and territoriality in their social and national programs, deliberately strengthen the concept of ethnicity and for their own purpose ignite hostility. Given Nepal's social mosaic, the structure of political economy and the fusion of common interests of people in regards to their local problems it is easy to undertake mass public action than class action to put pressure on the government and remedy structural injustice. The collective action of federations of community forestry, irrigation, cooperatives, Dalits, bonded labor, workers, women, etc amply demonstrate the fact that "citizens have both moral insight and the cognitive capacity to recognize injustice" (Wilson, 2000:261) and organize collective action against it.

This has left a space for both cultural politics based on history, language, religion, ethnicity and faith and modern politics based on the notion of citizenship equality and transforming multiple micro identities of Nepalese into a macro national identity. One can notice the acceleration of societal segmentation rather than social cohesion. This will manifest more vividly during the CA elections when politicians will tend to instrumentalize the cultural differences of the nation and provide an impetus for the rebirth of submerged identities, historical cracks and fault-line conflicts as a vote-catching devise. But, social forces which otherwise are heterogeneous and vertically segmented by caste, class, gender, religious and ethnic system use their organizations to negotiate competing claims with political parties, formal institutions and the state. In some cases, there is a trend towards the parochial disengagement from the state and, as a result, it has to negotiate with a number of sub-systems of society.

### **Economics of the State**

The historical path of Nepal's development suggests that state formation limited the inclusion of a few caste groups into its commanding heights and leaders were inspired to intellectual innovation by immediate practical problems. They then and now left certain groups resourceless and exiled *Sukumbasis*, bonded labor, *Dalits* and *Badis*, etc from the benefits of human civilization. Despite the gradual transformation of feudal system into urban elites and the alarming disparities in living conditions, the Nepali economy on the one hand encouraged self-reliance while on the other fostered expansion of agriculture and small-scale industries in the Tarai, initiated resettlement of population, export of labor and Gurkhas, import of tourists, limited utilization of hydro-potential, utilization of *entrepot* trade and later diversification. Now, nearly half of the nation's people's life is determined by poverty equilibrium,<sup>3</sup> half of the farmers own less than 15 percent of the land and the cases of landlessness is increasing. About 80 percent of the nation's workforce is engaged in agriculture but the per capita land availability is 0.15 hectare. Unemployment rate is 14 percent but the underemployment rate in rural areas is as high as 48 percent. Population growth and land reforms allowed excessive fragmentation of land. As a result, Nepal's agrarian system can be described as substantial inequalities in land ownership and use and the output of agriculture is insufficient to sustain a decent livelihoods. For those below poverty equilibrium life is an unending struggle until given a handout from outside or death comes to salvage them.

The successive Nepali governments' preference, however, is shifting from caste, class, the state and market determinism in the past to ethnic and territorial determinism now as per the stimuli originating from regional and international environment. The behavioral patterns of people are changing from apathetic to hierarchic, competitive, egalitarian to autonomous (Wilson, 2000:252). This shows that survival-oriented leadership has also to invent collective national vision about economic development, well-being of all including helping peasants and workers modernize the means of production. The country as a whole has one of the lowest consumption of fertilizers, improved seeds, modern tools and mechanization in the world (Ghimire, 1998:13). In this case, it is necessary to increase the productive capacity of the economy and modernize the structure of production through extending irrigation, introducing high yielding variety seeds, expansion of rural credit, multiple cropping and fair pricing policies. The sustainable growth of the wealth of nation requires building natural and human capital formation among the less privileged classes, such as peasantry and artisan groups called Dalits as they can save little or no surplus. The agricultural workers are paid bare subsistence wages—just enough to keep them survive and able to produce next generation of workers.

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<sup>3</sup> "The poor develop a relationship of accommodation with their poverty and their life is determined by the 'poverty equilibrium', earning that if there is production above the usual meager level the surplus is quickly consumed and nothing is saved, and the poor revert to their earlier state of low consumption. But, the problem is not of low consumption but of no consumption, because there is no production" (Galbraith, 1983:28).

Owing to the limited autonomy of the private sector, a small internal market, continuous economic decline, capital flight, balance of payment difficulties and external debts, societal access to the formal economic process and their commitment to the political sphere remained highly skewed. The land-locked position, high mountains and north-south flow of rivers have created high transaction costs for transportation, trade, commerce and mobility of services, organize society as a whole and support its enfranchisement. The extractive nature of Nepali regime served the interest of aristocracy, bureaucracy, technocrats, consultants and state-sponsored politicians rather than peasants, workers, producers and traders—the locomotives of development.

