Poverty Amid Plenty in the New India

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Introduction

India in the recent past has been a country of socialist and contentious politics, sluggish economic growth, and numerous poor and illiterate people. Beginning around 1980, India's political economy started moving in a new direction. Over the next three decades Indian democracy put down firmer roots, socialist rhetoric was discarded for pro-business policies, and the economy grew rapidly. Unfortunately, this "new" India remains a country of numerous poor, illiterate, and unhealthy people. Significant pockets of violence also continue to dot the political landscape. How the apex of the political economy in India, but not the bottom half, has undergone some basic changes since 1980 is the subject of this book. A central theme of the book is that the pro-business tilt of the Indian state is responsible both for the progressive dynamism at the apex and for the failure to include India's numerous excluded groups in the polity and the economy.

One has only to recall the decade of the 1970s to underline some key features of the "old" India. During that decade Indira Gandhi sought to move Nehru's socialism in a populist direction, committed the Indian state to alleviating poverty, mobilized the poor, and centralized power in her person. Opposition forces undertook their own mobilization against Indira Gandhi. Political polarization produced a series of rapid political changes in the late 1970s: the proclamation and rescinding of a national Emergency, Indira Gandhi's electoral defeat, the inability of opposition forces to provide stable government, and the return of Indira Gandhi to power. Populism and instability hurt economic growth, leading to a lackluster decade for the economy. Moreover, Indira Gandhi's rhetorical commitment to the poor was not translated into meaningful outcomes; a sluggish economy and an organizational inability to intervene on behalf of the poor remained major obstacles.

As national elections were concluded in 2009, some striking features of a new Indian political economy were evident, along with some important continuities with the old India. Following three decades of mostly steady and rapid economic growth, the elections were normal and peaceful. Competing political parties largely agreed on the basic approach to the economy: a commitment to economic growth and indigenous capitalism; a modest opening of the Indian economy to global forces; and some commitment to the poor. No major political party argued for socialism. A firmly rooted democracy, a shared commitment to growth and national capitalism, and fairly rapid economic growth are key features of India's new political economy.

This, however, is not the full picture. Three decades of economic growth have been accompanied by growing inequality. The gains for the poor have been modest, and their dissatisfaction has often spilled into a variety of political arenas. Well aware of these trends, India's premier political party, the Congress, contested the 2009 elections on a platform of "inclusive growth" and won. It remains unclear whether future economic growth will be more inclusive than that of the recent past. A rhetorical commitment to the poor and an inability to translate this commitment into real gains for the poor remain shared features of the old and the new Indian political economy. Nevertheless, even on the issue of poverty, there are some important differences between then and now. A sluggish economy and organizational deficiencies were major obstacles to helping the poor during the pre-1980 period. In the new context of a buoyant economy, public resources to help the poor are available. Some of these are indeed being devoted to improving the employment, education, and health conditions of the poor. What remains in doubt, however, is the depth of the commitment of India's pro-business leaders to the poor; some of these newer policies are mainly driven by electoral pressures. However, even if electoral pressures and normative concerns create some real pro-poor commitment at the apex, as in the past, the state's capacity to reach the poor continues to be limited; improving this capacity will remain a precondition for successful state intervention on behalf of the poor.

Admirers of the changing Indian political economy focus mainly on its apex. They variously describe contemporary India in such glowing terms as a "tiger uncaged," "emerging global power," and "India shining." These observers often attribute the underlying dynamism to a process

of economic liberalization that they believe began in 1991. By contrast, many critics argue that the gains of liberalization are being exaggerated and that such costs as growing inequality, neglect of the poor and the marginalized, and the threat to national sovereignty are being underestimated. In this book I take both the gains and the costs of India's economic liberalization seriously. More important, I treat the process of economic liberalization as only part of a broader and deeper set of political and economic changes afoot in contemporary India.