Since the 1950s, the institutionalization of a Keynesian welfare state sought to harmonize domestic diversification of production and international diversification of aid, trade and international relations and prevent the tide of communism. The state planning acted as a solution to the crisis of social differentiation, both structural and cultural, institutionalization of conflict and disequilibrium. The continuity of this policy in the 1960s and 1970s helped the Panchayat regime to garner legitimacy despite the ban it had imposed on political parties. Until the 1980s, the industrial class has benefited from the governments' license control, import-substitution and privatization of industries. Well off farmers have benefited from the government's subsidized inputs and credits while the bureaucrats have gained income through their control over patronage system (Weiner, 1989:140). The basic antagonism between capital and labor was moderated by caste, religion, language, culture and occupational opportunities. After the 1980s, as the state's protection of the economy caused a monopoly in the domestic market, economic development and high employment were considered to be the function of market, not the domestic management of the state.

In the 1990s, one can see a radical break with Keynesianism and full-scale application of the supreme will of neo-liberalism in every aspects of life, such as cuts in subsidy for peasants, sell off of industries in urban areas, invitation of MNCs and joint venture industries (GEFONT, 2006) and inducing the migration of rural youth into India, the Gulf countries, Malaysia, South Korea, etc. Continuous economic decline has transformed bulk of small peasants into wage labors, diversified the nature of work into various segments of political economy—peasant, industrial, service and informational and defined the possibility for cooperative action among the workers and their unions. The shackle of market determinism has, however, undermined the role of the parliament in public policy, damaged the industrial base of the state and exposed the gap between the constitutional vision of social justice and the practice of neo-liberalism. The unintended effect is: lean role of political action to bridge the continuous polarization of society, hardship of the poor and the growth of a static society in which “those with the power to change the rules lack the interest, and those with an interest in changing the rules lack the power to carry through their political projects” (Bowles and Gintis, 1986:186).

The rent-seeking nature of privatization of public industries broke the backward and forward linkages of economy and undermined the economic basis of democracy. It has been well-highlighted by an independent review: “There is no transparency and accountability of the process, there is influence of vested interests; there are allegations of corruption and financial irregularities; there is no accountability in the utilization of proceeds; and the interests of workers have not been protected” (Ghimire, et. al, 2000:Executive Summary). It destroyed the economic basis of Nepali state from inside like the skeleton consumes the soft flesh around it. The crisis character of the economy stored in it the breakdown of political morality of dominant classes to pursue public interests. Critic, therefore, argues, “Economic liberalization has meant so far mainly the acquisition of norms and values from abroad that the society does not need and cannot afford” (Panday, 2001:11). The gospel of neo-liberalism thus generated serious social contradictions, evoked neo-conservative revolt and a fatal political standoff. Following the success of the April mass movement and promulgation of Interim Constitution the standoff was melted down. The subsequent economic transformation implied the resurrection of eight-party alliance in the lever of power, invented rules for public resource and their utilization and control, expressed a balance of power between capital and labor, and articulated a discourse about the decolonization of the social space from monetization and capitalization. Is there a strong political will to achieve all these? So long as the political system creates disparities between rich and poor and those between urban and rural backgrounds in terms of education, health, economy and communication, political instability will continue to stall economic development.

In Nepal, what is important is how state restructuring shapes the relationship of various sectors of non-market society with the capital and property especially regarding the ownership and control of resources. The state is interested in the involvement of private capital, both domestic and foreign, for the expansion of economy especially in matters of jobs, initiate particular industries and exports, improvement of services and human resource development but it is too weak to enforce policies and rules. There is a strong correlation between economic power and political decision-making. The anti-Value Added Tax (VAT) movement launched by business community and unwillingness of big business houses to pay huge bank loans are just two cases of the helplessness of the state leadership, political parties and civil society to become truly neutral to class power. A modern representative state

requires the abolition of exploitation of wage labor by capital, becomes a mediator of class conflict, brings contending interests of social classes within public order and develops the capacity for autonomous action within constitutional bounds.

Nepal's policy making class does not have organic evolution and, therefore, its social and contextual learning is very poor. Like in other South Asian countries this class is the product of "legal, administrative and educational structures built up in order to rule and advance the colonies according to the interests and ideals of the metropolitan countries" (Myrdal, 1972: 26). This explains the failure of development concepts and strategies, whether capitalist modernization, economic dualism, growth, trickle-down, community development, integrated rural development, decentralization, basic needs, structural adjustment, etc. Nepal so far has adopted for its overall progress.<sup>4</sup> Due to non-organic character of policy class, the development planning failed to grasp the differences in initial conditions between Nepal and the Western countries and it did not feel accountable for continuous development failures. As a result, the state became a contesting site for power, wealth and identity and yielded itself to the expansion of a half capitalist and half feudal-rentier class who collaborated with the state officials for their gain but evaded the tax, laws and public accountability. A rentier state is financially dependent on others, especially aid regime and domestic capital and is prisoner of contractors, consultants, technocrats and bureaucrats. This is the reason, like in a full-fledged capitalism, laws, public goods and services and public institutions have yet to become impersonal in Nepal. The Nepali state classes, during several types of regimes, articulated public policy based on dominant social science concepts and began to classify Nepalese according to their "empirical divisions" rather than their cohesiveness for cooperative action.<sup>5</sup> It devalued indigenous knowledge, experience, needs and interest of local peasant societies.

The modern rationality has been negotiated into the development practices of Nepal and efficiency of development activities has been defined in bureaucratic, project consultant, NGOs and narrowly organized civil society terms. The defense of the anarchy of the invisible hand by the NPC and its execution by experts, technocrats, business persons and bureaucrats underlined the driving force of the state leadership to subordinate the society for regional and global interests. By ignoring any consideration of constitutional, institutional and contextual framework within which economic policies have to operate, the planners only enlisted the dominant model of economic growth on the side of progress, damaged mediating agencies of society, such as cooperatives, small-scale industries and family-based self-help bodies and provoked class, ethnic, linguistic and cultural reactions including the insurgency of CPN (Maoist) that challenged the state in the minds of people and also on the grounds. Can social transformation posit a rational response to the nation's emerging social, economic and political crises?

### **The Condition of the Nepali State**

The left-center eight-party coalition government has established a Common Minimum Program (CMP) for interim government based on national interest, *loktantra*, reforms, security, peace, relief, foreign and domestic investments to rebuild and reconstruct infrastructure and increase labor productivity. The ordinary people will judge the success of the CPA not by the establishment of procedures and political institutions, Interim Constitution, Interim Government alone but by performance in achieving political stability, guarantee of human security and delivery of essential goods and services to them (Kievelitz, 2006:3). The following points will help to elaborate the conditions of the Nepali state now:

#### **a) Erosion of the Monopoly of State Power**

The high level of engagements of societal forces in the political movements of 1950, 1979, 1990 and 2006 in Nepal indicates the transformative power of society—the power to reshape politics through mass public action. Nepal's history suggests that the macro-political change in the country has always been the product of mass action, not class action. The basis of unity among the movement participants was, however, neither ideologically deep nor enduring to reshape the nucleus of a new national community—the state. The breaking of state hierarchies, tax and national affiliation has made it too weak to protect citizens, fulfill constitutional obligations, break the vicious nexus of criminals and provide a semblance of justice to the people. The Nepali state now is very weak in its structure, administrative ability and political system because it lacks monopoly on power and the ability to establish a

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<sup>4</sup> These development policies were tied with a "form of rewards—or what some may call bribes—to the members of the domestic ruling elite for their support of the Western global policy and plans, while keeping the masses pacified under the tantalizing spell of foreign aid" (Shrestha and Bhattarai, 2004: 4).

<sup>5</sup> Gandhi argues, "In the West an eternal conflict has set up between capital and labor. Each party considers the other as its natural enemy....if it finds a permanent lodgment, it would be the end of our industry and of our peace. If both the parties were to realize that each is dependent on other, there will be little cause for quarrel" (1957:42).

countrywide peace and security which guarantees property rights. The articulation of state restructuring has left the issue of Demobilization, Disarmament and Reintegration (DDR) of Maoist combatants and security sector reforms (SSR) of the Nepal Army for future challenge and civil-military relations have yet to go ahead to beef up the law and order situation in the country. The tax revenue is not adequate to support the state building process by terminating the concept of “dual state” as it contributes only 12 percent to GDP and large-scale tax-evasions are the rule. The initiatives of the government thus failed to bring state-society ties back to equilibrium and establish a balance between various social, economic and political classes to muster their compliance to the state. A number of pre-modern political solidarity groups are claiming their share of state’s resources and threatening to launch another revolt.