By global standards, economic liberalization in India has arrived slowly, proceeded haltingly, and remains incomplete. It is difficult to attribute both significant economic gains and the lingering misery of many to these limited changes. The deeper drama in India is instead one of a basic realignment of state and class forces. Starting in the late 1970s and early 1980s, Indian leaders abandoned their anticapitalist rhetoric and, along with that, any commitment to economic redistribution or to a broad-based polity. The state instead prioritized economic growth and production. This shift had already occurred in the countryside during the second half of the 1960s, with the so-called green revolution. By the 1980s, a state and producer alliance that was aimed at boosting production became a nationwide phenomenon. Over the next three decades the Indian state and business groups, especially big business, solidified their political and economic alliance. This ruling alliance is now so well entrenched that many observers do not shy away from characterizing India as "India incorporated." It is my argument in this book that a close alliance between the state and big business is responsible both for releasing economic dynamism and for limiting the spread of the resulting gains. Management by a narrow ruling alliance in India's vibrant democracy also poses significant political challenges, especially that of accommodating the struggling, excluded masses.

The book is divided into three main chapters: political changes; the state and the economy; and regional variations. The time period covered in each section is from around 1980 to the present. In this introduction I first outline the assumptions that inform and distinguish my interpretation. I then introduce the themes that are subsequently developed in some detail in each of the main chapters of the book.

UNDERLYING ASSUMPTIONS

The book provides a distinctive interpretation of India's contemporary political economy. While the focus is on empirical analysis, even casual social observers recognize that facts seldom speak for themselves. How facts are arranged and interpreted is deeply influenced by underlying theoretical assumptions and normative commitments. Since this volume is aimed at a broad audience, I will avoid theoretical and philosophical controversies that mainly attract scholars. Instead, I will outline in brief the assumptions and commitments that I embrace and that inform the interpretation developed in this book; those uninterested in such issues can skip this brief section without much loss.

The state-society frame of reference that structures my scholarship harkens back to the classical political sociology of Marx and Weber. Several key assumptions help distinguish this scholarly tradition from other competing ones. First, not only Marx and Weber but also other classical sociologists, including Durkheim, shared the view that social reality is sui generis. From this standpoint, the study of society, including that of politics and economics, requires societal-level concepts and theories that go well beyond aggregating individual-level phenomena. These foundational assumptions of modern political sociology – especially in the writings of Durkheim – often developed in opposition to the economic individualism of other classical thinkers, such as that of Adam Smith. From the very beginning, then, the sociological tradition that I embrace took a different fork in the social science road than economics, eschewing methodological individualism, on the one hand, but insisting that markets and states are deeply embedded in societies, on the other.

Of course, Marx and Weber differed on profound issues. While Weber found much of use in Marx, he also argued persuasively that the politics and culture of a society could not be reduced to the underlying class forces, especially in the short to medium term. At the same time, both Marx and Weber appreciated the importance of economic factors in molding longer-term processes of historical change. These theoretical sensibilities, then, constitute the second important set of initial principles on which the state-society framework rests. Along with Weber, I view markets as hierarchical arenas; markets not only help generate efficiency, they also create inequalities of power and wealth and of life chances. I also share the Weberian assumption that state and society, or patterns of authority and association, are empirically interrelated but analytically autonomous. This assumption does not preclude a serious consideration of class and economic forces in the study of politics. On the contrary, for anyone studying complex societies in detail, these initial assumptions provide useful flexibility, allowing one to focus on the impact of state on society when studying some problems and to reverse the casual focus – examining, say, the class determinants of political structures and processes – when investigating other issues. This scholarly posture puts me at odds both with strict Marxism and with neoclassical economics and its offshoot, the rational choice approach to the study of politics.

Analytical predispositions often condition the normative preferences of scholars. In the past, for example, Marxists have often been sympathetic to the goals of revolution and communism, and many neoclassical economists today hold that free markets are capable of solving major societal problems. In a parallel fashion, the state-society frame of reference that I adopt shares an elective affinity with social-democratic preferences. This affinity is rooted in the core assumption that states and societies have their own partially autonomous logics of action that, in turn, mutually influence patterns of political and social change. This assumption allows one to imagine the possibility of democracy in poor societies, to argue for a vigorous role for states in promoting economic growth and welfare provision, and at the same time to worry about the growing power of capital in political and social life.

POLITICAL CHANGE

India is a deeply political society. Ever since independence, a highly interventionist state has been very much in command of the economy. Since the state structures the life chances of many, power in Indian democracy is contested vigorously, from the top to the bottom. The winners in turn use their positions and power just as vigorously, at times in the interest of the general good, but just as often for narrow, self-serving ends. The recent economic liberalization has reduced the role of the state in Indian society, but only somewhat. The state still sets the basic direction of the economy and controls enormous resources, and access to the state continues to attract the energies of numerous Indians, including those of businessmen. A full understanding of contemporary Indian political economy, then, must begin with an analysis of the economically relevant political changes in the nature of the Indian state.