#### **b) Growth of Competitive Violence**

The competitive advantage of small groups is increasing due to the scaling back of state power, activities and presence, receding regulation of the international border, lawlessness and regional political group trying to establish their own state, for example, both wings of *Janatantrik Tarai Mukti Morcha* (JTMM-Singh and Goit) in Tarai and Tharus are demanding autonomous Tharuhat. A variety of tiny, competitive groups who often call strikes, like Nepal Defense Army (NDF), *Tarai Cobra*, *Madhesi Tigers*, Tamang Autonomous Region Democratic Front, Federal Democratic Republic Joint Struggle Committee, *Loktantrik Madhesi Mukti Morcha*, etc and their territoriality, help them control the means of violence to a sufficient degree. There are several cases of leadership feuds between various factions to achieve a kind of balance of power. Increasing mobilization of previously immobilized societal groups by political parties, such as women, *Dalits*, *Madhesis*, *Janajatis*, indigenous peoples and issue-based social movements and cross-cutting support to their revolutionary demands have made the authority of the Nepali state ineffective in the struggle against the resistance movements and the consolidation of statehood. “The current rise of competitive violence in the country is the consequence of the erosion of the monopoly of violence, the main business and the *raison de etre* of states” (Rosa, 2003: 9). It is affecting the integrity of the political system and the access of the government in rural areas. There is a danger of the emergence of warlords, like in Afghanistan, which can completely weaken, destroy and disintegrate the unified monopoly of state power, amplify the already existing factionalism in the mainstream political parties, provoke the fragmentation of governmental power and act as a spoilers of peace process. “The relationship between warlords and the state can be described as a process in which the former take over state positions and simultaneously fail to fulfill state functions and to obey the state rules” (Schetter, Glassner and Karokhail, 2007:139). The organized national system is increasingly challenged by primordial sentiments, criminal gangs abducting business persons, traitors, smugglers and drug peddlers which have informal links to the world markets and for whom popular sovereignty is an arch enemy. The supremacy of law is hard to establish because supreme power in neither rested in the state nor people but individual political leaders and their policies continue to oscillate.

#### **c) Emergence of Neo-Patrimonial Culture and Authority Deficit**

The collusion of dominant groups of society for weakening the capacity of the state and exclusion of a critical minority from the public sphere gave birth to neo-patrimonial culture—the use of public power to grant benefits to clients rather than the empowerment of general citizens. It is a pre-capitalist trait of paternalism, authoritarianism, nepotism, dearth of social discipline and lack of institutional culture. It continued to cause societal resistance in the political landscape—*Janajatis*, *Madhesis*, excluded groups and *Tharus* for federalization, self-determination, gender justice and proportional representation in the state power. The breaking up of a series of armed groups from CPN (Maoist), such as two wings of *Janatantrik Tarai Mukti Morcha* (JTMM) and *Madhesi Jana Adhikar Forums* (MJAF) and encouragement by political parties to form pre-political solidarity organizations constituting as an independent source of authority with private means of coercive power will likely to encourage other groups to apply all the available means to defend themselves and stabilize the clients’ networks. There is a threat to the dissolution of territorial integrity as many of these groups act as a counterweight to the state. There are some anarchist forms of civil society groups which claim the total destruction of the state for the creation of “New Nepal,” negate national unification day, destroy icons of national poets and leaders and suppress the contribution of previous leaders in democratic movement.

The *Chure Bhavar Ekta Samaj* (CBES) has recently emerged in the foothills of the mountains as a sub-national association of solidarity among hill communities which is acting as a kind of protective alliance against unpredictability and deficiency of state authority. The state domination and societal resistance contravened the development of a healthy political culture conducive to both democratic consolidation and economic development as security, authority and writ of state in society are narrowing. The centralized model of political mobilization by the political parties of various spectrums continues to devitalize the rational construction of autonomous civil society

and a genuine representation of diverse social interests in public policy. Each political party has its own parallel and well-institutionalized clients of women's association, trade union, human rights group, student union, teacher's association, etc competing with similar other organizations and even the state and weakening its authority to stand above the interest of dominant interests of social classes. The reconstruction under the leadership of NGOs, human rights or civil society equally carries the risk to political stability due to their divisive tendency and a lack of national approach.

#### **d) Erosion of Policy Sovereignty**

The conditionalities of global capital markets that tied the lending of aid and loans as a precondition to the acceptance of their policy prescriptions especially to reduce public sector deficits have started to undermine the concept of "democratic policy space," thus posing difficulty to practice the principle of national sovereignty in policy matters and realize the constitutional vision of social justice (Panday, 2001:31-38). Erosion of policy sovereignty implies the devaluation of political class in regards to their role in *raj niti*, the state and public policy. The uncritical adoption of MDGs, PRSP and post-conflict peace building strategy and a lack of public ownership on them reflects weakening of policy-making capacity of parliament. The intensified transportation and communication, development of post-modern and post-industrial form of political and ideological interpretation and growing technological, economic and ecological interdependence have further imposed critical limits on the Nepali state's political and economic effectiveness as well as added loss to its legitimacy and support. The process of globalization sparked off a crisis on the theoretical and the ideological positions taken by those developmentalists who believe that only the state, not the market and civil society, is capable of fostering broad-based sustainable development. For them, the state perspective captures the field of national vision, resources, institutions and power to bring people, nature and culture into the development dynamics thereby balancing the particular class interest with the general interest of masses. After all, economic relations in society are the center of social transformation. Similarly, the modernization of productive forces and a redefinition of production relations are crucial to establish equity and justice in social transformation.