I provide such an analysis of the Indian state in the first chapter of the book, developing two main themes. First, the Indian state has become a lot more pro-business over the last three decades than it had been previously. These shifting class preferences of the Indian state are deeply consequential for the choice of economic policies and for patterns of economic change in India. A second main theme concerns the political challenges thrown up by the pursuit of a narrow, pro-business ruling alliance. Ever since Indian leaders abandoned the rhetoric – if not always the practice – of populism in order to embrace economic growth as a priority and business groups as a main ally, they have struggled to come up with a formula for political legitimacy that might enable electoral support of majorities while catering to narrow interests. It may be useful to introduce both of these themes at this point.

India, of course, is a private enterprise economy, and has always been so. In this limited sense, the Indian state has never been deeply anti–private enterprise. During the Nehru years, a vague commitment to socialism – which was part and parcel of India's anticolonial nationalism – provided the ruling ideology. While much of the economy remained in private hands, public enterprise was privileged, and big business was viewed with suspicion. For political reasons Indira Gandhi in later years accentuated the anticapitalist bias of the Indian state. Ironically, when faced with new political and economic problems, she herself reordered the priorities of the Indian state during the early 1980s; she slowly but surely started emphasizing the need to improve production and sought a working alliance with big business. Thus began a new phase in India's political economy that is the focus of this book.

By the early 1980s the world was changing, with pro-market ideas and practices in ascendance. Within India too, socialism was becoming discredited as the failures of antipoverty programs and of public sector enterprises accumulated. When Rajiv Gandhi came to power, he and his technocratic team used the occasion to make a clean break with socialism, opening room for Indian capital to flourish. The loudly announced liberalization of 1991 opened the Indian economy to global forces, but only incrementally. The pace and scope of economic opening in India has been carefully orchestrated by India's nationalist rulers; the goal has been to preserve the well-being of indigenous business groups. More than that, the Indian state in recent years has become an active supporter of Indian business groups, protecting their interests here, subsidizing them there, willingly succumbing to their pressure elsewhere, and promoting public-private partnerships in a variety of arenas.

If the Indian state has taken the lead in constructing a state-business ruling alliance, Indian business groups have hardly been mere passive recipients of manna from above. The power and influence of Indian business has grown enormously in recent decades, a power that business groups have used to mold state behavior. This power is both diffuse and well organized. One obvious example of diffuse power is the growing weight of the private sector in the overall economy; for example, the share of the private sector in overall investment surpassed that of the public sector for the first time during the second half of the 1990s and has remained significant since. The role of foreign direct investment and of portfolio investment in the Indian economy has also grown. Any government that wants such investment to continue must take into account the needs and interests of private investors. A different type of example of the diffuse power of business is the growing corporate control of the media. That the modern media influence the culture and values of a society is no secret. While much of what the Indian media target are consumer tastes, political values are hardly far behind. By influencing what issues get covered and how they get covered, as well as via editorials, the privately controlled media in India today attempt to shift the political preferences of Indian society in a pro-business direction.

Beyond such diffuse power, Indian business also wields power strategically and in a well-organized fashion. Electoral finance is an example of how Indian business uses the power of money to influence India's major political parties. Part of the explanation of the economic policy convergence across political parties in India is a dependence of these parties on resources controlled by the wealthy. Corruption at all levels, including at the apex, is another example of how Indian business secures political support for economic profitability. Indian business, especially big business, is also quite well organized. A number of chambers of commerce provide expression to business interests at various levels of the Indian polity. The most significant of these at the national level is the Confederation of Indian Industry (CII). Relatively recent in origin, the CII epitomizes the growing state-business collaboration in India. The Indian government helped the CII emerge as a leading voice of business. The CII, in turn, supports government initiatives when they are pro-business and pressures the government to move in their direction when they are not.

The clearest manifestation of the growing state-business alliance in India is the changing pattern of state intervention in the economy. Over the last three decades the Indian state and business have increasingly converged on such crucial issues as the approach to labor; the pace and pattern of external opening of the economy; and, most importantly, on how to enable Indian business to improve productivity and production. These issues of political economy will be discussed in the second main section of the book. Related political changes include some symbolic changes and changes in political behavior that underline the growing legitimacy of the state-business collaboration in India. For example, a joint delegation of India's political and economic elite to the World Economic Forum at

Davos to present a case on behalf of "India incorporated" has become a regular occurrence; can anyone imagine such state-business collaboration in Nehru's or Indira Gandhi's India? As another example, India's leading economic policy makers now publicly ask Indian business groups: how can the government help? Would businessmen like a seat at the table when critical decisions are made? This too was not likely to occur in a socialist India. These examples, then, reflect slow, steady, but major changes at the apex of the Indian political economy.

Changes at the apex are precisely that, changes at the apex. India, however, is a large country with numerous poor citizens who live in a democracy, and a fairly mobilized democracy at that. The Indian state can thus never fully be a handmaiden to Indian business. More precisely, India's political leaders cannot afford to be seen as too close to or subservient to Indian capitalists. The political management of a narrow ruling alliance, then, is the second important theme running through the first part of the book. In the past, both socialism and populism have enabled the mobilization of electoral majorities. Ever since the abandonment of these mass incorporating ideologies, India's leaders have struggled to devise new ruling arrangements that will enable them to serve narrow interests without alienating the majority. The struggle to devise such new arrangements is manifest in both the electoral and institutional arenas.

Over the last three decades several legitimacy formulas have competed for success in the electoral arena, none of which has sought a real economic incorporation of India's poor. The Congress Party, for example, has tried to capitalize on a combination of the popularity of the Gandhi family and shifting economic philosophies. Because attempts to "sell" economic liberalization have resulted in only limited electoral success, the Congress has in recent years moved a little to the left, maintaining its core commitment to economic growth and Indian business, but also promising "inclusive growth." The Bharatiya Janata party (BJP) is India's other major political party. Instead of dividing the electoral pie along economic lines, the BJP has sought to define majority and minority interests along ethnic lines, championing the interests of India's Hindu majority. In many multicultural democracies ethnic nationalism has provided a convenient cloak for the pursuit of narrow class interests. This is true in the case of the BJP as well, but so far the appeals of Hindu nationalism have failed to provide a foolproof formula for electoral success. Sensing these limits, the BJP too has tried to "sell" its "competence," or to offer "services" to the poor, but with only limited

success. A variety of lesser parties in India also compete for electoral success by mobilizing around such ascriptive themes as caste politics, religion and/or regional nationalism. Some of these parties simply do not have any real developmental commitments, while in other cases ascriptive themes hide a variety of economic ambitions. Even India's communist parties are now struggling to devise an electoral strategy that will permit them to attract business and investment without alienating their lower-class base.

Once elections are won, the challenge faced by India's rulers is how to pursue narrow, pro-growth, pro-business policies without losing popular support and legitimacy. The hope of India's rulers is that economic growth will be rapid enough to lift all boats and thus to maintain their political support. Short of that, a variety of institutional experiments meant to insulate decision makers from popular pressures are under way. At the national level, for example, economic policy making is increasingly in the hands of very few technocrats, many of whom do not have a popular political base. The institutional location of key decisions is also being shifted away from elected bodies to such well-insulated sites as a secretariat in the office of the prime minister or even in a revived Planning Commission. A different type of ongoing institutional experimentation is an apparent decentralization, which enables the most important economic decisions that facilitate growth to remain the prerogative of narrow national elites – who then repeatedly claim success – while shifting much of the blame for failed policies downward to states and localities. These regional and local failures include a failure to stimulate economic growth in India's poor states and a failure to implement a variety of pro-poor policies. Numerous political problems, then – demagogues in power, corruption, failing institutions, political violence – become the "responsibility" of lower-level governments, freeing the national elite to bask in the glow of "India shining."

Excluded groups, of course, do not simply accept elite efforts to institutionalize illusions of inclusion. They express their dissatisfaction in both the electoral and nonelectoral arenas. Caste politics, especially movements of backward and lower castes, are one frequent manifestation of protest politics in the electoral arena. Some of the regional nationalist movements are also efforts to mobilize the dissatisfaction of those with regional identities into the electoral arena. While protest along class lines is not frequent in India, communist parties have achieved electoral success in a few of India's regions. Conflicts around identities and interests are often fought in India in nonelectoral arenas as well.