#### **e) Failure of Statehood and Governance**

The Westphalian consensus formed around the ideology that stressed the sanctity of statehood and that authorized the state's exercise of power, influence and domination over a bounded space called "territoriality" now remains a contested source of political legitimacy. Broad structural shifts from the "real" to "symbolic" economy have generated a growing incongruity between the political and economic space, enabled the societal elements to transcend the nation's geopolitics and apply exclusionary and extra-territorial politics—communalism, communism, capitalism and religious fundamentalism-- to maintain power equation in Kathmandu and reap strategic rents from the regional and global powers. This has obstructed the stabilization of the state's sovereignty, authority and legitimacy. At least a minimum of social interest orientation of state class towards the people is sought to socialize them to obey the laws of the land and minimize the potential of group conflicts. The increasing inability of the Nepali state to fulfill *governance goals*—national security, rule of law, voice, participation, delivery of public goods and services and conflict resolution, as well as maintain a rational control vividly symbolizes a deficit in the penetration of the state into significant portions of society and transforming the agrarian-feudal order into a prosperous national community. Caught between feudalism<sup>6</sup> and capitalism, the process of planning and market orientation resulted into an artful evasion of constitutional vision and abuse of authority. Weak administrative capacity and the personalization of authority in Nepal have reduced the prospect for rule of law and perpetuated a culture of impunity reflecting an institutionalized inhumanity on a national scale. Popular acceptance of the state is a precondition to breaking the Hobbesian state of nature.

#### **National Accumulation, State Restructuring and Global Economic Dynamics**

The hierarchy of the world community is based on power status, rather than negotiated contract, on necessity rather than freedom of choice. This system has become very favorable to financial capital now. The rapid growth of global financial markets has created a "giant circulatory system, sucking capital into the financial markets and institutions at the center then pumping it out to the periphery either directly, as credits and portfolio investments or indirectly through multinational corporations" (Soros, 1999:10). Nepal is located in the peripheral zone of the world economy and is deeply embedded in regional and global strategic, geopolitical, economic and political structures. The existing

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<sup>6</sup> "While plan objectives may bear a progressive stance, performance may not conform to policy statements as many a well-intentioned program for the people flounder on the bedrock of conservatism and class interest" (Gurung, 1989:300).

financial system has left the economy of periphery into deep depression. Nepalese economy can only progress with a greater infusion of technology and capital in the productive sector, both of which can be obtained from the generation cooperation of international community. Historically, neither “revolutionary” nor “authoritarian,” not even “reformist” forces seemed capable of improving this status as these sets of forces have intermingled themselves with internal and geopolitical aspirations and interests in order to survive and perpetuate their regime. The political class that emerged in the Nepali state after the April mass movement assumed more powers, legally and practically, but without having any independent capacity to create any open democratic choice for independent political, economic and social evolution except hopelessly watch the steamrolling of the nation’s indigenous economy, culture and communities. As a consequence, societies are losing their anchor and stability. This has delayed the transformation of arbitrary authority of leadership of all sectors into a rational authority, subject to the scrutiny of electoral legitimacy. It also did not alter the logic of hitherto development in Nepal and reconstitute state-society relation in a secular, democratic way, to enable the self-transformation of the state for regional and global competitiveness. The market system of Nepal remains fragmented into many small pockets not connected to each other. It is narrowly contained within traditional social bounds and defies the economies of scale. The economic growth of 2.7 percent hardly balances out population growth of 2.3 percent and the country falls below all the countries of South Asia including Afghanistan.

The neo-liberal projects have disengaged the peasant life from the formal economy, rural from urban life and the periphery from the core but sought a dynamic integration into the world system through an open border with India, the signing of the South Asian Free Trade Area (SAFTA), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMST-EC) and the World Trade Organization (WTO) (Khatrri, 2006: 1-9). For the labor surplus and capital deficit Nepal, labor flexibility in the employment conditions has created a new insecurity for the majority of workers, especially those in the unorganized and informal sectors. “Insecurity of employment is a new strategy and a tactic for increasing profits by reducing as much as possible the reliance on human labor or paying less” (Hobsbawm, 2000:128). Nepal’s labor market is still fragmented. As a result, the vast segment of peasants, workers, rural and peripheral societies are weakly integrated into national exchange because markets for capital, labor, goods and services are internally segmented and externally-determined.