Examples include: organized labor goes on strike; informal workers struggle to get organized; farmers come in truckloads to the national capital to demand subsidies and higher agricultural prices; feminist movements protest dowry deaths and a variety of other injustices against women; NGOs organize marginalized groups to protest their further marginalization by planned "development" projects; regions with grievances demand greater control over their own political fate; conflicting caste groups take up arms, to fight both each other and the police; ruling parties fail to mobilize civil servants and the police as Hindus kill Moslems; and the truly marginalized – say, the tribals – join revolutionary groups that now hold sway over a significant number of districts in central India. And when all else fails, the destitute simply kill themselves, a phenomenon that has become common enough in the Indian countryside to acquire a name: "farmer suicides."

STATE AND ECONOMY

Over the last three decades India's economy has grown briskly, at a rate of nearly 6 percent per year. Since this acceleration of growth marks a real departure from the sluggish economy of the past, many Indians rightly take pride in the new "rising" India. Rapid growth indeed opens up possibilities for attacking deeply embedded socioeconomic problems of India. Unfortunately, rapid growth has been accompanied by growing economic inequality along a variety of dimensions, and India's numerous poor have not shared proportionately in the economic gains. In the second section of the book I analyze the political and policy determinants of these economic trends, focusing especially on the impact of the state-business alliance on patterns of growth and distribution.

Among the notable characteristics of India's rapid economic growth is the fact that it is driven mainly by national resources and is concentrated in the service sector, especially in communication and business services. The changing patterns of state intervention in the economy have molded these outcomes. The Indian economy, especially its industrial sector, grew at a fairly sluggish rate during the 1970s, even more slowly than during the earlier post-independence period. Concluding that India's left-leaning socialist model of development was responsible for this sluggishness, both Indira Gandhi and Rajiv Gandhi abandoned socialism during the 1980s for a more pro-growth, pro-business model of development.

The details of these policy shifts – both the causes and consequences – will be analyzed in due course. To introduce the main issues, starting

in the early 1980s, Indira Gandhi's government initiated a series of pro-business policy reforms. First, the government withdrew some important constraints on big business expansion and encouraged private enterprise to enter areas hitherto reserved for the public sector. Second, the government encouraged the expansion of the private sector by providing both tax relief to big business and a policy framework for the development of private equity markets. Third, labor activism was discouraged. And fourth, new investment in public sector enterprises was discouraged. More generally, Indira Gandhi started courting Indian big business, declaring that populism and socialism were now on the back burner and that the government's new priorities were improvements in productivity and production.

Rajiv Gandhi intensified the Indian government's pro-growth, pro-business, and antilabor stance. At the ideological level, he made a clean break with the socialist past. Among policy changes, state control over activities of private Indian firms such as entry into production, production decisions, and expansion in size were eased further. Indian business groups were also provided significant concessions on corporate and personal taxes. Enhanced credit and lower taxes on the middle class were aimed at boosting demand. Fully committed to growth, the government also hoped to boost the pace of public investment, especially in infrastructure. Unfortunately, enhanced public investment combined with tax concessions led to extensive borrowing, which in turn paved the way for the financial crisis of 1991. Rajiv Gandhi also sought to open India's economy to global forces but was stymied by a variety of domestic pressures, especially pressures from threatened Indian business groups.

These pro-growth, pro-business policy changes during the 1980s reflected in part the changing priorities and views of India's political elite, and in part the growing political significance of India's business class. The important consequences included the emergence of an activist, growth-oriented Indian state, on the one hand, and the growing role of the private sector in the Indian economy, on the other. These trends, in turn, led to both higher rates of investment and improvements in the efficiency of investment, contributing to more rapid economic growth. While the major beneficiaries were established big business firms, the relative ease of entry and growth also enabled new players like the politically well-connected Reliance group to emerge as giants, competing with the likes of Tatas and Birlas.

The financial crisis of 1991 provided the occasion for a second round of important changes in India's economic policy regime. This time the focus was on India's global economic links. The changes in the domestic industrial policy regime deepened along the pro-business lines initiated during the 1980s: further easing of controls on the private sector, allowing business to enter new areas of production and to grow; tax concessions; and a freer hand for producers to deal with organized labor as they saw fit. The more noticeable and even dramatic changes were in India's external economic relations, including trade, foreign investment, and financial relations. For example, the currency was devalued, tariffs were lowered, the foreign investment regime was liberalized, and some restrictions on external financial transactions were eased. While these changes were indeed significant by India's past standards, when viewed in a comparative perspective – especially in comparison to, say, Latin America – India's opening to the world remains relatively modest. The truly significant change in India over the last three decades has been the shift away from socialism and an adoption of a growth-first model of development, involving the warm embrace of state and business groups.

I will analyze the causes and consequences of the post-1991 policy changes in Chapter 2. Among the main themes I will develop is the fact that India's ruling elite had been waiting for the right occasion to introduce significant economic policy changes. While the financial crisis of 1991 provided such an occasion, deeper changes in both the global and the national political economy were the real catalysts. Notable among the global changes were the disintegration of India's main ally, the Soviet Union; the impending membership of India in the WTO; and the growing availability of portfolio investment in the world capital markets. Within India the obstacles to external liberalization had also eased during the 1980s, especially with the emergence of an outwardly oriented faction among India's capitalist class.

As to consequences, compared to the 1980s, India's economic growth has improved during the post-1991 period – especially in recent years – but not dramatically. The role of the private sector in the Indian economy has grown steadily. This has led to higher rates of savings and investment in the economy. The role of foreign investment in the Indian economy has also grown. By contrast, the shrinking share of public investment has become a drag on overall economic performance. This is not only because of such growth bottlenecks as India's poor infrastructure, but also because India's poorer states and the large agricultural sector are not growing as rapidly as they could with the support of public investment.

If the pro-business tilt of the Indian state has helped the Indian economy grow more rapidly, the distributional impact of this shift has been

largely adverse, especially during the post-1991 period. Of course, more rapid growth is bound to help the poor somewhat. On the whole, however, the state-capital alliance for growth in India is leading to widening inequality along a variety of dimensions: city versus countryside; across regions; and along class lines. Not only does rapid economic growth not benefit as many of the poor as it could if inequality were stable, but the balance of class power within India is shifting decisively toward business and other property-owning classes. Political and policy determinants of distributive trends, then, are the other set of issues analyzed in the second section of the book.

The history of post-independence India is replete with promises of redistribution and repeated failure to implement such policies. The underlying reasons include the class-based nature of state power and the organizational inability of the state to confront entrenched interests, especially at the lower levels. As the Indian state became more and more committed to economic growth during the 1980s, earlier redistributive commitments, like land redistribution and tenancy reform, lost luster as policy options. While these policies had never succeeded much, starting in the 1980s even their desirability became questionable. Also, very few new efforts emerged during the 1980s to improve primary education or the health of India's poor. The state's focus was instead mainly on growth promotion. However, the redistributive picture during the 1980s was not totally bleak. Since public investment was maintained at a high level, publicly supported growth in agriculture put a brake on the growing rural-urban divide, and continuing public investment kept India's poor states from falling further behind in their relative rate of economic growth. Moderate levels of inequality ensured that some of the fruits of rapid economic growth reached India's poor.

By contrast, economic growth during the post-1991 period has been accompanied by growing inequality. India's poor have not benefitted greatly from this growth, creating a situation of want amid plenty. Some of the growing inequality is inevitable in the sense that the fruits of growth accrue disproportionately to those who own capital and take risks, and to those who possess scarce talents. However, redistributive problems in India are exacerbated by a variety of sins of omission and commission on the part of the Indian state. In the most recent phase of India's development, the Indian state has basically catered to the winners in the new economy, without intervening much on the behalf of those left behind. The occasional corruption scandal that erupts in public underlines the fact that not all of the pro-business tilt is aboveboard. It is this activist role of the state – some driven simply by a commitment to growth and some by emerging crony capitalism – that has further contributed to growing inequality. The Indian state thus continues to support Indian capital in various ways so as to enable it to grow. A plethora of public-private partnerships are also beginning to absorb public initiative and resources. By contrast, with declining public investment, India's agrarian sector and poorer states are falling behind. Since new private capital has not rushed into these areas, inequality in India continues to grow, and the country's poor do not benefit as much from growth as they might under a modified policy regime.

The buoyant economy of recent years has generated new public revenue in the hands of the Indian state. Given democratic pressures, some of this revenue is now being committed to helping the poor. This is reflected in enhanced investment in primary education and public health, on the one hand, and in the creation of new employment opportunities via public work programs, on the other. Since this new investment is not accompanied by new organizational initiatives, however, the capacity of the state to truly reach the needy remains limited. Still, these are important new initiatives; their success will become clear only over the next decade or so. Meanwhile, what is clear is that the Indian state's approach to helping India's poor has undergone a basic change. In socialist India, the hope was to alter substantial inequality by redistributing assets; much of this failed and has by now been abandoned. The new approach is more consistent with the principles of an evolving capitalist political economy: instead of attacking substantial inequality, the Indian state now hopes to promote equality of opportunity.