Unequal access of social classes over the means of production including distribution of land, capital, tools, assets, knowledge and institutions has severely reduced the capacity of peasants to respond to market demand, incentives to produce more and modernize their occupation. This is the reason that the predominance of subsistence economy has yet to mark a paradigm shift to industrial, exchange and surplus economy. The possibility of industrialization of Nepal is squeezing due to de-industrialization policy, shortage of electricity, industrial strikes, frequent disturbances and violence hitting the country hard. Rural-urban differences are too wide to be harmonized by the current policies. And urban areas only appropriate the rural surplus—goods, capital, elite and other resources - to fund rapid capital accumulation for city-centered development. The agrarian surpluses are used mostly in buying urban properties, conspicuous consumption, organizing elections, feasts, marriages, education of children for salaried jobs in bureaucracy and permanent settlement in urban areas (Ghimire, 1998:13-14). It has alienated the vast rural areas and people from critical mass of change agents and articulation. “This alienation—the atrophy of the space of appearance and the withering of common sense—is, of course, carried to a much greater extreme in the case of laboring society than in the case of a society of producers” (Arendt, 1958: 209). The only choice left for ordinary citizens, workers and consumers is: to adjust to the necessity of domestic and international alliance of capital what left scholarship calls “comprador class.”

All the major towns of the plain areas of Nepal Tarai articulate their societal and commercial transactions to nearby Indian cities independent of Kathmandu and facilitate greater levels of economic integration to the South than to the hills. Nepal’s efforts to incorporate itself into an international division of labor have not decreased its dependence on India on essential goods, although economic diversification offered a few more development options to those who are organically linked to Indian and overseas commercial interests. One can, however, see the limits of these options in foreign direct investment and trade which largely benefits investors and traders than the people. Similarly, despite the convergence of factors encouraging growth, policies and market uncertainties offer only a few incentives to foreign firms except the Indian ones to establish themselves for the longer term. The economic development in Nepal thus suffers from the well-known dependency on a single country problem, single access to the sea—Calcutta, and competitive advantage in only a few sectors. Despite the signing of the Bilateral Investment Guarantee Agreements and Multilateral Investment Guarantee Agencies (MIGA) of the World Bank, its foreign private investment is lowest in South Asia and, as a result, saving and investment gap is widening. Nepal has yet to realize its potential for a transit state and rectify the vertical division of labor—raw materials and labor from one side and manufactured goods, technology and capital the other.

In the condition of an unequal distribution of income among the social classes, the scope for the domestic market has been downsized in favor of an upper income consumption group and the profits are drained out of the country instead of going to domestic investment. This implies that the development process seems to have no correlation with the social division of labor in which production takes place. The fundamental problems are again not institutional but political and policy-specific as the web of power built by state elites has created barriers to implement pro-poor policies aiming to achieve social equality, equity, regional balance, ecological and gender justice and consolidate economic, social and political rights of people. The strategy of economic development through a growth in financial capitalism concentrated most of resource in urban areas and undermined a great variety of non-monetized local economies which had the potential for agro-based, decentralized industrialization. State power was applied to promote uneven distribution of industrial growth, deregulation of borders, imports, exchange rates and undermined democratic planning.

The left-center government now aims to transform the feudal mode of production into a capitalist mode and grant the marginalized some semblance of social justice, social security and rights—health, education, information and work. In Nepal, market relationships are not entirely non-political as the “distinction between economic and political are, at best, artificial” (Myrdal, 1972:14). They are interwoven into the nature of class power of the regime, geopolitical links, human rights, democracy, rights-based civil society and NGOs. The historical attempt of the state planning to treat all the societal problems as soluble by techno-scientific methods, enable the people to organize society rationally and predict the economic development trajectory suffered tragic failure. Still now, the political class represented by political leaders, policy community of National Planning Commission (NPC), economic society represented by Federation of Chamber of Commerce and Industry (FNCCI) and multi-lateral and bilateral agencies are influential actors in defining the terrain of discourse around matters of post-conflict economic policy. The NPC, which sought to transform Nepalese society in the image of Western development models, inverted the historically evolved state-society relations built on caste and utilized the discourse of class, state, market, gender, territorial and ethnic determinism rather than optimizing these components into a national framework of the civic state based on democratic citizenship. Do these conflict and post-conflict peace building policies provide payoffs when new conflict dynamics is again played out on the root causes?