REGIONAL VARIATIONS

India's subnational diversity finds expression in its federal structure. Political and economic changes in Indian states continue to diverge along several dimensions, including economic growth, distribution, poverty alleviation, and quality of governance. In this volume I do not provide anything close to a full analysis of regional diversity across India. What I provide instead, in the third section of the book, are snapshots of a few of India's important states that shed light on some typical variations across Indian states. The main analytical theme that continues in this section is that varying patterns of politics and authority across Indian states, especially the underlying state and class/caste relations, are a key determinant of regional developmental dynamics.

Three political tendencies compete for ascendancy in India's states: *neo-patrimonial*, *social-democratic*, and *developmental*. While most Indian states exhibit all of these tendencies, some states during some periods have emerged more clearly as neo-patrimonial or social-democratic or developmental, with discernible developmental consequences. For example, where neo-patrimonial tendencies are ascendant, state-level governments simply lack public purpose. Instead of using state authority and resources to pursue the public good, ruling elites in these settings use their power for personal and sectional gains. Bihar and Uttar Pradesh typify these *neo-patrimonial* states of India. Politics in these and a few other states of India – where neopatrimonialism has been ascendant during recent periods – tends to be under-institutionalized and instead characterized by some shared traits: the political arena is dominated by a single leader surrounded by loyal minions; modal political relationships are vertical, of a patron-client type; bureaucracy is politicized; symbolic appeals are used regularly to build diffuse political support; the zero-sum quality of politics makes those excluded from power feel totally excluded; and instead of carrying out any systematic public policy, leaders channel public resources for personalistic and narrow gains.

Understanding the causes and consequences of such neo-patrimonial tendencies in some of India's states is a complex research problem. I shed some light on these issues by focusing on one of India's major states, Uttar Pradesh. Among the key proximate causes of neo-patrimonial politics as modal politics in U.P. is the pervasiveness of ascriptive politics, especially the politics of caste. In the past – say, during the 1950s and 1960s – the Congress Party exercised its hegemony in U.P. mainly by depending on Brahmins. While state politics during this early phase was not totally devoid of public purpose, the gains were monopolized by the upper castes, fueling cynicism. The eventual challenge to Brahmanical domination took the form, not of class politics, but of a challenge by the middle castes. As ascriptive politics is want to do, the political upsurge of the middle castes lacked any coherent ideology or organization; it quickly became a politics of symbolic gains (e.g., with a focus on "reservations") and of personalism and corruption. The most recent political challenge by the lowest castes in the form of rule by the Bahujan Samaj Party has only accentuated these tendencies toward symbolic gains, personalism, and corruption. As to consequences, a focus on ascriptive politics has detracted attention in U.P. from issues that might serve the interests of the state as a whole, such as economic growth; the decline in public investment from the central government and apparent decentralization have only accentuated these problems. A focus on symbolic gains as a strategy for mobilizing fellow caste members also continues to detract attention from any systematic redistribution. The net result is that in states like U.P. both growth and distributive gains have been meager.

Indian states in which governmental authority is used more constructively can be conveniently thought of as states in which politics of either the left or the right dominate. Given democracy, these ideological tendencies can of course shift. Nevertheless, it is fair to characterize certain states of India such as Kerala and West Bengal during recent periods as India's left-leaning states, where *social-democratic* tendencies have been ascendant. Politics in these states is typically characterized by mobilized lower classes and castes, on the one hand, and by the presence of a well-organized left-of-center political party that systematically incorporates this mobilized support into a social-democratic power bloc, on the other hand. The presence of this power bloc, in turn, has added public purpose to the politics of India's left-leaning states. I will later use the example of West Bengal to demonstrate how politics of this type emerged and how it has been used to pursue certain constructive ends, such as tenancy reforms.