The long transition of the free market since 1987 has neither proved to be a consensual economic philosophy, nor created a strong middle class, a class that prizes democratic institutions and practices, not even transformed the reality of increasing powerlessness of people. It did not even contain the growing conflicts at the societal level and develop consensus over policy goals of the state—a consensus over the ends and means of development. In several cases, due to ideological and institutional deficiencies of the elite-captured state, the development visions and practices underway produced opposite effects-- dependence, inequality, poverty, deprivation, alienation and rebellion. These developments indicate that human rights struggles in Nepal for freedom, entitlements and social opportunities are still unfinished. The underlying motives of ongoing social movements and social revolution in Nepal are to challenge the boundaries of prevailing caste, class, gender, knowledge, constitution and institutional politics. The awakening of self-awareness, intensification of social contradiction and the break up of patriarchal order of life are seeking to bring the state back to serve the societal interest of masses. The Nepalese state still carries with it the symptoms of a multi-faceted crisis as the post-April mass movement processes have unraveled the aspirations of several societal forces for human rights, citizenship, property, power, voice, visibility, identity and posed enormous problems for collective action. This appears as a resistance against the continuity of elitist character of patrimonial rule and the existence of clientalism that hampered the application of rational management system in the country. Discretionary decisions and political appointments in public administration and management like *birta* and *jagir* to *affno manchhe* (cronyism) continue to undermine the efficiency of the public institutions, produced overstaffing, corruption, redundancies and delays and, consequently, hamstrung efforts at reforms. In plural societies like Nepal, these tendencies have caused a fragmentation of loyalties, slowed down the wheels of public administration and barred the rational devolution of power and resources to local self-governance institutions. As a result, political cadres' loyalty to other sources of power is higher than loyalty to the state.

The convergence between domestic political and social forces and international civil society movements and between liberal economic policies of trade and investments, privatization of state owned enterprises, denationalization and globalization of political economy continue to overwhelm the socially distributive mode of development. Globalization, technological progress and extensive trade relations have also led to a rise in international organized crime, which operates across cultural, legal and economic barriers of the state. An imperative of developing competitive strength of the nation and the ability to reap benefits from the regional (SAFTA) and global (WTO) integration largely rests on not how much society can consume but how much it can produce. Trade liberalization alone would not yield the expected dividend if there is no lowering of non-tariff barriers and formulation of favorable trade rules. Similarly, without substantial doze of investment in the productive

sectors, Nepalese economy cannot grow. Nepal also requires compensatory benefits such as transit facilities and for the losses it incurs following economic liberalization. Yet, there is also a countervailing trend, which represents, in real sense, recognition of the necessity of democratic state that is capable of fostering redistributive development to the needs of society and lifting the people out of poverty, economic stagnation and self-doubt.

The locus of power is no longer the state but powerful individual leaders although the constitution defines the equal rights and opportunities for the citizens to participate in democratic commonwealth. The feelings of nationalism do not provide the ideological glue to the state to politically organize citizens as well as to stay relatively independent of dominant social class to bind the plural societies together under its authority. One of the characteristics of the Nepali state now is that it is internally opening itself for the formation of national identity of citizens over their individual particularisms—class, caste, women, Madhesis, indigenous groups, Dalits, etc. It will force the mainstream political parties to open themselves to diverse social forces of society. Only, an optimal system of balance between particularisms and general public good—can provide political stability. Democracy loses its potential for political integration if both party leaders and their cadres cease to be part of a state tied to a specific territory and the public interests of the governed (society) on which governor (statehood) is based undergo spatial, structural and functional incongruence. In such a case, national governance cannot achieve statehood—security, recognition and livelihoods indicating the failure of the state to distribute its part of the Faustian Pact, where the citizens submit to the legitimate monopoly of power of the state in return for protection, security, dignity and livelihoods. In Nepal, political leaders' neglect of the underclass reflects their lower level of stake to the polity as youths of poor class families are forced to migrate abroad to sustain their livelihood. Seasonal migration in India, the Gulf countries, Malaysia and the East Asian countries has acted as the safety valve for growing labor force. Ironically, the lack of dynamic force of youth in the productive sector of the economy might delay its development in the future.

### **Choices for Nepal's Future**

A radical de-linking with the past may sound implausible because the political capacity of the leadership to articulate coherent national vision and its translation into policy formulation and execution is very weak. Nepal's endorsement of many instruments of international human rights, international law and regime obligations do not provide a condition for a radical future. Neither the CA nor the regional and global geopolitics provide “open moments” (Bleie, 2003: 1-30) for the Nepalese citizens to formulate the policies for revolutionary transformations in social relations. The deepening of dependency on the donors, rather than policy autonomy of parliament, implies that the Nepali society and the state as beneficiaries of development have little choice to negotiate with the international community. In this dependent model, donors exhort the vision of development and the recipients are apt to listen. The state behavior is largely determined by the structure of the international system. Trust among the political actors for common national enterprise is too low to inspire a captivating vision.

The United Nations Mission to Nepal is working on monitoring of human rights, assisting in the management of arms and armed personnel of CPN (Maoist) and the state, observation of CA elections, providing support to some measures of transitional justice and appreciating women in peace building and protection of children. The strategic choice for Nepal is to seek policy adaptation for the modernization of its political economy, through production revolution, rather than revenue-based policy for it can help generate employment opportunities, internal social and economic cohesion, political stability and autonomy of public political sphere. The condition of dependency has inspired serious public discourses as to whether the subordination of Nepali state to structural adjustment would unleash creative economic and political choices or constrain the possibility of indigenous development in Nepal or even reflect the failure of leadership in providing unifying framework of state for human security. Though the debates continue unabated among the rightist, leftist and centrist political forces about the restructuring of the Nepali state, the economic and political liberalization set in Nepal emerged as an inescapable response to the logic of market materialism which assumes that society and the state are to be governed by the logic of the market so long as the current internal and international regime remains unchanged. The power of regional and world social forums, social development, social movement and social charters has yet to be realized for equity, participatory democracy and sustainable peace.

In this market-mediated regime, the state's image is conceived as small, limited, less bureaucratic and more accessible to citizens but by no means ineffective in handling public resources with a sense of responsibility. In this development model, the state's engagement in society tends to be less hierarchic and less centralized than the immediate past. This also delineates the degree of openness of the state to society and outside to global modernity by rationalizing and constitutionalizing their relations for the development processes. The disposition of social group in terms of their institutionalized engagements, however, reflects three tendencies: clientalist engagements of dominant caste, class, regional and gender groups as they get the most of benefits from the state resources, partial

engagements of ethnic and indigenous communities and social alienation of Dalits, rural women and marginal groups and geographically isolated regions with uneven level of outcome for them. Wealth-creation and establishment of the prerequisites of modernity are essential factors for social transformation and bid farewell to the “unwritten transcript of society” that governs the life of underclass, women and marginalized. In this context, abolition of the state of nature and patronage character of emerging state policies is essential. Those institutions have to be revived which are concerned with core state functions—such as security, law and order, education, health and social justice. The state as a public order is a public good. If this order is captured, privatized, denationalized and deregulated then for the majority of Nepalis there is no stake-holding in any regime.

### **Conclusion**

Social transformation of Nepal, by definition, means utilization of political power for the de-racialization of ownership, accumulation and allocation of public budget to provide benefits to the powerless sections of society and mediate class conflicts between haves and have nots by a gender, caste and class-neutral civic state based on citizenship. The imperative of such transformation is to reclaim the state for society, enmesh it in diverse social life of the nation as a means to control disembodied capital (Levitt,1995:4) and overcome centrifugal political fissures in the country. Improving the condition of national security and human security through DDR and SSR, improvement in civil-military relations, modernization of police and public administration, establishment of independent system of justice and the rational construction of leadership are crucial elements for the synergy of soft social capital of society and hard institutions of the state. The challenge before the Nepali political classes lies in coping with their contradictions, basing their legitimacy on modern legal-rational legitimacy of election, management of the forces of globalization and prevention of the erosion of the autonomy of state in setting social priorities and policies pertaining to security, public goods, capital and financial markets. Emphasis on production revolution and massive youth employment policies can considerably reduce the conflict-generating causes.

Democratic prospects also require the civil society groups, political parties, government and the state to become a true representative of the social classes and strata. The emerging trend marks the evolution of a new paradigm of development through a social partnership among the state, non-state and non-governmental organizations, international institutions and civil society. The state’s sovereignty and legitimacy are important in securing conformity and loyalty from its populace of various social origins and establish a balance in the ends and means of politics, media representations and political acculturation. Now the need is restoring the state’s monopoly of power, revival of governance functions, fair CA elections and peace building activities. In the changed circumstances, a broad political consensus on the role of the state is important to begin the process of reconciliation and resolution of conflict residues. The solution of Nepal’s underdevelopment can be sought in a) assistance to informal sector to satisfy livelihoods, food security, employment and access to social justice, b) setting of small-scale, agro-based, decentralized, ecological-sensitive, labor-intensive and knowledge led industries to modernize agriculture sector, c) the autonomy of local governance to execute local development as per their vision, interests, priorities and human security needs, and d) indigenization global policies regarding production, income, distribution, wages, agriculture prices, trade and investment policies. This policy option provides a backdrop for the study of the relationships between the Nepali state and its diverse social classes, fundamentally alter the future of the masses’ race to the bottom dynamics and underline a shared, better and peaceful future.

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