While the redistributive successes in West Bengal are distinctly mixed – and the ruling forces of the left have lost power as the book goes to press – the case does suggest the proposition that redistributive success is most likely when effective governmental power rests on a broad political base; in such cases, rulers can minimize the hold of upper castes and classes on the regional state, successfully organize the middle and lower strata into an effective power bloc, and then use this power to channel resources to the poor. This proposition finds further support when we juxtapose India's southern states against the neo-patrimonial states of India's "Hindi heartland." In spite of middling growth rates, poverty has come down relatively rapidly in all of India's southern states. This is in part a result of the fact that the social base of political power in these states has been relatively broad; the narrow domination of Brahmins was effectively challenged quite early in the twentieth century, and subsequently the middle and lower strata have provided active support to the ruling parties. The social base of state power in the southern states is thus distinct from that in Hindi-heartland states, where Brahmanical domination was challenged only more recently. The other factor that has contributed to the success of pro-poor politics in the South is the relative superiority of the bureaucracy. A broader social base of power and more effective state machinery has led to better education and health provision in the South; the subsidized public distribution system has also been better managed. Higher rates of literacy in the region have in turn further contributed to ongoing political scrutiny, setting some limits on neo-patrimonial excesses. In the more radical southern state of Kerala, land redistribution, higher wages for the landless, and gender equality have also been achieved.

Finally, following economic liberalization and the related shift of initiative from the center to the states, a few of India's states have actively and effectively promoted business and industry. These are India's more right-leaning states, approximating *developmental states* of sorts, in which the government has worked closely with business groups to promote economic growth. I will later use the example of Gujarat to demonstrate the developmental tendency in some of India's states. In addition to Gujarat, where the state government has mainly sought to promote manufacturing, leaders in other states such as Karnataka and Andhra Pradesh have actively supported service industries, and in Punjab and Haryana, agriculture and agriculture-related industries.

Gujarat has long been one of India's more industrialized states, and the state government has long exhibited pro-business proclivities. Some of this was challenged during the 1970s, when Indira Gandhi's populist upsurge led to the ouster of the commercially inclined Patels from Gujarat's ruling circles. That, however, did not last long. As the upper strata of Gujarat reasserted their political weight, the political challenge faced by ruling elites became that of catering to these narrow interests while mobilizing electoral majorities. Gujarat in recent decades has created a "tradition" of sorts of fomenting deliberate riots against one set of victims or another so as to capture state power for narrow elites. The most recent manifestation of these trends is Narendra Modi, who has created an efficient, pro-business government with the help of the well-established business class of Gujarat and a relatively well-organized BJP that has mobilized a pro-Hindu majority against Muslims.

To sum up, in this book I analyze the political economy of contemporary India from a number of vantage points. In the first part of the book I analyze the changing nature of the Indian state itself, focusing especially on its evolution away from socialism and toward becoming an active partner of Indian capitalism. How this pro-business state intervenes to promote growth and distribution is the main issue analyzed in the second part of the book. I suggest that the pro-business proclivities of the Indian state have helped release economic dynamism, but have not strengthened the impulse to intervene effectively on behalf of India's poor.

The same themes are then analyzed across Indian states to demonstrate how neo-patrimonial, social-democratic, and developmental tendencies remain aspects of the Indian polity. I will conclude then by situating the Indian case in a broader, comparative context and by focusing on the key challenge faced by India's democratic rulers, the challenge of inclusive growth.

1

Political Change

Illusions of Inclusion

India is governed as a vibrant democracy. While the quality of government provided by India's democracy remains uneven, the survival and institutionalization of democracy in a large, poor, multiethnic society is India's singular achievement. In this chapter I provide some background materials that help shed light on how and why democracy has put down roots in India. The focus of this chapter, however, is on the changing character of India's contemporary democracy. In the discussion that follows, two themes are emphasized. First, the Indian state over the last few decades has become more and more pro-business. I analyze both the causes and consequences of this important shift. And second, the political management of a narrow ruling alliance creates numerous electoral and institutional challenges, especially the challenge of how to deal with the excluded masses. I analyze the political strategies pursued by both the rulers and the ruled.

1. BACKGROUND

By the time the British left India in the mid twentieth century, key elements of what would eventually become a sovereign, democratic Indian state were already in place. Summarizing a complex history, one might suggest that the British left behind such moderately well-functioning state institutions as a civil service, an army, and a judiciary. Indian nationalists, in turn, knit together diverse elements of India's political society and adopted a parliamentary democracy with full adult suffrage. Thus, avowedly working against each other, the colonial rulers of India and